

CHILD TAX CREDIT LAW

The expansion of the credit contained in the new tax law has been seen as insufficient to provide substantial benefits to families, specifically for the low- and middle-income working families. Many experts on tax credit laws have viewed the new tax law as unfavorable for millions of low-income working families with children as they will not receive benefits from the provisions of the new law.

A qualifying child for the Child Tax Credit is someone who is under the age of 17, has the same residence as his/her parents for more than half of the taxable year, and did not provide over half of his/her own support for the year. The definition of a qualifying child has changed in 2005.

Under the final bill, it discarded a child tax credit provision, which was included in the Senate version of the tax bill that was supposed to assist at least 12 million children in low-income working families. It has accelerated the child tax credit provision of the 2001 tax cut, which is focused on middle- and upper-income families; however, it does not ameliorate the comparable provision of the 2001 law, which is focused on low- and moderate-income families. This results to shrugging off low-income working families as a whole.

The direct benefit stipulated in the new Child Tax Credit law is the credit that can be claimed. From \$500, the credit is increased to \$600 for the years 2001 to 2004, \$700 from 2005 to 2008, another \$100 increase effective 2009, and finally at \$1,000 in 2010. Also, the credit refund was made more comprehensive. The refund referred to here is the difference between a household's annual tax liability and the amount of credit. This refundable amount is computed

by multiplying the earnings in excess of \$10,000 by 10%, not to exceed the maximum credit allowed per child. The percentage increased in 2005 to 15% from 10% in 2001.

Under the new tax law, the Child Tax Credit provisions are based on changes, which were made in the credit by the 2001 tax cut. Such tax cut has expanded the child tax credit in two ways. It increased the size of the credit from \$500 per child to \$600 in 2001 up to 2004; \$700 in 2005 up to 2008; \$800 in 2009; and \$1000 in 2010. That earlier tax cut has also expanded the mode of refund of the credit or the amount in excess of the tax liability of a household, which can be received as a refund from the Treasury. The credit was refundable in an amount equal to 10% of earnings in excess of \$10,000 up to the maximum credit per child. The percentage of refund was scheduled to rise from 10 to 15 percent in 2005.

Consequently, under the new tax law, the increase in the size of the credit from \$600 to \$1,000 per child for 2003 and 2004 has been accelerated. In the event that it is not extended at this level, the credit would fall back to \$700 per child in 2005. It will gradually increase to \$1,000 in 2010 as proposed in the 2001 tax law.

What the new tax law does not provide the Child Tax Credit is that it does not speed up the increase in the mode of refund percentage of the credit from 10% of earnings in excess of \$10,500 to 15% of earnings in excess of such level. The acceleration, which was part of the Senate version of the bill, was discarded in the new tax law.

In the case of low-income working families, the amount of the child tax credit is often limited by the amount of the credit, which can be refunded. Increasing the size of the credit to \$1,000 does not necessarily mean it would increase the amount of the benefit for most of these low-income families.

The new tax law also presents a disproportionate effect on women including stay-at-home mothers, single moms, as well as women of color. Based on the National Women's Law Center analysis, two-thirds of the parents who are left behind include women, 4 million of whom are single mothers. More so, over a million couples with mothers staying at home are left behind as well as women of color. At least 1 in 4 African American and Latina mothers did not receive a check as compared to 1 in 7 white mothers.

The total amount of increasing the child tax credit for 7 million families is \$350 billion, which is just 1% of the \$350 billion total cost of the tax and budget bill. If the tax breaks for millionaires had been limited to an average of \$88,000, low-income working families would have been able to get the increased child tax credit, which they are being denied of. However, instead of \$88,000, the average millionaire will receive from the massive giveaway of \$93,500.

As the media had given focus on the exclusion of low-income working families from the increased child tax credit, the Senate quickly acted upon and passed a bi-partisan legislation in order to fix such an injustice.

The price of the fix was to extend the child tax credit to more high-income families who had not been eligible for its benefits. However, pushing the cost of the bill to \$10 billion would not add to the mountain of federal debt, which the tax cuts of the Administration are piling on future generations. The plan of the Senate would only take effect almost immediately in order for newly eligible families to get their checks for the increased child tax credit. As for low-income working families who would benefit from increasing the refundable child tax credit, the plan of the Senate would mean an extra \$276 on average.

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