

Facts

About the Child Tax Credit:



Tax Time
Can Pay Even
More For
Working
Families



**The Earned Income Credit
and Child Tax Credit**



2005

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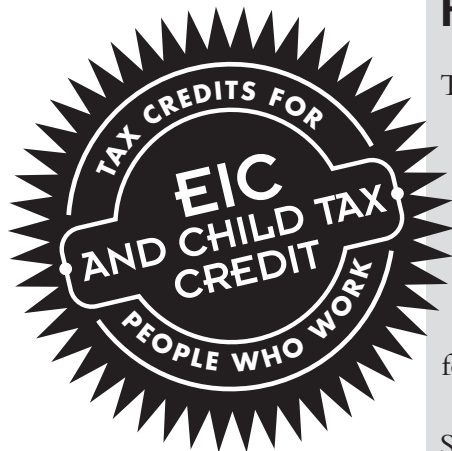
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Facts About the Child Tax Credit: Tax Time Can Pay Even More For Working Families



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There's good news at tax time for many low-income working families — tax time can pay more when they claim the EIC and the CTC too.

Many low-income working families are eligible for the Child Tax Credit (CTC). The CTC is a federal tax benefit worth up to \$1,000 in 2004 for each dependent child under age 17. Even some 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 "Additional" CTC refund does not reduce any Earned Income Credit for which the family qualifies — most low-income working families will qualify for **both** credits. The result is a bigger paycheck boost for families that are struggling in an uncertain economy and badly need the CTC.

The Child Tax Credit refund increases challenges for Outreach Campaign partners

Identifying workers who may qualify for the CTC refund requires developing new outreach messages and strategies. The CTC refund adds a level of complexity to the tax filing process low-income working families must navigate. For example, the rules for claiming the CTC refund are different from the rules for claiming the EIC and a separate 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 is increasingly important.

This Outreach Kit can help you meet those challenges

The first step is to begin to understand the basics of the CTC and how families apply for it. The information in this booklet will tell you all you need to know to ensure that information about both the CTC and EIC are conveyed to eligible workers. Our outreach strategy guide, *Making Tax Time Pay: How to Promote the Earned Income Credit and the Child Tax Credit*, as well as our booklet, *Helping Workers Get the Tax Credits They've Earned: How to Link Them With Free Tax Filing Assistance*, highlight strategies you can use to alert families to the availability of the CTC refund and how to claim it.

Helpful Changes to the Child Tax Credit Take Effect in 2004

In 2004, Congress passed two measures that could increase the amount of the Child Tax Credit for some families. These changes take effect right away, meaning they apply to tax returns filed in 2005 for income earned in 2004.

Workers with no tax liability may get a boost. The CTC for workers who have no tax liability can increase due to a change in the way the credit is calculated. Such workers may be eligible for a credit of 15 percent of income above \$10,750, rather than 10 percent.

Military families get an advantage. In general, combat pay is considered non-taxable earned income, which is not considered in determining eligibility for the CTC. This rule prevented some military families from qualifying for the credit because they may have had only a small amount of income besides combat pay and therefore did not earn enough (\$10,750 in 2004) get a CTC refund. Combat pay now counts as earned income for the CTC. The rule change allows combat pay to be counted for CTC purposes — but doesn't make combat pay taxable, so military families will not see their taxes rise as a result. **Note:** A related change gives military families the *option* to count combat pay as earned income in calculating their eligibility for the Earned Income Credit, if it is advantageous. (See the insert enclosed in this kit **Special Alert: Changes to Low-Income Tax Credits for 2004/2005.**)



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 \$1,000 in 2004 for each child under age 17 claimed as a dependent on the worker's tax return. 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. This "Additional CTC" is *refundable*, meaning some families can get the credit even if they owe no income tax. (These fact sheets refer to the "Additional CTC" as the "CTC refund.") Eligible families can receive the CTC refund in a check from the IRS.

Who Can Claim the Child Tax Credit refund?

To be eligible for the CTC 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 \$10,750; 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 refund.*

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

Yes!! Most low-wage working families that qualify for the 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,

Which children qualify for the Child Tax Credit?

A child claimed for the CTC must be under age 17 at the end of 2004 and must be claimed as a dependent on the worker's tax return. The child must be either a citizen or be a resident alien who lives in the U.S. "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 the entire year (and are claimed as dependents), *but only if they are placed with the worker by an authorized government or private placement agency.*

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.

How do families get the 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 — Form 8812.
- 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 Tools 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 \$1,000 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 \$2,000 — 2 children x \$1,000.) 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 income of a worker (and spouse, if married) exceeds \$10,750. Families with any CTC remaining after their income tax liability has been eliminated may receive a refund in the lesser of two amounts: (1) the amount of the family's CTC that remains, or (2) 15 percent of the family's earned income over \$10,750. (For example, if a family earns \$15,000, 15 percent of its income above \$10,750 is \$638: $\$15,000 - \$10,750 = \$4,250$; 15 percent of \$4,250 is \$638.)

Examples of families that will benefit:

- Maxine is a single parent with a 13-year-old child. She earned \$15,000 in 2004 and owes

A Special Case

Under a rule that was in effect prior to 2001, some low-income families with three or more children have qualified for a Child Tax Credit refund. This 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.

\$165 in income tax. Her maximum CTC of \$1,000 is first used to eliminate her \$165 income tax, leaving \$835 of it remaining ($\$1,000 - \$165 = \835). Fifteen percent (15%) of Maxine's earnings over \$10,750 is \$638. Since the remaining CTC of \$835 is more than \$638, Maxine is eligible to receive a CTC refund for the lower amount — \$638. She also is eligible for an EIC of \$2,453, bringing her total refund to \$3,091!

- Sam and Barbara are married and raising four children under age 17. They earned \$25,000 in 2004 and owe no income tax. Their maximum CTC is \$4,000 (4 children x \$1,000). Fifteen percent (15%) of their earnings over \$10,750 is \$2,138 ($\$25,000 - \$10,750 = \$14,250$; 15 percent of \$14,250 is \$2,138). Since the couple has no income tax liability, none of their CTC is used — the full \$4,000 remains. Since this is more than 15 percent of their earnings above \$10,750, Sam and Barbara receive a CTC refund of \$2,138. They also qualify for an EIC of \$2,209, bringing their total refund to \$4,347! (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 (TANF), 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 generally do not count toward resource limits in these programs in the month of receipt or the following month. Beginning in 2004, EIC

and CTC refunds do not count against the resource limit for SSI for nine months after receiving them. States may have less restrictive policies for some programs.

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 a dependent 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 be a legal resident alien who lives in the U.S. The child does not have to live in the worker's home.

For more information on Individual Taxpayer Identification Numbers, see p. 17 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

	Earned Income Credit	Child Tax Credit
Relationship	Use EIC qualifying child rules.	Use EIC qualifying child rules.
Age	Use EIC qualifying child rules.	Must be under age 17.
Residency with Child	Worker must <i>live</i> with child more than 6 months of the year in the U.S.	Child must be a U.S. citizen, or a <i>resident alien</i> who lives in the U.S. No requirement to live with child (except for foster child, see below); a non-custodial parent may claim the CTC, if also claiming the child as a dependent.
Dependency Exemption	Not required (except for claim by parent who separated from spouse after first half of year).	Must claim child as a dependent. (A foster child must <i>live with the worker the entire year</i> to be claimed as a dependent.)
Income	Specific income limits (see the booklet in this kit, " <i>Facts About the Earned Income Credit</i> "). Limit on investment income.	Income limits are far above EIC limits. More than \$10,750 <i>taxable</i> earned income required for CTC refund. No limit on investment income.
Immigration	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 number <i>or</i> ITINs for parents and children are required.
Forms	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.
Impact on Other Public Benefits	EIC is not income for food stamps, SSI, Medicaid, federal housing, foster care or adoption assistance. EIC refunds do not count toward resource limits in the month of receipt or in the following month. (They do not count for nine months in SSI and for a full year in food stamps.) Rules regarding the effect of EIC on other programs, e.g., TANF, State Children's Health Insurance Program, child care subsidies, heating assistance are state-determined.	CTC is not income for <i>any</i> federal, state or local program financed even in part by federal funds. CTC refunds generally do not count toward resource limits in the month of receipt or in the following month. (They do not count for nine months in SSI.)

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 CTC and the EIC.

Mike and Tanya are married and raising two children under age 17. They earned \$25,000 in 2004 and owe income tax of \$290. Their maximum CTC of \$2,000 is first used to eliminate their income tax, leaving \$1,710 of their CTC remaining ($\$2,000 - \$290 = \$1,710$). Fifteen percent (15%) of their earnings over \$10,750 is \$2,138, which is more than their remaining CTC. Therefore, Mike and Tanya are eligible to receive a refund in the amount of their remaining CTC of \$1,710. They will also qualify for an EIC of \$2,209. This brings their total refund to \$3,919.

2004 Income:	\$25,000
Dependent children under 17:	2
Maximum CTC:	\$2,000
Income Tax Liability:	\$290
CTC remaining:	\$1,710
15% of earnings over \$10,750:	\$2,138
CTC Refund:	\$1,710
EIC:	\$2,209
Total Refund:	\$3,919

Mark and Megan are raising two children under age 17. In 2004, they earned \$15,000, and they owe no income tax. Their maximum CTC is \$2,000. Fifteen percent (15%) of their income over \$10,750 is \$638, which is less than their CTC. Therefore, they will receive \$638 as a CTC refund.

They also are eligible for an EIC of \$4,304, bringing their total refund to \$4,942.

2004 Income:	\$15,000
Dependent children under 17:	2
Maximum CTC:	\$2,000
Income Tax Liability:	\$0
CTC remaining:	\$2,000
15% of earnings over \$10,750:	\$638
CTC Refund:	\$638
EIC:	\$4,304
Total Refund:	\$4,942

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 2004, he earned \$20,000 and owes income tax of \$585. His maximum CTC is \$2,000, which eliminates all his income tax liability, and leaves \$1,415 of his CTC remaining ($\$2,000 - \$585 = \$1,415$). Fifteen percent (15%) of his income above \$10,750 is \$1,388, which is less than his remaining CTC. Therefore, he will receive

2004 Income:	\$20,000
Dependent children under 17:	2
Maximum CTC:	\$2,000
Income Tax Liability:	\$585
CTC remaining:	\$1,415
15% of earnings over \$10,750:	\$1,388
CTC Refund:	\$1,388
EIC:	\$0
Total Refund:	\$1,388

\$1,388 as a CTC refund. Max is not eligible for the EIC since his children did not live with him.

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 2004, and owe income tax of \$590. Both have Individual Taxpayer Identification Numbers (ITINs), so they can claim the CTC. Their maximum CTC is \$2,000, which eliminates all their income tax liability, and leaves \$1,410 of their CTC remaining ($\$2,000 - \$590 = \$1,410$). Fifteen percent (15%) of their income over \$10,750 is \$2,588, which exceeds their remaining CTC. Therefore, they will receive \$1,410 as a CTC refund. Since Tom and Marianne do not yet have Social Security numbers, they cannot claim the EIC.

2004 Income:	\$28,000
Dependent children under 17:	2
Maximum CTC:	\$2,000
Income Tax Liability:	\$590
CTC remaining:	\$1,410
15% of earnings over \$10,750:	\$1,725
CTC Refund:	\$1,410
EIC:	\$0
Total Refund:	\$1,410

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 2004 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 \$2,650 limit for EIC eligibility, they do not qualify for the EIC.

2004 Income:	\$16,000
Earned Income:	\$13,000
Investment Income:	\$3,000
Income tax:	\$0
Payroll Tax:	\$995
15% of earnings over \$10,750:	\$338
Dependent children under 17:	3
Maximum possible CTC:	\$3,000
CTC Refund:	\$338
EIC:	\$0
Total Refund:	\$995

Although they will miss out on the EIC, Charles and Linda are still eligible for the CTC. Their maximum CTC is \$3,000, none of which is used to reduce the family's income tax liability (which is zero). Fifteen percent (15%) of their earnings (\$13,000) over \$10,750 is \$338, which is less than their "remaining" CTC. As a result, this family's CTC would appear to be \$338. However, because the family has three children, a special procedure applies. First, the family's share of the payroll tax (\$995) is compared to its 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 \$338, 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 \$3,000 (3 children x \$1,000). 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 three-year old child. She earned \$25,000 in 2004, and owes income tax of \$1,248. Her maximum CTC of \$1,000 is used up in the process of reducing her income tax to \$248. Since she cannot get more than the maximum of \$1,000 per child, she receives no refund from the additional CTC. She will, however, receive an EIC worth \$855.

Before claiming Child and Dependent Care Credit —

2004 Income:	\$25,000
Dependent children under 17:	1
Maximum CTC:	\$1,000
Income Tax Liability:	\$1,248
(CTC used to reduce income tax to \$248)	
CTC Refund:	\$0
EIC:	\$855
Total Refund:	\$855

However, suppose Meredith paid for child care during 2004 and claimed the Child and Dependent Care Credit for \$3,000 in child care expenses. Her Child and Dependent Care Credit will be worth \$900. It would be applied to her income tax and would reduce her tax liability of \$1,248 to \$348. Her maximum CTC of \$1,000 would then be used to eliminate the remaining \$348 in income tax, and she would still have \$652 of the CTC remaining ($\$1,000 - \$348 = \$652$). Fifteen percent (15%) of Meredith's earnings over \$10,750 is \$2,138. Since \$652 is less than \$2,138, she would receive \$652 as a CTC refund. Adding this to her EIC of \$855, Meredith's total refund would come to \$1,507. In addition, her entire tax liability of \$1,248 is eliminated.

After claiming the Child and Dependent Care Credit —

2004 Income:	\$25,000
Dependent children under 17:	1
Income Tax Liability:	\$1,248
Child and Dependent Care Credit:	\$900
Income Tax Liability reduced to:	\$348
Maximum CTC:	\$1,000
CTC remaining:	\$652
15% of earnings over \$10,750:	\$2,138
CTC Refund:	\$652
EIC:	\$855
Total Refund:	\$1,507

Not all working families will benefit from the Child Tax Credit refund.

Children may be above the age limit.

Jessica earned \$20,000 in 2004 and is raising three full-time college students, ages 19, 20 and 22. Although Jessica 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 Jessica can claim an EIC of \$3,051.

Family income may be too low.

Shirley earned \$8,000 in 2004 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 \$10,750, she doesn't qualify for the CTC refund. However, she is eligible for an EIC of \$2,604.

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

Renee earned \$25,000 in 2004, and is raising one child under age 17. While she qualifies for a maximum CTC of \$1,000, which will reduce her income tax of \$1,248 to just \$248, her entire CTC is used to do so. Since there is no CTC remaining, she does not qualify for the CTC refund. However, she will be able to claim an EIC of \$855, which pays her back the remaining \$248 she paid in income tax, and gives her a refund of \$607.

2004 Income:	\$25,000
Dependent children under 17:	1
Maximum CTC:	\$1,000
Income Tax Liability:	\$1,248
Income tax liability reduced to:	\$248
CTC remaining:	\$0
CTC Refund:	\$0
EIC:	\$855
Total Refund:	\$607

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 “Additional” Child Tax Credit refund at various income levels. These are the refund amounts that families will receive even if they have no income tax liability or after all their income tax, if any, is eliminated by the basic Child Tax Credit. *Note: Families with larger incomes or more children than shown here may also receive refunds.*

Child Tax Credit Refunds for Single Workers

Number of dependents under age 17 in 2004

2004 earned income	1 child	2 children	3 children	4 children
\$11,000	\$38	\$38	\$38	\$38
\$12,000	\$188	\$188	\$188	\$188
\$13,000	\$338	\$338	\$338	\$338
\$14,000	\$488	\$488	\$488	\$488
\$15,000	\$638	\$638	\$638	\$638
\$16,000	\$735	\$788	\$788	\$788
\$17,000	\$635	\$938	\$938	\$938
\$18,000	\$535	\$1,088	\$1,088	\$1,088
\$19,000	\$435	\$1,238	\$1,238	\$1,238
\$20,000	\$335	\$1,338	\$1,338	\$1,338
\$25,000	\$0	\$1,145	\$2,138	\$2,138

Child Tax Credit Refunds for Married Workers

Number of dependents under age 17 in 2004

2004 earned income	1 child	2 children	3 children	4 children
\$11,000	\$25	\$25	\$25	\$25
\$11,000	\$38	\$38	\$38	\$38
\$12,000	\$188	\$188	\$188	\$188
\$13,000	\$338	\$338	\$338	\$338
\$14,000	\$488	\$488	\$488	\$488
\$15,000	\$638	\$638	\$638	\$638
\$16,000	\$788	\$788	\$788	\$788
\$17,000	\$938	\$938	\$938	\$938
\$18,000	\$1,000	\$1,088	\$1,088	\$1,088
\$19,000	\$1,000	\$1,238	\$1,238	\$1,238
\$20,000	\$900	\$1,388	\$1,388	\$1,388
\$25,000	\$400	\$1,710	\$2,138	\$2,138

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.

The Child Tax Credit Refund Presents Outreach Challenges

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 CTC refund also will be eligible for the EIC. And, while the CTC 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 Outreach Campaigns to continue aggressive promotion of the EIC, and also weave the message about the CTC into existing EIC outreach activities.

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

Along with the added benefits of the CTC 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. This booklet and the materials in this kit provide the information and tools you need to help families get all the tax credits they've earned.

Outreach Campaign partners can ensure their materials convey clear, encouraging messages to eligible families. Working families need to know:

- **Families not eligible for the CTC in the past may now be eligible.** Most low-income families got little or no benefit from the CTC before new rules providing for CTC refunds took effect in 2002. 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 CTC refund and, if so, to determine the amount of the refund. This form must be attached to their tax return. (Outreach Campaigns can put them ahead of the game by distributing the form. Just photocopy the Form 8812 in the Outreach Tools 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.*

Outreach 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

- **Tax time can pay more when they claim all the tax credits they've earned.** Many families will qualify for both the EIC and the CTC.

Outreach 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. Regarding the EIC, in the past families that appeared to be eligible but failed to attach the Schedule EIC to their tax return, received a notice from the IRS indicating that if the family supplied the necessary information, the IRS would send them the EIC. Thousands of families took 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. However, the IRS does *not* currently have a policy of sending notices to families that appear to be eligible but fail to attach the EIC Schedule when they file. You should not assume that in 2005 the IRS will alert such families to their possible eligibility — without information and assistance they may miss out on their CTC refund.

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!** Outreach Campaign partners can pay special attention to these families to ensure they get the help they need to take advantage of the CTC. 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 CTC.
- **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 CTC 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.** Working families with 2004

income over the EIC income limits (\$34,458 for workers with two or more children and \$30,338 for workers with one child; income limits for married worker are \$1,000 higher), or with investment income over \$2,650, will not be eligible for the EIC, but may qualify for the CTC.

Outreach Campaign partners can broaden their activities to reach out to working families that can benefit from the CTC. For numerous ideas on how to expand the outreach message and enrich outreach activities, look in the booklets in this kit, *“Making Tax Time Pay: How to Promote the EIC and the Child Tax Credit”* and *“Helping Workers Claim the Tax Credits They’ve Earned: How to Link Them to Free Tax Filing Assistance.”* The posters, flyers, and envelope stuffers in the Outreach Tools Envelope in this kit carry the dual message about the EIC and the CTC.

Here are a few ideas to get Outreach 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 CTC, 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 CTC 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 CTC.

- **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 CTC. 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.
- **Employers and others can alert the labor force to the availability of tax refunds** by slipping information about the EIC and the CTC into worker's paychecks. Target industries experiencing particularly difficult times, such as businesses relocating or laying off workers. 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 customers 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 CTC.
- **Reach out to workers whose children do not live with them.** Non-custodial parents who claim their children as dependents may qualify for the CTC. Employers and child



In 2004, Outreach Campaign partners built the Child Tax Credit message into their EIC Campaigns:

- Workforce Solutions of the Concho Valley in San Angelo, Texas, is a workforce center serving low- and moderate-income individuals who receive public benefits. It built information about the CTC and EIC into its weekly job readiness classes, which serve 60 people a month. Workforce Solutions set up appointments for 100 of its clients to have their tax returns prepared free by AARP Tax-Aide.
- Kansas State Extension in Salinas provided information about the CTC and EIC in programs on basic budgeting held at the homeless shelter. These programs reach homeless workers living with their children, as well as non-custodial fathers who may be able to claim the CTC. Presentations were also made at Head Start and child care centers. Flyers with information on the CTC, EIC and VITA sites were distributed through the Salvation Army and also were posted on bulletin boards at laundromats in the community.
- The priest at St. Christopher's Catholic Church in Pontotoc, Mississippi, arranged for bi-lingual volunteers to assist Hispanic workers to obtain Individual Taxpayer Identification Numbers and to claim the CTC. He also assists the workers to respond to any inquiries from the IRS about their tax returns.

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.

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. For the year 2004, parents can claim as much as \$3,000 in dependent care expenses per child (up to \$6,000 for two or more children). 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.

Can families that claim other credits get the Child and Dependent Care Credit?

Yes! The EIC and CTC do not affect a family's eligibility for this credit. Claiming all three credits,

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

Twelve of these states offer a refundable tax credit: Arkansas, California, Colorado, Hawaii, Iowa, Louisiana, Maine, Minnesota, Nebraska, New Mexico, New York and Vermont. In these states, low-income families that don't owe income tax can still 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.

when possible, 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 2004 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 2004 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 \$1,050 for families with one child or dependent in care and up to \$2,100 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 \$3,000 in these expenses and families with more than one child or dependent can claim up to \$6,000. Eligible families will receive a credit worth between 20 percent and 35 percent of these expenses, depending on their income.

Example: Ms. Lewis has one child and earned \$25,000 in 2004. During the year, she had \$1,248 in federal income tax withheld from her pay. But Ms. Lewis spent \$3,000 during the year on child care and she is eligible for a Child and Dependent Care Credit up to 30 percent of what she spent on care, or up to \$900. Her Child and Dependent Care Credit eliminates \$900 of the \$1,248 in taxes Ms. Lewis paid. Her Child Tax Credit of up to \$1,000 pays back the remaining \$348 of her withheld taxes. And, she is also eligible for an additional Child Tax Credit refund worth \$652. Ms. Lewis is also eligible for an Earned Income Credit of \$855. She will get a total refund of \$2,755 from the IRS, which includes \$652 for the Child Tax Credit, \$855 for the EIC, and \$1,248 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 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 its website at: 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.

Claiming the Child and Dependent Care Credit Can Boost a Family's Child Tax Credit Refund

Before the changes in the Child Tax Credit (CTC) were enacted in 2001, many low-income families that were eligible for both the CTC and the Child and Dependent Care Credit — a separate non-refundable credit for families with child care expenses — could not take advantage of both. Here's why: Most low-income families owe a relatively small amount of income tax. Claiming just one of these two credits would have eliminated the family's tax liability, reducing the amount the family owed to zero. Without additional tax liability to offset, the second credit was essentially of no use to such families. In the past, many families chose to claim the CTC and forgo the Child and Dependent Care Credit, which at the time imposed a greater paperwork burden and would have yielded no additional benefit.

Now, families with child care expenses may want to reconsider this decision. Since the CTC is refundable, families can take advantage of both credits! In fact, by claiming the Child and Dependent Care Credit, which is applied first to reduce or eliminate tax liability, families may ultimately get a higher CTC refund than if they had not claimed their child care expenses. *For more information about the Child and Dependent Care Credit, see p. 14 in this booklet.*

Here's how it can work:

Jennifer is a single parent raising a young child. She earned \$23,000 in 2004 and owes income tax of \$965. She paid about \$3,000 in 2004 for child care expenses. In the past when neither the Child and Dependent Care Credit nor the CTC was

refundable, and either one would have been large enough to eliminate her tax liability, Jacqueline chose to avoid the hassle of assembling the required documentation of child care expenses and information on her child care provider. She claimed only the CTC. Her maximum CTC (now worth up to \$1,000 for her one child) eliminates her \$965 income tax liability.

This year, Jacqueline initially planned to claim only the CTC. Under CTC rules, after her \$965 income tax liability is eliminated, \$35 of her CTC of \$1,000 remains. This amount is less than 15 percent of her earnings over \$10,750 ($\$23,000 - \$10,750 = \$12,250$; 15 percent of \$11,500 is \$1,838). Therefore, Jacqueline expects to receive a CTC refund of only \$35.

Then she discovers that she can receive a larger CTC refund if she claims the Child and Dependent Care Credit. Since she qualifies for a Child and Dependent Care Credit worth \$930, she now owes only \$35 in income tax. And now, most of her CTC of \$1,000 is remaining ($\$1,000 - \$35 = \965). Since 15 percent of her earnings over \$10,750 is \$1,838 and is more than \$965, Jacqueline will receive the **\$965** as her CTC refund — as opposed to the **\$35** she originally expected — making her investment in doing the extra paperwork worthwhile!

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