



# Facts About the Child Tax Credit: A Bigger Paycheck Boost for Many Families

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## *Some good news at tax time this year for many low-income working families— they can get Extra Credit!*

*This year many low-income working families will be eligible for the Child Tax Credit. The Child Tax Credit (CTC) is a federal tax benefit worth up to \$600 this year for each dependent child under age 17. In 2002, even families that earned too little to owe income tax can get the credit. They will receive all or part of their CTC in the form of a refund check from the IRS. Moreover, this credit is in addition to any Earned Income Credit for which the family qualifies — most low-income working families will qualify for **both** credits. The result will be a bigger paycheck boost than ever before for families that are struggling in an uncertain economy and badly need the help this **Extra Credit!** can provide.*

## ***With the good news comes big challenges for EIC Campaign partners***

*The Child Tax Credit refunds add a level of complexity to the tax filing process low-income working families must navigate and also to the way EIC Campaign partners approach outreach activities this year. The rules for claiming the CTC are different from the rules for claiming the EIC, and a new tax form is required to be attached to the tax return to receive a CTC refund. Guiding low-income working families to places they can get free tax filing assistance will be more important than ever before.*

## ***We can help you help families get their Extra Credit!***

*At the Center on Budget and Policy Priorities, we know that many of our outreach partners will be eager to embrace these challenges. The first step is to begin to understand the basics of the credit and how families apply for it. The information in this booklet will tell you all you need to know. As you begin to appreciate the significant benefit that CTC refunds hold for low-income working families, you will want to take immediate steps to modify existing EIC Campaign messages and strategies. The poster, flyers and envelope stuffers in this kit now carry a message to encourage working families to take advantage of both the EIC and the CTC. Our revised outreach strategy guide — **How to Promote the Earned Income Credit — and the Child Tax Credit**, as well as our newly designed booklet, **Helping Families Get the Tax Credits They've Earned: How to Link Them With Free Tax Filing Assistance**, highlight strategies you can use to help families get **Extra Credit!** by alerting them to the availability of the new Child Tax Credit refund and how to claim it.*

# The Child Tax Credit: Extra Credit for Many Working Families!



## What is the Child Tax Credit?

The Child Tax Credit (CTC) is a federal tax credit, worth up to \$600 per child in 2002, for families with dependent children under age 17. While the CTC has been in effect since 1998, Congress made changes to the credit in 2001 that made it available to millions more low- and moderate-income working families and provided many families a larger CTC than they could have received in the past. The CTC is *refundable*, meaning some families can get the credit even if they owe no income tax. Eligible families can receive the CTC in a refund check from the IRS.

## Who Can Claim the Child Tax Credit refund?

To be eligible for the Child Tax Credit refund, a single or married worker must:

- be able to claim an exemption for a dependent child under age 17 on his or her tax return;
- have taxable earned income above \$10,350; and
- have either a Social Security number (SSN) or an Individual Taxpayer Identification Number (ITIN). ITINs are issued by the IRS to individuals who are unable to obtain a Social Security number. *Immigrant workers with either type of number may be able to claim the CTC.*

## Can a working family get both the Child Tax Credit and the Earned Income Credit?

**Yes!!** Most low-wage working families that qualify for the new CTC refund will also be eligible for the EIC. For many families that qualify for both credits, the EIC will be larger, but the CTC still will provide a significant income boost.

Despite the overlap in eligible families, there are important differences in the eligibility rules for the two credits and in the procedures for claiming them. *For a comparison of the two sets of rules, see the table on p. 6 of this booklet.* In addition, there are some working families that qualify for the CTC, but do not qualify for the EIC. For example, a non-custodial father who can claim his child as a dependent can get the CTC, but he cannot claim the EIC because his child does not live with him.

### Which children qualify for the Child Tax Credit?

A child claimed for the CTC must be *under age 17* at the end of 2002 and must be claimed as a dependent on the worker's tax return. The child must be either a U.S. citizen or a resident alien. "Qualifying children" include: sons, daughters, stepchildren, grandchildren and adopted children. They may also be brothers, sisters, stepbrothers, or stepsisters — as well as descendants of such relatives. Foster children can be claimed if they lived with the worker for more than half the year (and are claimed as dependents), *but only if they are placed with the worker by an authorized government or private placement agency.*

## How do families get the new Child Tax Credit refund?

- 1. File a federal income tax return — Form 1040 or 1040A, but *not* 1040EZ.** The instructions and worksheet included in the IRS tax form packet will help tax filers figure their income tax and calculate their maximum possible CTC. The CTC is first used to reduce or eliminate any income tax a tax filer owes. If any of the CTC is remaining after the income tax has been eliminated (i.e. if the family's income tax was less than its maximum CTC), the tax filer moves on to the next step in the process.
- 2. File Form 8812.** Form 8812, "Additional Child Tax Credit," is used to find out if the family qualifies for a CTC refund and, if so, the amount of the refund. *Form 8812 is provided in the Outreach Tool Envelope in this kit.* This form must be attached to the tax return for a family to receive the CTC refund.

## How much will families receive?

- Eligible families can get up to \$600 for each dependent child under age 17 claimed on their tax return. (For example, a parent with two such children can claim a CTC of up to \$1,200 — 2 children x \$600.) The CTC first is used to reduce or eliminate a family's income tax liability. Families may be able to get all or part of any remaining CTC as a refund.
- The CTC refund is based on the amount by which the family's income exceeds \$10,350. Families with CTC remaining after their income tax liability has been eliminated may receive a refund in the lesser of two amounts: (1) the amount the family's CTC that remains, or (2) ten percent of the family's earned income over \$10,350. (For example, if a family earns \$15,000, ten percent of its income above \$10,350 is \$465:  $\$15,000 - \$10,350 = \$4,650$ ; ten percent of \$4,650 is \$465.)

### A Special Case

Under a rule that was in effect until 2001, some low-income families *with three or more children* have qualified for an "Additional Child Tax Credit." This has provided a refund for larger families that owe little or no income tax but who pay Social Security payroll taxes that are greater than the amount of the Earned Income Credit for which they qualify. For some families with three or more children, the refund they would receive under the CTC rules in effect before 2001 may be larger than the amount they would receive if the refund is calculated under the current CTC rules. To ensure such families are not adversely affected by the change in rules, Form 8812 allows them to claim the higher refund amount. In other words, the amount of the CTC refund these families receive can be based on *either* the calculation under current rules or the calculation used in the previous rules — they get whichever amount is higher.

## Examples of families that will benefit:

- Maxine is a single parent with a 12-year-old child. She earned \$15,000 in 2002 and owes \$210 in income tax. Her maximum CTC of \$600 is first used to eliminate her \$210 income tax, leaving \$390 of it remaining ( $\$600 - \$210 = \$390$ ). Ten percent of Maxine's earnings over \$10,350 is \$465. Since the remaining CTC is less than \$465, Maxine is eligible to receive a refund in the amount of the remaining CTC — \$390. She also is eligible for an EIC of \$2,269, bringing her total refund to \$2,659!
- Sam and Barbara are married and raising four children under age 17. They earned \$25,000 in 2002 and owe no income tax. Their maximum CTC is \$2,400 (4 children x \$600). Ten percent of their earnings over \$10,350 is \$1,465 ( $\$25,000 - \$10,350 = \$14,650$ ; ten percent of \$14,650 is \$1,465). Since the couple has no income tax liability, none of their CTC is used — the full \$2,400 remains. Since this is more than ten percent of their earnings above \$10,350, Sam and Barbara receive a CTC refund of \$1,465. They also qualify for an EIC of \$1,933, bringing their total refund to \$3,398! *(NOTE: Even though this family has more than two children, the special rule described in the box on p.4 does not apply because the family's EIC is greater than its payroll tax.)*

## Does the child tax credit affect public assistance benefits?

The CTC refund does not count as income in determining eligibility for any federal, state or local program benefits, such as cash assistance (“welfare”), Medicaid, the State Children’s Health Insurance Program (SCHIP), food stamps, SSI, emergency heating assistance, or public or subsidized housing, financed even in part by federal funds. CTC refunds do not count against resource limits in these programs in the month of receipt or the following month.

## Can immigrant workers claim the child tax credit?

Immigrant workers must have *either* a Social Security number or an Individual Taxpayer Identification Number (ITIN) in order to claim the CTC. Although workers with dependents in Mexico or Canada often obtain ITINs in order to claim an exemption for the dependent on their tax return, a dependent child claimed for the CTC must be either a U.S. citizen or a resident alien. The child does not have to live in the worker’s home.

*For more information on Individual Taxpayer Identification Numbers, see p. 16 in the booklet in this kit, “Helping Workers Claim the Tax Credits They’ve Earned.”*

# Comparing the Eligibility Requirements for the Earned Income Credit and the Child Tax Credit

	<i>Earned Income Credit</i>	<i>Child Tax Credit</i>
<b>Relationship</b>	Use EIC qualifying child rules.	Use EIC qualifying child rules.
<b>Age</b>	Use EIC qualifying child rules.	Must be under age 17.
<b>Residency with Child</b>	Worker must live with child more than 6 months of the year in the U.S.	A non-custodial parent who meets the support test to claim child as a dependent may claim the CTC.
<b>Dependency Exemption</b>	Not required (except for claim by parent who separated from spouse after first half of year).	Must claim child as a dependent.
<b>Income</b>	Specific income limits. Investment income limit. Earned income required. Adjusted Gross Income affects credit amount in phase-out range.	Income limits are far above EIC limits. No investment income limit. \$10,350 <i>taxable</i> earned income or more required for refundable portion; Adjusted Gross Income used to determine income tax liability.
<b>Immigration</b>	Worker, spouse and qualifying child must each have valid Social Security number and be permitted to work legally in U.S.	Child must be U.S. citizen or resident alien; Social Security numbers <i>or</i> ITINs for parents and children are required.
<b>Forms</b>	Schedule EIC required for families with children; Schedule requires child's birth date, SSN and information on child's relationship to taxpayer.	Form 8812, "Additional Child Tax Credit," is required to claim the CTC refund.
<b>Impact on Other Public Benefits</b>	EIC is not income for TANF, federal housing, food stamps, SSI, Medicaid, SCHIP, foster care or adoption assistance. EIC refunds do not count against resource limits the month of receipt and the following month (and do not count for a full year for food stamps). Rules regarding the effect of EIC on other programs are state-determined, e.g. child care subsidies, heating assistance.	CTC is not income for <i>any</i> federal, state or local program financed even in part by federal funds. CTC refunds do not count against resource limits the month of receipt and the following month.

# The Child Tax Credit Refund Presents Outreach Challenges for EIC Campaign Partners

## EIC and Child Tax Credit outreach efforts go hand-in-hand.

There are two tax credits that can provide refunds for low- and moderate-income working families: the EIC *and* the Child Tax Credit (CTC). State and community organizations, government agencies, employers and others who wish to help working families get the most out of their paychecks will want to alert eligible families to this opportunity. Most families that qualify for the Child Tax Credit refund also will be eligible for the EIC. And, while the Child Tax Credit can provide a sizable refund to many families, the EIC still will provide the larger amount of money. For these reasons, it makes sense for EIC Campaigns to continue aggressive promotion of the EIC, and also weave a new message about the Child Tax Credit into existing EIC outreach activities.

## EIC Campaign partners do not have to be tax experts to promote *both* tax credits.

Along with the added benefits of the Child Tax Credit come added tax rules and filing procedures. The CTC eligibility rules and filing procedures are different from the rules and procedures for claiming the EIC. At first glance, EIC Campaign partners may feel overwhelmed and may fear that it would be too hard to incorporate the new information into their outreach efforts. But there's no need to worry — this booklet and the materials in this kit can provide the information and tools you need to help families get all the tax credits they've earned.

**EIC Campaign partners can re-tool their efforts to convey clear, encouraging messages to eligible families.** Working families need to know:

- **They can get *Extra Credit!* by claiming all the tax credits they've earned.** Many families will qualify for both the EIC and the Child Tax Credit.
- **Families not eligible for the Child Tax Credit in the past may be eligible for the first time.** Most low-income families got little or no benefit from the Child Tax Credit before the legislative changes took effect last year. Now, many of them will qualify. Even if they do not owe income tax, they can get the credit in a refund from the IRS.
- **They will have to complete Form 8812** to find out if they qualify for a Child Tax Credit refund and, if so, to determine the amount of the refund. This form must be attached to their tax return. (EIC Campaigns can put them ahead of the game by distributing the form. Just photocopy the Form 8812 in the Outreach Tool Envelope in this kit.)
- **They need not struggle to figure out tax forms on their own — and they don't have to pay for help from a commercial tax preparer.** Free tax filing assistance is available at a local Volunteer Income Tax Assistance (VITA) site and some Low-Income Taxpayer Clinics. *See the booklet in this kit, "Helping Workers Claim the Tax Credits They've Earned" for ideas on linking families with free tax filing assistance.*

**Note: EIC Campaign partners will want to take extra steps to help families eligible for the CTC refund obtain and file Form 8812.** If families do not file this form they will not get the CTC refund for which they qualify. In the case of the EIC, families that appear to be eligible but fail to attach the Schedule EIC to their tax return, receive a notice from the IRS indicating that if the family supplies the necessary information, the IRS will send them the EIC. In the past, thousands of families have taken advantage of this “second chance” to obtain their EIC — a vital benefit that may have gone unclaimed had they not received and acted on the IRS notice. In the 2002 filing season, the IRS did *not* issue a similar notice to families that appeared to qualify for the CTC refund, but failed to file Form 8812. You should not assume that in 2003 the IRS will alert such families to their possible eligibility — without information and assistance they may miss out on their CTC refund.

## EIC Campaign partners can make special efforts to reach out to families that are not eligible for the EIC, but that may qualify for the Child Tax Credit.

Although millions of low-income workers earn incomes that would qualify them for the EIC, there are some who do not meet all the eligibility requirements. It's always difficult for outreach workers or VITA volunteers to explain to families why they do not qualify for the EIC, a benefit that is providing vital help to so many of their friends and family members. Families may find this confusing or feel upset about being “slighted” or left out. Now, there's a chance to bring hopeful news to many of these working families. **Some families not eligible for the EIC may qualify for the Child Tax Credit!** EIC Campaign partners can pay special attention to these families to ensure they get the help they need to take advantage of the Child Tax Credit. Focus efforts on helping:

- **Non-custodial parents.** Low-wage workers who are parents but who do not live with their children are not eligible for the EIC. However, if they are supporting their children and are able to claim their children as dependents on their tax return and meet the other eligibility criteria, they can get the Child Tax Credit.
- **Immigrant workers.** Many immigrant workers who are legally authorized to work in the U.S. are eligible for the EIC, but sometimes they are barred from claiming it because their spouse or child does not have a Social Security number. The Child Tax Credit can be claimed using an Individual Taxpayer Identification Number (ITIN), which is issued by the IRS to people who don't have a Social Security number. Immigrant workers and their family members who have ITINs need to know the CTC is available to them if they meet other requirements.
- **Workers whose income is too high to claim the EIC.** In 2002, working families with income over the EIC income limits (\$33,178 for workers with two or more children and \$29,201 for workers with one child; income limits for married workers are \$1,000 higher), or with investment income over \$2,550, will not be eligible for the EIC, but may qualify for the Child Tax Credit.

**EIC Campaign partners can broaden their activities to reach out to working families that can benefit from the Child Tax Credit.** For numerous ideas on how to expand the outreach message and enrich outreach activities, look for the **Extra Credit!** reminders throughout the booklets in this kit, *“Helping Workers Boost Their Paychecks: How to Promote the EIC and the Child Tax Credit”* and *“Helping Workers Claim the Tax Credits They've Earned: How to Link Them With Free Tax Filing Assistance.”* The posters, flyers, and envelope stuffers in the Outreach Tool Envelope in this kit carry the dual message about the EIC and the Child Tax Credit.



**Here are a few ideas to get EIC Campaigns started on incorporating the Child Tax Credit into their outreach efforts:**

- **Urge government agencies** that routinely alert beneficiaries about the EIC to let working families know they may be able to increase their tax refund by claiming the Child Tax Credit, as well. Information can be sent out with notices to people who receive food stamps, Medicaid and SCHIP. Enclose information in WIC checks and rent bills in public housing. Let them know that the Child Tax Credit will not count as income in determining their eligibility for the assistance they are receiving. Work with unemployment offices to get the word out to people who may only have worked part of the year and whose reduced income qualifies them for both the EIC and the Child Tax Credit.
- **Work with community-based organizations** such as child care programs, emergency food and shelter programs and community clinics. Provide them with materials that highlight the availability of both the EIC and the Child Tax Credit. Explain that a bigger tax refund can help take the pressure off families dealing with tight budgets, helping them cover the cost of child care, groceries, rent and health care.



**In 2002, EIC outreach partners began to integrate the new Child Tax Credit message into their EIC Campaigns:** The welfare and public housing agency in Monmouth County, New Jersey added a CTC fact sheet to a tax information packet it provides to clients and posts on the county website. In Sanibel, Florida, Community Housing and Resources, Inc. targeted CTC notices to participants in its affordable housing program who had been unable to claim the CTC before the new rules took effect last year. The St. Louis Regional Jobs Initiative provided CTC information to its IDA program participants and its job training sites.

- **Employers and others can alert the labor force to the availability of tax refunds** by slipping information about the EIC and the Child Tax Credit into worker's paychecks. Target industries experiencing particularly difficult times, such as travel-related businesses, hotels and restaurants. Job training programs and labor unions have a role to play, as well.
- **Businesses can alert customers.** Utility companies can insert information with bills. Discount stores, family-oriented restaurants, supermarkets and neighborhood businesses can tuck information on tax credits into customer's purchases or have a special message printed on customer receipts.
- **Develop links with trusted organizations and institutions in immigrant communities.** Make sure information is available in appropriate languages and recruit bilingual volunteers to work in free tax assistance sites. Assist workers in obtaining Social Security numbers or Individual Taxpayer Identification Numbers so they can claim the EIC and/or the Child Tax Credit.
- **Reach out to workers whose children do not live with them.** Non-custodial parents who claim their children as dependents may qualify for the Child Tax Credit. Employers and child support enforcement officials can help alert them to this opportunity.
- **Give the local media a new angle for a tax season story.** Alert reporters, talk show hosts and community affairs writers to the good news for working families. They may have reported on the EIC before and will appreciate a new angle on the story.

# Calculating the Child Tax Credit Refund:

## The Benefits for Working Families Add Up!

Below are several scenarios to help you understand how the Child Tax Credit (CTC) refund is calculated.

### Working families can get both the Child Tax Credit and the EIC.

Mike and Tanya are married and raising two children under age 17. They earned \$22,000 in 2002 and owe income tax of \$215. Their maximum CTC of \$1,200 is first used to eliminate their income tax, leaving \$985 of their CTC remaining ( $\$1,200 - \$215 = \$985$ ). Ten percent of their earnings over \$10,350 is \$1,165, which exceeds their remaining CTC. Therefore, Mike and Tanya are eligible to receive a refund in the amount of their remaining CTC of \$985. They will also qualify for an EIC of \$2,565. This brings their total refund to \$3,550.

<b>2002 Income:</b>	\$22,000
<b>Dependent children under 17:</b>	2
<b>Maximum CTC:</b>	\$1,200
<b>Income Tax Liability:</b>	\$215
<b>CTC remaining:</b>	\$985
<b>10% of earnings over \$10,350:</b>	\$1,165
<b>New CTC Refund:</b>	\$985
<b>EIC:</b>	\$2,565
<b>Total Refund:</b>	\$3,550

Mark and Megan are raising two children under age 17. In 2002, they earned \$15,000, and they owe no income tax. Their maximum CTC is \$1,200. Ten percent of their income over \$10,350 is \$465, which is less than their CTC. Therefore, they will receive \$465 as a CTC refund. They also are eligible for an EIC of \$4,039, bringing their total refund to \$4,504.

<b>2002 Income:</b>	\$15,000
<b>Dependent children under 17:</b>	2
<b>Maximum CTC:</b>	\$1,200
<b>Income Tax Liability:</b>	\$0
<b>CTC remaining:</b>	\$1,200
<b>10% of earnings over \$10,350:</b>	\$465
<b>New CTC Refund:</b>	\$465
<b>EIC:</b>	\$4,039
<b>Total Refund:</b>	\$4,504

### A non-custodial parent can benefit from the CTC.

Max is divorced and pays child support for his two children, who live all year with his former wife. By the terms of the divorce agreement, he may claim the children as dependents on his tax return. In 2002, he earned \$20,000 and owes income tax of \$645. His maximum CTC is \$1,200, which eliminates all his income tax liability, and leaves \$555 of his CTC remaining ( $\$1,200 - \$645 = \$555$ ). Ten percent of his income above \$10,350 is \$965, which exceeds his remaining CTC. He will receive the amount of the remaining CTC — \$555 — as a CTC refund. Max is not eligible for the EIC since his children did not live with him.

<b>2002 Income:</b>	\$20,000
<b>Dependent children under 17:</b>	2
<b>Maximum CTC:</b>	\$1,200
<b>Income Tax Liability:</b>	\$645
<b>CTC remaining:</b>	\$555
<b>10% of earnings over \$10,350:</b>	\$965
<b>New CTC Refund:</b>	\$555
<b>EIC:</b>	\$0
<b>Total Refund:</b>	\$555

### Immigrant workers can claim the CTC.

Marianne and Tom are both immigrant workers, married and raising two children under age 17. They earned \$28,000 in 2002, and owe income tax of \$815. Both have Individual Taxpayer Identification Numbers (ITINs), so they can claim the CTC. Their maximum CTC is \$1,200, which eliminates all their income tax liability, and leaves \$385 of their CTC remaining ( $\$1,200 - \$815 = \$385$ ). Ten percent of their income over \$10,350 is \$1,765, which exceeds their remaining CTC. Therefore, they will receive \$385 as a CTC refund. Since Tom and Marianne do not yet have Social Security numbers, they cannot claim the EIC.

<b>2002 Income:</b>	\$28,000
<b>Dependent children under 17:</b>	2
<b>Maximum CTC:</b>	\$1,200
<b>Income Tax Liability:</b>	\$815
<b>CTC remaining:</b>	\$385
<b>10% of earnings over \$10,350:</b>	\$1,765
<b>New CTC Refund:</b>	\$385
<b>EIC:</b>	\$0
<b>Total Refund:</b>	\$385

### A special procedure is used to figure the CTC refund for some families with three or more children.

Charles and Linda are married and raising three children under age 17. Only Charles is employed. In 2002 he earned \$13,000, some \$995 of which was withheld for payroll taxes. Linda received \$3,000 in dividend income from stock inherited from her parents, which is intended to help pay for their children's education. They owe no income tax on their overall income of \$16,000. Since their annual investment income exceeds the \$2,550 limit for EIC eligibility, they do not qualify for the EIC.

<b>2002 Income:</b>	\$16,000
<b>Earned Income:</b>	\$13,000
<b>Investment Income:</b>	\$3,000
<b>Income tax:</b>	\$0
<b>Payroll Tax:</b>	\$995
<b>10% of earnings over \$10,350:</b>	\$265
<b>Dependent children under 17:</b>	3
<b>Maximum CTC Refund:</b>	\$1,800
<b>New CTC Refund:</b>	\$995
<b>EIC:</b>	\$0
<b>Total Refund:</b>	\$995

Although they will miss out on the EIC, Charles and Linda are still eligible for the CTC. Their maximum CTC is \$1,800, none of which is used to reduce the family's income tax liability (which is zero). Ten percent of their earnings (\$1,300) over \$10,350 is \$265, which is less than their "remaining" CTC. As a result, this family's CTC would appear to be \$265. However, because the family has three children, a special procedure applies. First, the family's share of the payroll tax (\$995) is compared to it EIC (\$0). The difference between these two amounts (\$995) is then compared to the CTC refund the family would receive under the normal CTC rules — which is \$265, as explained above. The special procedure allows the family to receive the larger of these two amounts. In this case, the larger amount is \$995. The family's CTC refund still may not exceed its maximum CTC amount of \$1,800 (3 children x \$600). So, Charles and Linda can expect a CTC refund of \$995.

### Claiming the Child and Dependent Care credit for child care expenses can result in a bigger CTC refund.

Meredith is a single parent with a two-year-old child. She earned \$19,000 in 2002, and owes income tax of \$610. Her maximum CTC of \$600 is used up in the process of reducing her income tax from \$610 to just \$10. Since she cannot get more than the maximum of \$600 per child, she receives no refund from the new CTC. She will receive an EIC worth \$1,630.

<b>Before claiming Child and Dependent Care Credit —</b>	
<b>2002 Income:</b>	\$19,000
<b>Child and Dependent children under 17:</b>	1
<b>Maximum CTC:</b>	\$600
<b>Income Tax Liability:</b> <b>(CTC used to reduce income tax to \$10.)</b>	\$610
<b>New CTC Refund:</b>	\$0
<b>EIC:</b>	\$1,630
<b>Total Refund:</b>	\$1,630

However, suppose Meredith paid for child care during 2002 and claimed the Child and Dependent Care Credit for \$2,400 in child care expenses. Her Child and Dependent Care Credit will be worth \$600 (coincidentally the same amount as the CTC). It would be applied to her income tax and would reduce her tax liability of \$610 to \$10. Her maximum CTC of \$600 would then be used to eliminate the remaining \$10 in income tax, and she would still have \$590 of the CTC remaining ( $\$600 - \$10 = \$590$ ). Ten percent of Meredith's earnings over \$10,350 is \$865. Since \$590 is less than \$865, she would receive \$590 as a CTC refund. Adding this to her EIC of \$1,630, Meredith's total refund would come to \$2,220.

After claiming the Child and Dependent Care Credit —	
2002 Income:	\$19,000
Dependent children under 17:	1
Income Tax Liability:	\$610
Child and Dependent Care Credit:	\$600
Income Tax Liability reduced to:	\$10
Maximum CTC:	\$600
CTC remaining:	\$590
Ten percent of earnings over \$10,350:	\$865
New CTC Refund:	\$590
EIC:	\$1,630
<b>Total Refund:</b>	<b>\$2,220</b>

## Not all working families will benefit from the new CTC.

### Children may be above the age limit.

Elaine earned \$20,000 in 2002 and is raising three full-time college students, ages 19, 20 and 22. Although Elaine claims her children as dependents on her tax return, she is not eligible for the CTC, since they all are above the age limit of 17. However, her children do meet the rules for a qualifying child for EIC eligibility, and Elaine can claim an EIC of \$2,775.

### Family income may be too low.

Shirley earned \$8,000 in 2002 and is raising one child under age 17 who she can claim as a dependent. She owes no income tax. Since she earned less than \$10,350, she doesn't qualify for the new CTC refund. However, she is eligible for an EIC of \$2,506.

### Income tax liability may exceed the family's maximum CTC.

James and Rhonda earned \$33,000 in 2002, and are raising two children under age 17. While they do qualify for a maximum CTC of \$1,200, which will reduce their income tax of \$1,373 to just \$173, their entire CTC is used to do so. Since there is no CTC remaining, they do not qualify for the new CTC refund. However, they will be able to claim an EIC of \$248, which pays them back the remaining \$173 they paid in income tax, and gives them a refund of \$75.

2002 Income:	\$33,000
Dependent children under 17	2
Maximum CTC:	\$1,200
Income Tax Liability:	\$1,373
Income tax liability reduced to:	\$173
CTC remaining:	\$0
New CTC Refund:	\$0
EIC:	\$248
<b>Total Refund:</b>	<b>\$75</b>

## Sample Child Tax Credit Refund Amounts at Various Income Levels

These charts are not tax tables. They are presented to give you a rough idea of the amount of the Child Tax Credit refund at various income levels. These are the refund amounts that families will receive after all income tax, if any, is eliminated by the credit. A zero amount means the credit was fully used to reduce or eliminate the worker's income tax, so there is no Child Tax Credit left to provide a refund. *Note: Families with larger incomes or more children than shown here may also receive refunds.*

### New Child Tax Credit Refunds for Single Workers

2002 earned income	Number of dependents under age 17 in 2002			
	1 child	2 children	3 children	4 children
\$11,000	\$65	\$65	\$65	\$65
\$12,000	\$165	\$165	\$165	\$165
\$13,000	\$265	\$265	\$265	\$265
\$14,000	\$365	\$365	\$365	\$365
\$15,000	\$390	\$465	\$465	\$465
\$16,000	\$290	\$565	\$565	\$565
\$17,000	\$190	\$665	\$665	\$665
\$18,000	\$90	\$765	\$765	\$765
\$19,000	\$0	\$865	\$865	\$865
\$20,000	\$0	\$790	\$965	\$965
\$25,000	\$0	\$290	\$1,190	\$1,465

### New Child Tax Credit Refunds for Married Workers

2002 earned income	Number of dependents under age 17 in 2002			
	1 child	2 children	3 children	4 children
\$11,000	\$65	\$65	\$65	\$65
\$12,000	\$165	\$165	\$165	\$165
\$13,000	\$265	\$265	\$265	\$265
\$14,000	\$365	\$365	\$365	\$365
\$15,000	\$465	\$465	\$465	\$465
\$16,000	\$565	\$565	\$565	\$565
\$17,000	\$585	\$665	\$665	\$665
\$18,000	\$485	\$765	\$765	\$765
\$19,000	\$385	\$865	\$865	\$865
\$20,000	\$285	\$965	\$965	\$965
\$25,000	\$0	\$685	\$1,465	\$1,465

*Note: Both charts are based on single parents filing as head of household and married parents filing joint returns. Workers filing as "Single" may still qualify, but amounts will differ.*



# Still Another Tax Benefit for Families! The Child and Dependent Care Credit

## What is the Child and Dependent Care Credit?

The Child and Dependent Care Credit is a tax benefit that helps families pay for child care they need in order to work or to look for work. The credit also is available to families that must pay for the care of a spouse or an adult dependent who is incapable of caring for himself or herself. The Child and Dependent Care Credit can reduce the amount of federal income tax a family pays in two ways: For families that pay income taxes but do not owe taxes at the end of the year (because they have fully paid their taxes for the year through payroll withholding), this credit can give them back some or all of the federal taxes that were taken out of the parents' paychecks during the year. For families that end up owing taxes at the end of the year, the credit can lower the amount they must pay to the IRS. *Please note, however, that families earning too little to pay federal income tax cannot use this credit.* In this way, the Child and Dependent Care Credit differs from the Earned Income Credit. The EIC can be claimed by families earning too little to pay income tax.

### Twenty-eight states have Child and Dependent Care Tax Benefits!

Ten of these states offer a refundable tax credit: *Arkansas, California, Colorado, Hawaii, Iowa, Maine, Minnesota, Nebraska, New Mexico, and New York.* In these states, families that don't owe income tax can receive a refund in the amount of the state's Child and Dependent Care Tax Credit. For more information, contact your state department of revenue.

## Can families get the Child and Dependent Care Credit and the EIC?

**Yes!** Getting one of these credits does not affect a family's eligibility for the other in any way. Claiming both credits may mean even more money back from the IRS.

## Who is eligible for the Child and Dependent Care Credit?

Families can claim this credit if:

- They paid for care in 2002 for a child under age 13 or a disabled adult who lived with the family, **AND**
- They needed the child or dependent care to work or look for work (in a two-parent family, both spouses must have needed the child or dependent care to work or to look for work unless one spouse was a full-time student or unable to care for himself or herself), **AND**
- They paid over half the cost of keeping up their home (rent, food, etc.), **AND**
- The amount they paid for dependent care in 2002 was less than their income for the year. If taxpayers are married and filing a joint tax return, they must have paid less for care than the income of the spouse with the lowest earnings. There are special rules for calculating the income of a spouse who was a full-time student or disabled.

**NOTE:** In general, the credit can only be claimed for a child claimed as a tax dependent, but there are special rules for children of divorced or separated parents. *For information about these rules, call the IRS at 1-800-TAX-1040 or the National Women's Law Center at (202) 588-5180.*

## What type of care qualifies for the credit?

Any kind of child or dependent care can qualify, including care at a center, a family day care home or a church, or care provided by a neighbor or a relative (except if provided by a spouse, a dependent, or a child under 19).

If a family receives free child care, such as from a state-subsidized program, that care *cannot* be used to qualify for the credit. But if only part of a family's child care is subsidized and the family pays for the rest, the amount the family pays can be counted toward the credit.

## How much money can a family get?

The size of the Child and Dependent Care Credit depends on the number of children or dependents in care, a family's income, and the amount the family paid for care during the year. It can be as much as \$720 for families with one child or dependent in care and up to \$1,440 for families with more than one child or dependent in care.

Families can claim only a limited amount of their child care expenses. Families with one child or dependent can claim up to \$2,400 in these expenses and families with more than one child or dependent can claim up to \$4,800. Eligible families will receive a credit worth between 20 percent and 30 percent of these expenses, depending on their income.

**Example:** Ms. Logan has two children and earned \$25,000 in 2002. During the year, she had \$910 in federal income tax withheld from her pay. But because Ms. Logan spent \$3,000 during the year on child care for her two children, she is eligible for a Child and Dependent Care Credit up to 22 percent of what she spent on care, or up to \$660. Her Child and Dependent Care Credit eliminates \$660 of the \$910 in taxes Ms. Logan paid. Her Child Tax Credit of up to \$1,200 pays back the remaining \$250 of her withheld taxes. And, she is also eligible for an additional Child Tax Credit refund worth \$950. Ms. Brown is also eligible for an Earned Income Credit of \$1,772. She will get a total refund of \$3,582 from the IRS, which includes \$950 for the Child Tax Credit, \$1,772 for the EIC, and \$910 in refunds for the taxes withheld from her paychecks.

## How do families claim the Child and Dependent Care credit?

Families must file a federal income tax return — either Form 1040 or 1040A — and attach a separate “schedule” or form with their return. With Form 1040, families must attach Form 2441. With Form 1040A, families use Schedule 2. *Free copies of these forms can be obtained at [www.irs.gov/formspubs/index.html](http://www.irs.gov/formspubs/index.html) or by calling the IRS at 1-800-TAX-FORM.*

## Where can families get more information about this credit?

The National Women's Law Center (NWLC) has materials on the Child and Dependent Care Credit as well as state-level child and dependent care tax provisions. *Call NWLC at (202) 588-5180 or visit their website at [www.nwlc.org](http://www.nwlc.org).*

*Families also can get free information about the Child and Dependent Care Credit and other tax matters by calling the IRS at 1-800-TAX-1040. Hearing impaired people can call 1-800-829-4059 or visit the IRS Website at [www.irs.gov](http://www.irs.gov).*