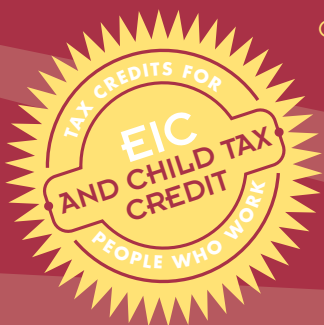


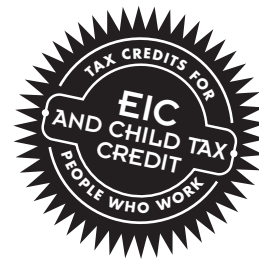
Facts About the New Child Tax Credit:

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*A Bigger
Paycheck Boost
for Many Families*

A PROJECT OF THE
CENTER ON BUDGET AND
POLICY PRIORITIES





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

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 for the first time. The Child Tax Credit (CTC) is a federal tax benefit worth up to \$600 this year for each dependent child under age 17. In 2001, 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 new challenges. The first step is to begin to understand the basics of the new credit and how families apply for it. To assist you, we are featuring this new booklet

*in this year’s EIC Campaign kit. 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.*

Here’s what’s inside this booklet:

The Child Tax Credit: Extra Credit for Many Working Families! 3

Comparing the Eligibility Requirements for the Earned Income Credit and the Child Tax Credit 6

Claiming the Child and Dependent Care Credit Can Boost a Family’s Child Tax Credit Refund 7

The New Child Tax Credit Presents Outreach Challenges for EIC Campaign Partners 8

Calculating the Child Tax Credit Refund: The Benefits for Working Families Add Up! 11

Sample Child Tax Credit Refund Amounts at Various Income Levels 14

Still Another Tax Benefit for Families: The Child and Dependent Care Credit 15

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 2001, for families with dependent children under age 17. While the CTC has been in effect since 1998, Congress recently made changes in the credit that make it available to millions more low- and moderate-income working families for the first time, and provide many families a larger CTC than they could have received in the past. The CTC is now *refundable*, meaning 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 \$10,000
- 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 eligible for 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 2001, and must be claimed as a dependent on the worker's tax return. The child *must live in the U.S.*, and be either a citizen or a resident alien. "Qualifying children" include: sons, daughters, stepchildren, grandchildren and adopted children. Foster children can be claimed if they lived with the worker all year. The definition of a foster child for purposes of the CTC is the same as it is for the EIC.

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 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 \$10,000. 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 \$10,000. (For example, if a family earns \$15,000, ten percent of its income above \$10,000 is \$500: $\$15,000 - \$10,000 = \$5,000$; ten percent of \$5,000 is \$500.)

A Special Case

Under a rule that has been in effect since 1998, 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 since 1998 may be larger than the amount they would receive if the refund is calculated under the new CTC rules. To ensure such families are not adversely affected by the new rules, the new legislation enacted this year — and Form 8812 — will allow 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 new rules or the rules that were in effect since 1998 — they get whichever amount is higher.

Examples of families that will benefit:

- Maxine is a single parent with a 12-year-old dependent child. She earned \$15,000 in 2001 and owes \$255 in income tax. Her maximum CTC of \$600 is first used to eliminate her \$255 income tax, leaving \$345 of it remaining ($\$600 - \$255 = \345). Ten percent of Maxine's earnings over \$10,000 is \$500. Since the remaining CTC is less than \$500, Maxine is eligible to receive a refund in the amount of the remaining CTC — \$345. She also is eligible for an EIC of \$2,120, bringing her total refund to \$2,465!
- Sam and Barbara are married and raising four children under age 17. They earned \$25,000 in 2001 and owe no income tax. Their maximum possible CTC is \$2,400 (4 children x \$600). Ten percent of their earnings over \$10,000 is \$1,500 ($\$25,000 - \$10,000 = \$15,000$; 10 percent of \$15,000 is \$1,500). Since the couple have no income tax liability, none of their CTC is used — the full \$2,400 remains. But, this is more than ten percent of their earnings above \$10,000, so Sam and Barbara receive a CTC refund of \$1,500. They also qualify for an EIC of \$1,500, bringing their total refund to \$3,000! *(NOTE: Although this family has more than two children, the special rule described in the box on p. 4 is not needed to help them, since they benefit more under the new CTC rules.)*

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, 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.

For more information, call the IRS at 1-800-TAX-1040. The 24-hour line is often busy, so be patient!

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

	<i>Earned Income Credit</i>	<i>Child Tax Credit</i>
Relationship	Use EIC qualifying child rules	EIC qualifying child rules
Age	Use EIC qualifying child rules	Must be under age 17
Residence with Child	More than 6 months in year, or all 12 months if a foster child.	Generally, there are no residency requirements, except for a foster child (same as for EIC). A non-custodial parent who meets the support test to claim child as a dependent may claim the EIC.
Dependency Exemption	Not required (except for claim by parent who separated from spouse after first half of year).	Must claim child as a dependent; child must live in the U.S.
Income	Specific income limits. Investment income limit. Earned income required. “Modified” Adjusted Gross Income affects credit amount in phase-out range.	Income limits are far above EIC limits. No investment income limit. \$10,000 <i>taxable</i> earned income required for refundable portion; Adjusted Gross Income used to determine income tax liability.
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 numbers <i>or</i> ITINs for parents and children required.
Forms	Schedule EIC required for families with children; Schedule requires child’s birth date 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 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.

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

Before the change in law made this year, many low-income families that were eligible for both the Child Tax Credit (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 eliminate 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 forego the Child and Dependent Care Credit, which at the time imposed a greater paperwork burden and would yield no additional benefit.

Now, families with child care expenses may want to reconsider this decision. Since the CTC is now 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. 15 in this booklet.*

Here's how it can work:

Jacqueline is a single parent raising two young children. She earned \$22,000 in 2001 and owes income tax of \$998. She paid about \$5,000 in 2001 for child care expenses. In the past when neither the Child and Dependent Care Credit or the CTC was refundable, and either 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 eliminates her \$998 income tax liability.

This year, Jacqueline initially planned to claim only the CTC. Under the new CTC rules, after her income tax liability is eliminated, \$202 of her maximum CTC of \$1,200 (2 children x \$600) remains ($\$1,200 - \$998 = 202$). This amount is less than ten percent of her earnings over \$22,000 ($\$22,000 - \$10,000 = \$12,000$; 10 percent of \$12,000 is \$1,200). Therefore, Jacqueline expects to receive a CTC refund of \$202.

Then she discovers that she can receive a *larger* CTC refund if she claims the Child and Dependent Care Credit. The amount of this credit will be more than the \$998 Jacqueline owes. Since the Child and Dependent Care Credit is applied first to offset her tax liability, she now effectively owes nothing. Now, her full CTC of \$1,200 is remaining ($\$1,200 - 0 = \$1,200$), and this is the same amount as ten percent of her earnings over \$10,000. Jacqueline learns she will receive the \$1,200 as her CTC refund — as opposed to the \$202 she originally expected — making her investment in doing the extra paperwork worthwhile!

The New Child Tax Credit Presents Outreach Challenges for EIC Campaign Partners

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

There are now two tax credits that can provide refunds for low- and moderate-income working families — the EIC *and* the new 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 new opportunity. Most families that qualify for the new 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 new 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 new Child Tax Credit come new 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 new Child Tax Credit.
- **Families not eligible for the Child Tax Credit in the past may be eligible for the first time this year.** Most low-income families got little or no benefit from the Child Tax Credit since its passage three years ago. 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.)

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. This year, the IRS has no plans to issue a similar notice to families that appear to qualify for the CTC refund, but fail to file Form 8812. The IRS will not alert families to their possible eligibility — they may miss out on their CTC refund.

- **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 generally available at a local Volunteer Income Tax Assistance (VITA) site or Low-Income Taxpayer Clinic. *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.*

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 new 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 new 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 pay child support 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.** Working families with income over \$32,121 in 2001 (\$28,281 for workers with one child), or with investment income over \$2,450 in 2001, 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 have been revised to 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 and Medicaid. 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.
- **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 new 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 2001 and owe income tax of \$280. Their maximum CTC of \$1,200 is first used to eliminate their income tax, leaving \$920 of their CTC remaining ($\$1,200 - \$280 = \$920$). Ten percent of their earnings over \$10,000 is \$1,200, which exceeds their remaining CTC. Therefore, Mike and Tanya are eligible to receive a refund in the amount of their remaining CTC of \$920. They will also qualify for an EIC of \$2,132. This brings their total refund to \$3,052.

2001 Income:	\$22,000
Dependent children under 17:	2
Maximum CTC:	\$1,200
Income Tax Liability:	\$280
CTC remaining:	\$920
10% of earnings over \$10,000:	\$1,200
New CTC Refund:	\$920
EIC:	\$2,132
Total Refund:	\$3,052

Mark and Megan are raising two children under age 17. In 2001, they earned \$15,000, and they owe no income tax. Their maximum CTC is \$1,200. Ten percent of their income over \$10,000 is \$500, which is less than their CTC. Therefore, they will receive \$500 as a CTC refund. They also are eligible for an EIC of \$3,606, bringing their total refund to \$4,106.

2001 Income:	\$15,000
Dependent children under 17:	2
Maximum CTC:	\$1,200
Income Tax Liability:	\$0
CTC remaining:	\$1,200
10 % of earnings over \$10,000:	\$500
New CTC Refund:	\$500
EIC:	\$3,606
Total Refund:	\$4,106

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 2001, he earned \$20,000 and owes income tax of \$465. His maximum CTC is \$1,200, which eliminates all his income tax liability, and leaves \$735 of his CTC remaining ($\$1,200 - \$465 = \$735$). Ten percent of his income above \$10,000 is \$1,000, which exceeds his remaining CTC. He will receive the amount of the remaining CTC — \$735 — as a CTC refund. Max is not eligible for the EIC since his children did not live with him.

2001 Income:	\$20,000
Dependent children under 17:	2
Maximum CTC:	\$1,200
Income Tax Liability:	\$465
CTC remaining:	\$735
10 % of earnings over \$10,000:	\$1,000
New CTC Refund:	\$735
EIC:	\$0
Total Refund:	\$735

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 2001, and owe income tax of \$880. 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 \$320 of their CTC remaining ($\$1,200 - \$880 = \$320$). Ten percent of their income over \$10,000

2001 Income:	\$28,000
Dependent children under 17:	2
Maximum CTC:	\$1,200
Income Tax Liability:	\$880
CTC remaining:	\$ 320
10% of earnings over \$10,000:	\$1,800
New CTC Refund:	\$320
EIC:	\$0
Total Refund:	\$320

is \$1,800, which exceeds their remaining CTC. Therefore, they will receive \$320 as a CTC refund. Since Tom and Marianne do not yet have Social Security numbers, they cannot claim the EIC.

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 2001 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 \$2,450 limit for EIC eligibility, they do not qualify for the EIC.

2001 Income:	\$16,000
Earned Income:	\$13,000
Investment Income:	\$3,000
Income tax:	\$0
Payroll Tax:	\$995
10% of earnings over \$10,000:	\$300
Dependent children under 17:	3
Maximum CTC:	\$1,800
New CTC Refund:	\$995
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 \$1,800, none of which is used to reduce the family's tax liability. Ten percent of their earnings (\$13,000) over \$10,000 is \$300, which is less than their "remaining" CTC. As a result, this family's CTC would appear to be \$300. 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 \$300, 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 one-year-old child. She earned \$19,000 in 2001, and owes income tax of \$655. Her maximum CTC of \$600 is used up in the process of reducing her income tax from \$655 to just \$55. 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 \$1,483.

Before claiming Child and Dependent Care Credit —	
2001 Income:	\$19,000
Child and Dependent children under 17:	1
Maximum CTC:	\$600
Income Tax Liability:	\$655
(CTC used to reduce income tax to \$55.)	
New CTC Refund:	\$0
EIC:	\$1,483
Total Refund:	\$1,483

However, suppose Meredith paid for child care expenses during 2001 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 \$655 to \$55. Her maximum CTC of \$600 would then be used to eliminate the remaining \$55 in income tax, and she would still have \$545 of the CTC remaining ($\$600 - \$55 = \$545$). Ten percent of Meredith's earnings over \$10,000 is \$900. Since \$545 is less than \$900, she would receive \$545 as a CTC refund. Adding this to her EIC of \$1,483, Meredith's total refund would come to \$2,028.

After claiming the Child and Dependent Care Credit —	
2001 Income:	\$19,000
Dependent children under 17:	1
Income Tax Liability:	\$655
Child and Dependent Care Credit:	\$600
Income Tax Liability reduced to:	\$55
Maximum CTC:	\$600
CTC remaining:	\$545
Ten percent of earnings over \$10,000:	\$900
New CTC Refund:	\$545
EIC:	\$1,483
Total Refund:	\$2,028

Not all working families will benefit from the new CTC.

Children may be above the age limit.

Elaine earned \$20,000 in 2001 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 \$2,553.

Family income may be too low.

Shirley earned \$8,000 in 2001 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 \$10,000, she doesn't qualify for the new CTC refund. However, she is eligible for an EIC of \$2,428.

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

James and Rhonda earned \$33,000 in 2001, 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 \$1,470 to just \$270, their entire CTC is used to do so. Since there is no CTC remaining, they do not qualify for the new CTC refund. In addition, the family does not qualify for the EIC since it has income above the \$32,121 income limit for claiming the EIC.

2001 Income:	\$33,000
Dependent children under 17:	2
Maximum CTC:	\$1,200
Income Tax Liability:	\$1,470
Income tax liability reduced to:	\$270
CTC remaining:	\$0
New CTC Refund:	\$0
EIC:	\$0
Total Refund:	\$0

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 may also receive refunds.*

New Child Tax Credit Refunds for Single Workers				
2001 earned income	Number of dependents under age 17 in 2001			
	1 child	2 children	3 children	4 children
\$11,000	\$100	\$100	\$100	\$100
\$12,000	\$200	\$200	\$200	\$200
\$13,000	\$300	\$300	\$300	\$300
\$14,000	\$400	\$400	\$400	\$400
\$15,000	\$345	\$500	\$500	\$500
\$16,000	\$245	\$600	\$600	\$600
\$17,000	\$145	\$700	\$700	\$700
\$18,000	\$45	\$800	\$800	\$800
\$19,000	\$0	\$835	\$900	\$900
\$20,000	\$0	\$735	\$1,000	\$1,000
\$25,000	\$0	\$235	\$1,125	\$1,500

New Child Tax Credit Refunds for Married Workers				
2001 earned income	Number of dependents under age 17 in 2001			
	1 child	2 children	3 children	4 children
\$11,000	\$100	\$100	\$100	\$100
\$12,000	\$200	\$200	\$200	\$200
\$13,000	\$300	\$300	\$300	\$300
\$14,000	\$400	\$400	\$400	\$400
\$15,000	\$500	\$500	\$500	\$500
\$16,000	\$600	\$600	\$600	\$600
\$17,000	\$530	\$700	\$700	\$700
\$18,000	\$430	\$800	\$800	\$800
\$19,000	\$330	\$900	\$900	\$900
\$20,000	\$230	\$1,000	\$1,000	\$1,000
\$25,000	\$0	\$620	\$1,500	\$1,500

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 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 2001 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 2001 income 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 \$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. Brown has two children and earned \$20,000 in 2001. During the year, she had \$500 in federal income tax withheld from her pay and owes the IRS an additional \$198. But because Ms. Brown 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 25 percent of what she spent on care, or up to \$750. Her Child and Dependent Care Credit eliminates the \$198 in taxes Ms. Brown still owes and pays her back for the \$500 in taxes that were withheld from her pay. She thus receives a Child and Dependent Care Credit of \$698. Ms. Brown is also eligible for an Earned Income Credit of \$2,553. And, she is now eligible for \$1,000 from the new provisions of the Child Tax Credit. She will get a total refund of \$4,053 from the IRS, which includes \$2,553 for the EIC, \$1,000 for the Child Tax Credit, and \$500 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. For free copies of these forms, call 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, visit their 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.

Center on Budget & Policy Priorities

820 First Street, NE

Suite 510

Washington, DC 20002

202.408.1080

202.408.1056 fax