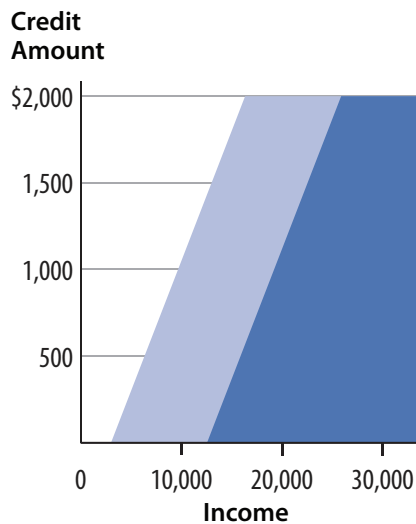


**Recovery Act Expanded  
 the Child Tax Credit for  
 Low-Income Working  
 Families**

CTC with and without stimulus  
 for families with two children

- Without stimulus
- Additional benefits with stimulus



Policy Basics is a series of brief background reports on issues related to budgets, taxes, and government assistance programs.

The Center on Budget and Policy Priorities  
 820 First Street, NE, Suite 510  
 Washington, DC 20002  
 Ph: 202-408-1080  
 Fax: 202-408-1056  
[center@cbpp.org](mailto:center@cbpp.org)  
<http://www.cbpp.org>

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The Child Tax Credit, designed to help offset the cost of raising children, is worth up to \$1,000 per child. Taxpayers eligible for the credit subtract it from the total amount of federal income taxes they would otherwise owe. For example, if a couple with two children would owe \$5,000 in taxes without the credit, they would owe \$3,000 in taxes with it, because the credit would reduce their tax bill by \$1,000 for each of their children.

**Refundability**

The child credit is partially refundable. This means that if the value of the credit exceeds the amount of tax a family owes, the family may receive part or all of the difference in the form of a refund check. As a result, many families can still benefit from the credit even if their incomes are so low that they owe little or no tax. When filing taxes for 2009 (due in April 2010), families can receive a refund equal to 15 percent of their earnings above \$3,000, up to the credit’s full \$1,000-per-child value. For example, a mother with two children who earned \$14,000 in 2009 could receive 15 percent of \$11,000, or \$1,650, as a refund.

This refundability feature is important for low-income working families, who otherwise would not receive the benefits of the credit that are available to higher-income families even though it costs them money to raise their children as well.

**Eligibility**

Even with the credit’s refundability, some families still miss out: families who earn less than \$3,000 are ineligible for the credit, and families who earn between \$3,000 and \$9,667 receive only a partial credit (families with more than one child are not eligible for the full credit unless their earnings exceed \$16,000 or more). Despite these shortcomings, the child credit is a powerful weapon against poverty. In 2009 it protected approximately 2.3 million people from poverty, including about 1.3 million children.

Couples with incomes above \$110,000 (or \$75,000 for single or head-of-household filers) receive a smaller child credit, and those with incomes above \$130,000 (\$95,000 for heads of household) receive no credit at all. This is because households in that income range are less in need of assistance to meet the costs of raising children.

**Looking Forward**

Congress strengthened the child credit as part of the large 2001 and 2003 tax cuts, and again as part of the February 2009 economic recovery legislation. But unless policymakers vote to extend these improvements, the credit will shrink for all recipients in 2011—and many low-income working families will lose benefits. President Obama has proposed extending all of the improvements.