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RECOVERY AGREEMENT TEMPORARILY EXPANDS CHILD TAX CREDIT FOR LARGE NUMBERS OF CHILDREN IN EVERY STATE

Together With Other Credits, Will Keep an Estimated 1 Million Children in Working Families Out of Poverty

by Arloc Sherman

The economic recovery plan that a congressional conference committee has approved will expand the Child Tax Credit for 13 million children in low-income working families. Under the agreement, the child credit will reach 2.9 million new children and will provide another 10 million children with a larger credit than they would have received under the 2008 rules.

By targeting more stimulus money to low-income families that are likely to spend it, the expanded child credit helps to advance the recovery package's fundamental goal — providing effective economic stimulus. Roughly 90 percent of the benefits of this provision will go to the bottom fifth of Americans.

The expanded child credit should also help to stem a projected rise in child poverty during the recession. In combination with two other provisions in the recovery agreement — a new Making Work Pay Credit and an expanded Earned Income Tax Credit — the provision will keep an estimated 1 million children from falling below the poverty line and will reduce the severity of economic hardship for millions of other children.

Agreement Lowers Income Needed to Qualify for Child Credit

The Child Tax Credit, designed to help offset the cost of raising a child, is a partially refundable federal income tax credit of up to $1,000 per child (under age 17). Families can qualify for at least a partial credit if their earnings exceed a prescribed level, or "earnings threshold." Congress lowered this level to $8,500 for tax year 2008 in legislation it approved last year; without congressional action, the threshold would have reverted to $12,550 in tax year 2009.

Under the new legislation, this level will temporarily be set at $3,000 in tax years 2009 and 2010.[1] This means that working families with earnings above $3,000 may qualify for at least a partial credit.

1 The House recovery package would have lowered the level at which the credit begins to phase in to the first dollar of earnings, effectively making the credit available to all low-income working tax filers with children. A weaker provision

Families with earnings just above the threshold qualify for a very small credit, because eligibility "phases in" slowly, at a rate of 15 cents per dollar of earnings above the threshold level. As a result, where the threshold is set has a large effect on families with incomes thousands of dollars above the threshold. For example, under the $8,500 threshold that applied for tax year 2008, a family with two children did not qualify for the full credit of $1,000 per child unless it had earnings of at least $21,833. Under the recovery package, such a family will qualify for the full credit when its earnings reach $16,333.

Provision Will Help 13 Million Children and Provide Effective Stimulus

The recovery agreement will give 13 million children under 17 a larger Child Tax Credit than they would have received under last year's $8,500 earnings threshold, according to the Urban Institute-Brookings Tax Policy Center.[2] Some 2.9 million of these children would not have qualified for the credit under the $8,500 threshold. The remaining children (more than 10 million) would have received a partial credit under the $8,500 threshold but will receive a larger one under the new legislation.

Expanding the Child Tax Credit will provide effective stimulus because it is well targeted to the lowest-income families, who are most likely to spend rather than save the money. Data from the Tax Policy Center show that about 90 percent of the benefits of the House provision will go to the bottom one-fifth of Americans.

Child Credit and Other Credits Will Push Against Trend of Rising Poverty and Hardship

While the goal of the economic recovery package is to revive the economy, particular elements of the package are likely to have other important benefits as well. One is to counter what otherwise will be a major spike in child poverty.

The economy has shed 3.6 million jobs since the recession began, and homelessness reportedly has grown in many communities around the country.[3] The unemployment rate, which has climbed from 4.9 percent to 7.6 percent, is projected to reach 9 percent later this year and to continue rising into 2010, according to a Goldman Sachs forecast issued before the stimulus bill was adopted.

If the relationship between the increase in unemployment and the rise in poverty that held in the last three recessions holds in this recession as well (as is likely), the number of Americans living below the official poverty line will jump during this recession by 7.5-10.3 million (above the 2006

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adopted by the Senate would have lowered the level to $8,100. The conference committee reached a compromise, setting the level at $3,000.

[2] The provision will give 15.8 million children a larger child credit than they would receive under the 2009 threshold of $12,550, according to the Tax Policy Center.

[3] Barbara Sard, "Number of Homeless Families Climbing Due to Recession," Center on Budget and Policy Priorities, January 8, 2009, http://www.cbpp.org/1-8-09hous.htm.

level of 36.5 million), while the number of poor children will climb by 2.6-3.3 million (above the 2006 level of 12.8 million). These increases will occur over several years.[4]

The recovery package contains a number of provisions that will reduce poverty. We used Census data to examine the poverty-reducing effects of three of the package's tax provisions: the Child Tax Credit expansion,[5] the new "Making Work Pay" tax credit worth up to $400 per individual worker and $800 per married couple,[6] and the expansion of the Earned Income Tax Credit.[7]

Our analysis finds that these three tax credits will keep out of poverty 1 million children — and more than 2.3 million Americans of all ages — who otherwise would be poor.[8] This will push back against the trend of rising poverty and hardship that is expected to result from the recession.

State-by-State Estimates of Children Who Will Benefit From the Child Credit Expansion

The state figures shown below include two sets of estimates. The first set shows the number of children under age 17 who are expected to receive a larger child credit under the new $3,000 earnings threshold than they would have received under the 2008 threshold level of $8,500. The second set shows the number of children who will receive a larger child credit than they would have received under an earnings threshold of $12,550.

The margins of error shown 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.

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[4] Sharon Parrott, "Recession Could Cause Large Increases in Poverty and Push Millions into Deep Poverty," Center on Budget and Policy Priorities, November 24, 2008, http://www.cbpp.org/11-24-08pov.htm.

[5] The impacts on poverty discussed here are relative to current law, with the Child Tax Credit earnings threshold at its 2008 level of $8,500. The poverty reductions would be larger if compared with the $12,550 earnings threshold that would have taken effect in 2009 in the absence of congressional action.

[6] The Making Work Pay credit would phase out at $200,000 for married couples and $100,000 for individuals.

[7] The recovery plan would temporarily expand the Earned Income Tax Credit in two ways. It would enlarge the credit for families with three or more children. And it would reduce the so-called "marriage penalty" in the EITC by raising the income ceiling at which a married couple can qualify for the maximum EITC.

[8] These figures reflect the effects of these three tax credit provisions. Other measures in the recovery package would result in additional poverty reduction.

Children Benefiting from the Expanded Child Tax Credit

	Children Helped by Lowering Earnings Threshold to $3,000			
	From $8,500	Margin of Error	From $12,550	Margin of Error
Total	13,200,000	±255,000	15,800,000	±274,000
Alabama	224,000	±36,000	262,000	±39,000
Alaska	29,000	±5,000	34,000	±6,000
Arizona	315,000	±47,000	390,000	±52,000
Arkansas	167,000	±25,000	199,000	±27,000
California	1,820,000	±113,000	2,254,000	±124,000
Colorado	191,000	±36,000	231,000	±39,000
Connecticut	96,000	±22,000	116,000	±24,000
Delaware	28,000	±6,000	34,000	±7,000
Dist of Columbia	29,000	±5,000	32,000	±6,000
Florida	715,000	±67,000	877,000	±74,000
Georgia	460,000	±53,000	539,000	±57,000
Hawaii	42,000	±8,000	52,000	±9,000
Idaho	76,000	±12,000	94,000	±14,000
Illinois	534,000	±58,000	626,000	±63,000
Indiana	266,000	±40,000	308,000	±43,000
Iowa	133,000	±24,000	156,000	±26,000
Kansas	131,000	±23,000	150,000	±25,000
Kentucky	211,000	±35,000	245,000	±38,000
Louisiana	252,000	±38,000	293,000	±41,000
Maine	42,000	±10,000	50,000	±10,000
Maryland	147,000	±31,000	178,000	±34,000
Massachusetts	155,000	±31,000	190,000	±34,000
Michigan	436,000	±51,000	499,000	±55,000
Minnesota	156,000	±31,000	182,000	±33,000
Mississippi	170,000	±26,000	206,000	±28,000
Missouri	285,000	±42,000	325,000	±44,000
Montana	46,000	±8,000	53,000	±8,000
Nebraska	67,000	±13,000	84,000	±15,000
Nevada	90,000	±18,000	118,000	±21,000
New Hampshire	28,000	±7,000	34,000	±8,000
New Jersey	238,000	±39,000	294,000	±43,000
New Mexico	130,000	±20,000	153,000	±22,000
New York	795,000	±72,000	942,000	±78,000
North Carolina	406,000	±50,000	481,000	±54,000
North Dakota	23,000	±5,000	28,000	±5,000
Ohio	503,000	±55,000	581,000	±59,000
Oklahoma	161,000	±29,000	199,000	±32,000
Oregon	168,000	±31,000	198,000	±33,000
Pennsylvania	460,000	±53,000	540,000	±57,000
Rhode Island	39,000	±8,000	46,000	±9,000
South Carolina	194,000	±34,000	253,000	±38,000
South Dakota	27,000	±5,000	34,000	±6,000
Tennessee	315,000	±43,000	367,000	±47,000
Texas	1,483,000	±102,000	1,783,000	±111,000
Utah	136,000	±20,000	160,000	±22,000
Vermont	17,000	±4,000	21,000	±5,000
Virginia	238,000	±38,000	284,000	±41,000
Washington	203,000	±36,000	268,000	±41,000
West Virginia	76,000	±13,000	93,000	±14,000
Wisconsin	243,000	±39,000	279,000	±41,000
Wyoming	18,000	±4,000	22,000	±4,000

Appendix: Sources and Methodology

This analysis uses national estimates from the Tax Policy Center (TPC) of the number of children who would be helped by various tax credit options. The state-by-state tables allocate TPC's national estimates to each state based on a Center analysis of Census Bureau survey data. We used Census data from the March Current Population Survey to simulate what families' taxes would be in 2010, both with and without the new provision, nationally and for each state. We then used these calculations to estimate what share of assisted children live in each state and applied this share to the TPC data. We used three years of Census data (tax years 2004, 2005, and 2006) to improve the reliability of the state estimates.[9]

Similarly, our poverty simulations use Census data to calculate what families' taxes would be in 2010, both with and without the new tax provisions in place. The poverty simulation does not use the government's official measure of poverty, which is based on a family's *pre-tax* cash income and thus does not register the effect of the tax credits examined here. Instead, the simulation uses an alternative poverty measure that follows the poverty-measurement recommendations of the National Academy of Sciences (NAS). This measure considers income *after* taxes and also counts as income the value of certain government non-cash benefits, including food stamps, rent subsidies, and low-income home energy assistance. (Work expenses and out-of-pocket medical expenses are subtracted from income.) The measure also incorporates a modified poverty threshold, as recommended by NAS.

Note: We do not know how much poverty would rise as a result of the recession under an NAS-style poverty measure; the projections of increased poverty cited in this analysis use the official poverty measure. The historical data necessary to forecast the increase in poverty using the NAS poverty measure are not available.

There are reasons to think that poverty may not rise quite as much during the recession under the NAS measure as under the official measure of poverty; for example, the NAS-style measure captures the poverty-alleviating effect of food stamps and other non-cash benefits that tend to increase during a recession in response to falling cash incomes. However, with the number of people in poverty expected to rise by at least 7.5 million under the official poverty measure if unemployment rises to 9 percent, and the number of poor children expected to rise by at least 2.6 million, it is likely that poverty would rise significantly under an NAS measure as well.

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[9] The Census data used for simulating the poverty-reducing effects of the tax credits are 2005 data from the March 2006 Current Population Survey, adjusted for inflation to 2010 dollars. The analysis also incorporates data from the Department of Health and Human Services' TRIM model to correct for underreporting of certain benefits in the Census survey data.