

Child Tax Credit Expansion

The Child Tax Credit provides a partially refundable federal income tax credit of up to \$1,000 per child (under 17) to help offset the costs of raising a child. The economic recovery bill temporarily expands the Child Tax Credit by lowering the eligibility level, called the “refundability threshold,” to make the credit available to tax filers with at least \$3,000 of earnings. Under prior law, the credit was typically available only to those with earnings of \$8,500 or more in tax year 2008 and \$12,550 in tax year 2009.

Families with earnings just above the threshold qualify for a very small credit, because the credit “phases in” slowly as earnings rise above the threshold level. Under the expanded credit, a family with two children may qualify for the full Child Tax Credit if it has earnings of \$16,333 or more.

The Joint Committee on Taxation estimates that the two-year Child Tax Credit provision will cost \$14.8 billion as compared to current law (in which the threshold would equal \$12,550 in 2009 and slightly more than that in 2010).

The assistance provided under this provision can be expected to provide especially effective stimulus because it is well targeted to the lowest-income families who are most likely to spend the money. Data from the Tax Policy Center show that about 90 percent of the benefits of lowering the threshold from its 2008 level will go to the bottom two-fifths of Americans.

Two sets of state figures are shown here (<http://www.cbpp.org/2-12-09tax.htm>). The first column represents the number of children younger than 17 expected to receive help under the provision — that is, to become newly eligible for the credit because of the lower threshold or to receive more help from the credit than they would have received under an \$8,500 threshold. The third column shows the number of children expected to receive help under this provision as compared to the credit they would receive if the threshold were set at \$12,550. In both cases, the majority of children helped by the provision are children who were already eligible for the credit but will receive a larger credit as a result of the recovery bill.

The figures are national estimates from the Tax Policy Center, allocated by state by the Center using Census Bureau data. To allocate the TPC figures, the Center used data from the March 2005, March 2006, and March 2007 Current Population Survey to simulate families’ taxes, first assuming a refundability threshold of \$8,500 and \$12,550 for the Child Tax Credit and then lowering the threshold to \$3,000. We used these figures to estimate each state’s share of children benefiting from the CTC provision. Three years of Census data were used to improve the reliability of the state estimates.

The margins of error shown in the table reflect the fact that the data are based on a sample of households. There is approximately a 90 percent likelihood that an estimate based on all households in the state, rather than a sample, would equal the number shown plus or minus the margin of error.