



CENTER ON BUDGET AND POLICY PRIORITIES

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WHO BENEFITS IF THE LEVEL AT WHICH THE CHILD TAX CREDIT BEGINS PHASING OUT IS RAISED TO \$150,000?

by Robert Greenstein

Some news accounts have conveyed the impression that under current law, the child tax credit is not available to married filers with incomes above \$110,000, and that if the \$110,000 threshold is raised to \$150,000 as Senator Charles Grassley has proposed in recent days and as a new Senate bipartisan plan unveiled today would do, the credit will be made available to those in the \$110,000 to \$150,000 range. This is incorrect.

Under current law, \$110,000 is the level at which the credit of \$1,000 per child *begins to phase down*. It is *not* the level at which it phases out. (A couple's total child credit drops \$50 for each \$1,000 by which its income exceeds \$110,000.)

- A married couple with two children is now eligible for a partial child credit until its income reaches \$149,000.
- A couple with three children receives some credit until its income reaches \$169,000.

A new bipartisan plan would raise the \$110,000 threshold to \$150,000, something not included in the Administration's budget or the House or Senate tax bills this year. If this is done, families with income well above \$150,000 will benefit.

- A couple with two children will receive at least a partial child credit until its income reaches \$189,000.
- A couple with three children will receive at least a partial credit until its income reaches \$209,000.

Child Tax Credit Phaseout for Married Couples				
Number of children	Current law		Proposal	
	Credit begins to phase out at incomes of:*	Credit phases out completely at:	Credit begins to phase out at incomes of:*	Credit phases out completely at:
1	\$110,000	\$129,000	\$150,000	\$169,000
2	\$110,000	\$149,000	\$150,000	\$189,000
3	\$110,000	\$169,000	\$150,000	\$209,000

* Credit is reduced by \$50 for each \$1,000 of income above this threshold level.

It may be noted that the proposal to raise to \$150,000 the level at which the child credit begins to phase down is not accompanied by a proposal to extend the credit to more working-poor families. Under a provision of the 2001 tax law, the *size* of the child credit for low-income families with earnings of more than \$10,500 is slated to increase in 2005. A provision that was approved last month by the Senate but dropped in conference — and that has received much attention in recent days and is part of the new bipartisan proposal — would accelerate this scheduled increase in the size of the credit these families receive so it occurs in 2003. No new working-poor families, however, would be made eligible for the credit under this provision or under any other aspect of the new bipartisan plan. Families with earnings of up to \$10,500 would remain ineligible.

As a result, many families with incomes in the \$150,000 to \$200,000 range would begin to receive the child credit, while families with a parent working full-time year-round at the minimum wage of \$5.15 an hour would remain ineligible. Full-time minimum wage earnings amount to \$10,300 a year.