

Reforming the Child Tax Credit: Will Congress Extend the 2008 Reform?

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The Child Tax Credit (CTC) is a federal tax benefit intended to help working families defray some of the costs associated with raising children. More than 26 million tax filers, including well over 500,000 in Wisconsin,¹ receive the credit, which is worth up to \$1,000 for each qualifying child² under the age of 17.

What is not widely understood is that the design of the credit shuts out many of the children whose families face the greatest financial hardship. Families with very low incomes do not get any credit at all, and, because the credit is only partially refundable, many low-income working families above the minimum threshold for eligibility get only a very small credit. For example, in 2007 a single mother making \$6.50 per hour (the new minimum wage that took effect in July 2007), with an annual income of \$13,000, was eligible for a refundable credit of just \$187.50.

Since the inception of the CTC, the minimum income for eligibility has been indexed to increase with inflation. It was slated to grow to \$12,050 for tax year 2008. Unfortunately, the income of many low-wage workers does not keep pace with the cost of living. As a result, many households with income just over the threshold lose their eligibility for the credit from one year to the next because their income falls below the increased threshold. They are hit with the double whammy of losing ground to inflation and losing their CTC eligibility.

That problem was addressed on a short-term basis by the economic rescue package passed by Congress and enacted in early October. One of the measures in that package lowers the CTC eligibility threshold from \$12,050 to \$8,500 for tax year 2008. In addition, families with incomes in the range of \$12,050 to \$25,380 will receive a larger credit. The families of a total of about 13 million children will benefit from those changes, and the average increase in their credit will be roughly \$240.

Table 1 illustrates how the amount of the credit in tax year 2008 was affected by the changes in the economic rescue package, using several examples of different low-income parents with two children.

Table 1: Examples of the CTC in 2008 before and after the changes were enacted

Examples (assuming 2 kids in each case)	Annual Income	CTC level in 2008		
		Old law	New law	Change
Single parent working 30 hrs/wk at minimum wage ³	\$9,750	0	\$188	\$188
Single parent working 40 hrs/wk at minimum wage	\$13,000	\$143	\$675	\$532
Married couple at the poverty level	\$21,200	\$1,373	\$1,905	\$532
Married couple at the 4 times the poverty level	\$84,800	\$2,000	\$2,000	0

The Center on Budget and Policy Priorities has examined the number of children in each state who will benefit from the recent change and estimates the following effect in Wisconsin in tax year 2008:

- The families of about 40,000 additional Wisconsin children will become eligible for the credit.
- The families of nearly 140,000 additional Wisconsin children will get a larger credit.

It is important to note that this reform fixes the problem for only one year. Congress will have to revisit the issue next year. If the change is not extended, millions of low-income families will not be able to continue to share in the child tax credit for tax year 2009 and beyond.

The short-term change in the CTC was not the only tax relief measure added to the economic rescue package. The bill signed into law commits far more tax relief to changing the alternative minimum tax (AMT) in tax year 2008, to keep it from applying to millions of additional households. An estimated 87 percent of the benefits of that tax cut will go to taxpayers with cash incomes this year between \$100,000 and \$500,000. Like the CTC reform, the AMT change is just for one year and will need to be revisited by Congress in 2009.

Footnotes

¹ According to Brookings Institution data, there were 506,135 Wisconsin filers who claimed the Child Tax Credit as a credit against their tax liability for 2005, and 198,855 filers who claimed the CTC (or a portion of it) as a refund. Unfortunately, the data does not reveal the extent of the overlap between those two groups.

² A qualifying child is a child who was under 17 at the end of the tax year; who lived with the parent at least half of the year; and who is a U.S. citizen, U.S. national or resident of the U.S.

³ This example and the others assume that the parent works 50 weeks per year.

Additional Resources

Child Tax Credit Expansion Passed by Congress Will Help 13 Million Children : Nursing Home Aides, Cooks, Pre-School Teachers, and Construction Workers Would Get a Boost, by Sharon Parrott, Arloc Sherman and Chye-Ching Huang, Center on Budget and Policy Priorities, October 3, 2008, <http://www.cbpp.org/5-15-08tax.htm>

Issue Brief: The Child Tax Credit, by Joy Moses, Center for American Progress, July 28, 2008, www.americanprogress.org/issues/2008/07/ctc_brief.html



The Wisconsin Council on Children & Families is pleased to work with First Focus, a national bipartisan organization committed to making children a priority in federal policy and budget decisions. First Focus's Children in Focus Initiative is working to highlight children's issues in Wisconsin and other states all over the country at a critical time for America's children.