



Child Tax Credit Fact Sheet

What is the Child Tax Credit and why does it matter?

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The Child Tax Credit is one of the most important ways to protect families' economic security. The CTC gives working parents additional funds to help them cope with the rising costs of maintaining a household and raising their children. Depending on the family's earnings, the CTC allows families to claim up to \$1,000 for each child. It represents an essential way to help families achieve and maintain their basic quality of life.

Yet the CTC's effectiveness depends a great deal on how the credit is structured. The credit was not able to meet its full potential in the past because program rules often denied low-income families the full benefits of the credit. In fact, annual earnings below \$13,000 were not considered in calculating tax credit, denying the credit to those who needed it most. Congress made sensible reforms to the CTC last year that allow families to count their yearly earnings below \$13,000, but these changes are temporary and are scheduled to expire at the end of 2010.

An end of these improvements would be devastating for low-wage families across America. A parent who works full time in a minimum wage position will have his or her credit reduced from \$1,800 to \$320 at the end of 2010 if Congress does not make the change permanent. This reduction would seriously threaten the ability of low-income, hard-working families to maintain their economic security and self-sufficiency. And it would push 600,000 children of working families into poverty.

The Child Tax Credit in action: Meet the Smiths

The Smith family has two parents, two children, and combined yearly earnings of \$14,050. The Smiths would not be able to count any of their earned income below \$13,000 in calculating their additional child tax credit if not for last year's improvements. Their pre-2010 credit would have equaled 15 percent of their income above \$13,000, or \$157.50. The 2010 improvement makes the credit 15 percent of their income above \$3,000 up to \$1,000 per child, or \$1,657.50. If Congress allows the income level to rise back up to \$13,000, the Smiths' credit will drop back down from \$1,657.50 to \$157.50 next year.

Congressional action needed

Congress must improve and preserve the Child Tax Credit. Congress should at minimum act to permanently extend the improvements to the CTC made last year in the Recovery Act. There is considerable room for additional federal leadership through extensions of the Child Tax Credit to help low-income working families even more by counting all of a family's earnings toward the 15 percent credit. There is no justification for failing to count a minimum wage earner's first \$3,000 in pay. What is essential above all is that we continue to progress rather than regress by allowing the current provisions of the CTC to expire at the end of the year.

A strong economy depends on having strong families who can achieve economic security through their hard work. Continuation of the CTC improvements is a vital step toward helping families support themselves. We need to take action to extend and expand smart public policies that reflect and respond to modern economic realities.