

Tax Credit With Lasting Benefit

Losing Child Credit Improvements Would Hurt Thousands Of Iowans

Up to \$246 billion in tax credits and tax cuts were extended to individuals in the American Recovery and Reinvestment Act of 2009 (ARRA). A number of ARRA tax credit improvements were designed to help working families including over \$14.8 billion to increase the eligibility for the Child Tax Credit (CTC).¹ As low-income families with children work and increase their wages, they become eligible for a larger credit. The ARRA improvements, however, will end this year unless Congress extends the expansion of this credit. More than 48,500 of Iowa's low- to middle-income families would lose some or all of the credit if Congress does not extend the ARRA improvements.

ARRA changes to the Child Tax Credit reduced tax liability and put money into the hands of millions of Americans most in need of financial assistance. The goal of expanding the credit (along with the Earned Income Tax Credit), according to President Obama, was to help “Americans who work hard ... make a decent living” and lift millions of Americans out of poverty.² Prior to ARRA, families of as many as 10.6 million children did not qualify for the CTC because their parents' earnings were too low.³

Background

Created in 1997, the Child Tax Credit was expanded in 2001 and 2008 and further improved in the Recovery Act. The 2001 expansion made the credit partially refundable, and credited working families with 15 cents for every dollar earned above \$10,000 until the credit reached a maximum of \$1,000 per child.⁴ In 2008, Congress reduced the earnings threshold to \$8,500.⁵ ARRA allowed families to count more of their earnings to determine the size of the credit. In 2009 and 2010, families whose CTC exceeds their tax liability receive a refund check for 15 percent of earnings above \$3,000, up to \$1,000 per child.⁶ For example, under ARRA CTC rules, a family with two children earning \$16,333 would have received a full CTC of \$2,000. Under the 2001 CTC rules, the same family would have had to earn at least \$25,881 to receive the full CTC for two children. ARRA made the CTC available to more low-income families by setting the base at \$3,000. Every hundred dollars earned above \$3,000 accrued 15 dollars in the credit until it reached \$1,000 per child. The credit begins to phase out at \$110,000 in annual earnings for married and \$75,000 for single parents; and is eliminated entirely at \$130,000 and \$95,000, respectively.⁷

The 2001 law meant that a family with two children would need to

Table 1. More Iowans Would be Helped by Maintaining 2009 ARRA Child Tax Credit Rules

Income Eligibility Standards	Eligible Iowa households with 1 or more children	Iowa households losing some or all of CTC at 2001 guidelines
2001 — Above \$12,550	265,989	40,129
2008 — Above \$8,500	additional 4,381	4,381
ARRA — Above \$3,000	additional 4,013	4,013
TOTAL	274,383	48,523

Author's analysis of 2006-08 American Community Survey, U.S. Census Bureau.

The Iowa Policy Project

20 E. Market Street
Iowa City, IA 52245
(319) 338-0773 • www.iowapolicyproject.org

CHILD & FAMILY POLICY CENTER

505 5th Avenue • Suite 404
Des Moines, IA 50309
(515) 280-9027 • www.cfpciowa.org

earn \$25,881 to receive the full credit, while the changes under ARRA meant that the same family would receive the full credit when its earnings reached \$16,333.⁸

ARRA Child Tax Credit Rules Help Thousands More Iowans

Table 1 shows the number of Iowans who would benefit from maintaining the 2009-10 CTC rules. In Iowa, maintaining the ARRA Child Tax Credit standards would mean about 274,383 Iowa parents would be eligible to receive the credit, compared to about 265,989 under the 2001 CTC standards.⁹ In other words, about 8,394 of the lowest-earning Iowa parents would lose a tax benefit on their 2010 tax returns that they received on their 2009 returns if CTC rules reverted to 2001 rules. Additionally, if the 2001 CTC rules are extended without extending the ARRA improvements, 40,129 Iowa households would see their CTC reduced, because of the higher earnings eligibility standard.

In 2006, 263,252 Iowans claimed the credit, amounting to over \$366 million in tax savings for those families.¹⁰ These Iowa families needed to earn \$10,000 or more to claim the credit, and that threshold would be higher in 2010 under the 2001 law. Allowing families to claim the CTC for earnings between \$3,000 and \$12,850 would help thousands more of the lowest-earning Iowans.

Failure to extend the ARRA rules for this credit would hurt Iowa families who work full time at the minimum wage. A parent earning the minimum wage (\$7.25 per hour) — or about \$15,080 a year — with two children would receive a child credit of \$1,812 if the current rules are extended, but would see the tax credit reduced to \$380 if the ARRA provisions expire.¹¹ Effectively, Iowans with the lowest incomes would see their incomes further reduced by more than \$1,400. Conversely, Iowa parents earning \$100,000 would still receive the full \$1,000-per-child credit under the 2001 child credit rules.

While parents with extremely low earnings would be affected, the most adversely affected by this change would be those earning between \$10,000 and \$25,000. A parent with two children who earns \$18,000 would see the Child Tax Credit cut by nearly \$1,500 if the current rules lapse.¹²

By maintaining the modified Child Tax Credit eligibility rules, Congress could help thousands of working Iowans and their children who struggle to support their families and make ends meet.

¹ Michael Grabell and Christopher Weaver, “The Stimulus Plan: The Tax Cuts,” *Pro Publica*, February 13, 2009. Accessed April 29, 2010. <<http://www.propublica.org/special/stimulus-plan-taxcut-list>>.

² President Barack Obama, “Remarks by the President on Taxes,” April 15, 2009. <<http://www.whitehouse.gov/the-press-office/remarks-president-taxes-41509>>.

³ Leonard E. Burman and Laura Wheaton, “Eligibility for Child Tax Credit by Age of Child,” *Tax Policy Center*, May 22, 2007. <http://www.taxpolicycenter.org/UploadedPDF/411470_Eligibility_Child.pdf>.

⁴ Arloc Sherman, Avi Feller, and Chuck Marr, “Failure to Extend Improvements in Child Tax Credit Would Harm Millions of Low-Income Working Families,” *Center on Budget and Policy Priorities*, February 16, 2010. <<http://www.cbpp.org/cms/index.cfm?fa=view&id=3085>>.

⁵ See “Seats Inside the Arena: Child Tax Credit Fix Would Help Stadiums Full of Iowa Kids,” *Iowa Fiscal Partnership*, August 4, 2008. <<http://www.iowafiscal.org/research/080804-CTC.html>>.

⁶ “Policy Basics: The Child Tax Credit,” *Center on Budget and Policy Priorities*, November 10, 2009. <<http://www.cbpp.org/cms/index.cfm?fa=view&id=2989>>.

⁷ “Ten Facts About Claiming the Child Tax Credit,” Internal Revenue Service, March 18, 2010. <<http://www.irs.gov/newsroom/article/0,,id=106182,00.html>>.

⁸ Sherman, Feller, and Marr.

⁹ 2006-2008 American Community Survey, U.S. Census Bureau. Author’s analysis performed using the University of Minnesota’s Integrated Public Use Microdata Series, April 29, 2010.

¹⁰ Earned Income Tax Interactive Tool, *The Brookings Institution*. Accessed April 29, 2010. <<http://www.brookings.edu/projects/EITC.aspx>>.

¹¹ Sherman, Feller, and Marr.

¹² Sherman, Feller, and Marr.