

ISSUE BRIEF
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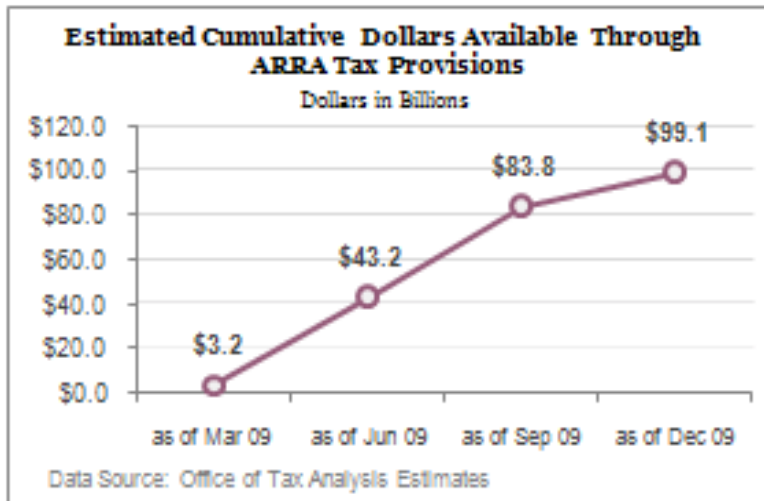
The economic impact of the Child Tax Credit in Colorado

The Child Tax Credit (CTC) is the largest federal tax provision benefiting children. Distributing roughly \$45 billion to 31 million families annually, the tax assistance provided by the credit is equal to the entire federal budget for children and family services programs (excluding health care) administered by the Department of Health and Human Services.

Chief tax provisions of the Recovery Act

The Recovery Act (the American Recovery and Reinvestment Act, or ARRA) was designed to spur economic activity, encourage investment in long-term economic growth, and create new jobs and save existing ones. ARRA also implemented expansive levels of accountability and transparency in government spending.

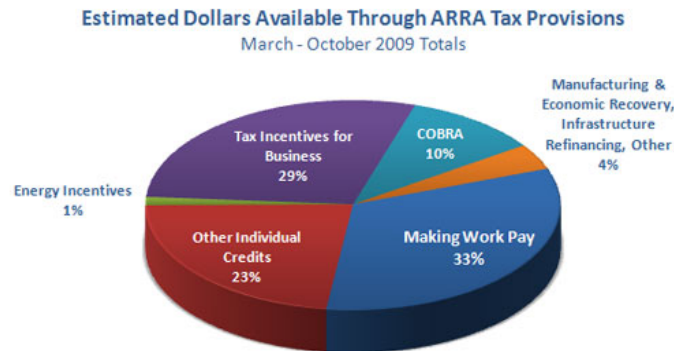
One of the main ways ARRA will help American families is through tax benefits and tax incentives for individuals and businesses. ARRA provides a total of \$787 billion in funding, including \$288 billion in tax cuts and benefits for millions of working families and businesses nationwide. To date, only \$99.1 billion of the funding has been paid, leaving the majority of ARRA dollars to provide tax benefits on the 2009 tax return and in the 2010 tax year.



Source: www.recovery.gov

ARRA money designated for tax purposes is divided among incentives and credits that target individuals and businesses of all kinds and across all income brackets.

The chart below shows the portion of ARRA tax dollars devoted to each target area as of October 2009.



Source: www.recovery.gov

About two-thirds of ARRA tax dollars benefited individuals in the form of credits, incentives and health care aid. The remaining one-third creates business and development incentives across an array of sectors including manufacturing, energy and infrastructure.

What is the Child Tax Credit?

CTC is a credit for families with qualifying children that can be taken in addition to the child and dependent care tax credit and the standard deductions taken for dependents. Families may receive up to \$1,000 per qualifying child.

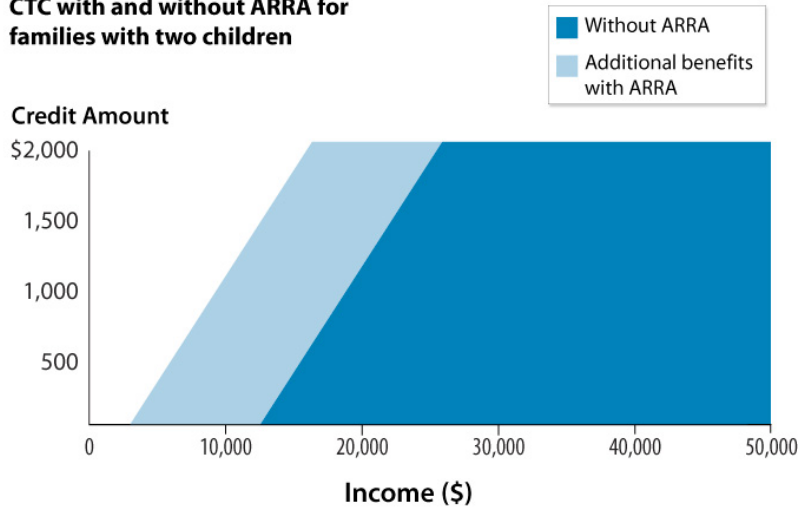
For many, the child tax credit is not refundable and if the credit exceeds tax liability, the remaining credit will be lost. However, some families will not receive the full child tax credit due to income restraints. These families may be able to claim the additional child tax credit (ACTC) if earned income is less than the limits for the year. The limits for 2009 are:

- Married filing jointly – \$110,000
- Single, head of household, or qualifying widow – \$75,000
- Married filing separately – \$55,000

The ACTC for 2009 is equal to the lesser of the disallowed child tax credit, or 15 percent of earned income that is more than \$3,000. If earned income is not more than \$3,000 and a family has three or more qualifying children, it may be able to claim the ACTC up to the amount of Social Security taxes paid for the year.

In 2009 and 2010, ARRA reduced the minimum income to qualify for the CTC. Before ARRA, the minimum income amount was set to rise to \$12,550 in 2009. ARRA reduced this amount to \$3,000. This change alone benefitted 7.1 million taxpayers and permitted an additional 1.8 million families who had formerly not qualified for the credit to use the CTC in 2009 and 2010.

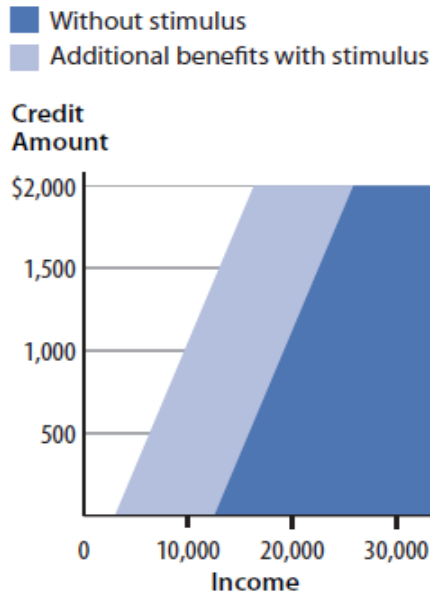
CTC with and without ARRA for families with two children



Source: Fact Sheet: *Tax Deductions, Exemptions, and Credits*, Center on Budget and Policy Priorities

The ARRA expansion of the CTC increases the credit that families will receive by \$260 on average. It also provides 1.8 million families who were previously ineligible, but will become eligible because of the income reduction with an average credit of \$418. And, while ARRA provides benefits individuals across all income brackets, roughly 90 percent of the benefits will help Americans with incomes in the bottom fifth of the nation.

CTC with and without stimulus for families with two children



Source: <http://www.cbpp.org/files/policybasics-ctc.pdf>

Another way to explore the impact of the ARRA expansion of the CTC is by looking at the additional number of children in American families that will benefit from the credit in 2009 and 2010. Under ARRA, 2.9 million children will benefit from the credit that did not benefit in the past. Another 10 million children will benefit from a larger credit than they would have received under the 2008 rules.

Additionally, the ARRA expansion of the CTC has been an imperative measure in the fight against child poverty. Coupled with the Making Work Pay credit and the Earned Income Tax Credit, the CTC will keep an estimated 1 million children from falling below the poverty line in 2009 and 2010.

Benefits received from the CTC do not affect eligibility for other benefit programs. The CTC refund does not count as income in determining eligibility for any federal, state or local program benefits, such as food stamps, SSI, or child care.

CTC in Colorado

In Colorado in 2006, more than 200,000 families filed for the CTC. Colorado families received \$241.8 million from the credit. Now, with the changes made by ARRA, 103,836 taxpayers – 50 percent of all Coloradans who received the credit in 2006 – will benefit from the CTC expansion including 25,797 people who will be newly eligible for the credit and 78,039 who will see a bigger refund.

Looking at the increased benefit for children in Colorado also displays the immense effect the ARRA-expanded CTC has on Colorado families. An estimated 231,000 children will receive a larger CTC benefit as a result of the expansion of the credit under ARRA.

The CTC benefits working families and their children¹

Most children benefitting from the CTC are part of families where a parent is employed throughout the year. Roughly 70 percent of children who benefit under the ARRA expansion, are part of families where a parent works 30 or more hours per week for at least 50 weeks during the year.

Those parents work in a range of jobs often providing critical services such as caring for the elderly or teaching young children. A look at some nationwide numbers:

- 480,000 CTC-recipient workers provide health care services to the elderly or ill as nursing home workers, home health aides, personal care assistants, medical assistants, and other low-paid health care professionals.
- 240,000 CTC-recipient workers provide child care, serve as teaching assistants, or are preschool or kindergarten teachers.
- 310,000 CTC-recipient workers earn a living by cleaning or maintaining the grounds of homes, office buildings, schools, or other community institutions.
- 410,000 CTC-recipient workers are cashiers in grocery stores and a broad array of other businesses.
- 470,000 CTC-recipient workers are cooks, waiters or waitresses, or assist cooks with food preparation.
- 360,000 CTC-recipient workers earn a living as construction workers, carpenters, or painters.
- 120,000 CTC-recipient workers are laborers in the agriculture sector.

Additionally, many children benefitting from the CTC live in families that include people with disabilities. Nearly 1.1 million children (one in 10) who benefit from the ARRA expansion are

¹ Information provided by the Center on Budget and Policy Priorities analysis of 2006 Census data. Since the expansion to the CTC under ARRA was greater than the initial CTC reform proposals, it is likely that these figures underestimate the overall impact of the ARRA expansion.

part of a family where either a parent or child has a disability. The expanded CTC provides assistance to these families in which parents struggle to maintain jobs and meet the health and other expenses they incur due to the disability.

Economists agree the Recovery Act's positive effect has been felt throughout the nation. The tax provisions of the stimulus are an example of the benefit, and their effects have been profound in Colorado. Nearly all of the state has been touched by these benefits. To date, more than 3.8 million Colorado families have been helped by stimulus tax funding, and the majority of the funds have yet to be distributed. In addition, an estimated 70,000 Coloradans have been lifted above the poverty line and millions will continue to benefit from tax assistance such as the Earned Income Tax Credit, the Additional Child Tax Credit and Making Work Pay credit in 2010.

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