The Joint Economic Committee
ECONOMIC FACT SHEET

Chairman, Senator Charles Schumer
Vice Chair, Congresswoman Carolyn Maloney
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ASSISTANCE AVAILABLE THROUGH THE TAX CODE FOR FAMILIES WITH CHILDREN

As the costs of raising a child continue to increase, working families need assistance to make ends meet and manage the difficulties of balancing work and family. Several provisions in the federal tax code are available to help families with children: the Child Tax Credit, the Child and Dependent Care Tax Credit, the Earned Income Tax Credit, and Dependent Care Assistance Programs. See Table 1 (back page) for a summary of the maximum federal values of these credits and similar state credits.

Child Tax Credit

Families with children under age 17 can qualify for a tax credit worth up to $1,000 per child. At the federal level and in one state, some families can receive the credit as a refund if the amount they qualify for exceeds the amount of income taxes they owe.

Child and Dependent Care Tax Credit

Working families who pay for child care can qualify for a federal tax credit of up to $2,100, depending on the amount they spend on child care, the number of children in care, and their annual income. In general this credit is available to workers who pay for the care of children under age 13, but in some circumstances the credit is available to workers who must pay for the care of a spouse or other family members who are unable to care for themselves. At the federal level and in some states the credit can only be used to offset tax liability and may not be received as a refund.

Earned Income Tax Credit

Some working families with incomes less than about $40,000 in 2007 can qualify for a tax credit of up to about $2,900 if they have one child and up to about $4,700 if they have two or more children. In general, the family must have a child under age 19, but special rules apply for children who are full-time students or who are disabled, and a small credit is available for childless workers. At the federal level and in some states families who qualify for more from the EITC than they owe in taxes can receive the difference as a refund.

Dependent Care Assistance Program

Working families with child care expenses can receive some help with those costs if their employers offer a Dependent Care Assistance Program. A DCAP allows employers to provide child care assistance to their employees as a tax-free benefit. Often this benefit takes the form of a salary-reduction agreement which in effect allows the worker to exclude up to $5,000 in child care expenses from taxable income. Workers do not have to pay income or payroll taxes on the amount of income that is excluded.

In general, workers must decide at the beginning of the year how much of their salary is to be set aside for child care expenses and can only change that amount under limited circumstances. Any amount that is unused by the end of the year is forfeited. The eligibility requirements are generally the same as those for the Child and Dependent Care Tax Credit.

Families may not use both the Child and Dependent Care Tax Credit and the Dependent Care Assistance Program for the same expenses. However, families may be able to claim the Child and Dependent Care Tax Credit for any expenses that are not covered by the Dependent Care Assistance Program.

Steps need to be taken to ensure broader utilization of these tax provisions by promoting awareness, simplifying requirements, removing program rules that deter participation, and making policy changes to ensure that all who qualify can receive the benefits of the provisions.[1]

[1] See Joint Economic Committee, "Families Missing Out on Billions in Tax Credits," April 2007.

Table 1: Federal and State Tax Benefits for Families with Children

Maximum possible value in 2007 of federal Child and Dependent Care Tax Credit, Child Tax Credit, and Earned Income Tax Credit and of state versions of these provisions where available [a]

	Child and Dependent Care Tax Credit or Deduction	Earned Income Tax Credit	Child Tax Credit (per child)
FEDERAL	2,100	4,716	1,000
ARKANSAS	420		
CALIFORNIA	1,050		
COLORADO	1,050 [b]	472 [b]	300 [b]
DELAWARE	1,050	943	
D. C.	672	1,651	
GEORGIA	420		
HAWAII	1,200		
IDAHO	468 [c]		
ILLINOIS		236	
INDIANA		283	
IOWA	1,575	307	
KANSAS	525	707	
KENTUCKY	420		
LOUISIANA	630		
MAINE	1,050	236	
MARYLAND	683 [c]	2,358	
MASSACHUSETTS	509 [c]	707	
MINNESOTA	1,440	1,540	
MONTANA	180 [c]		
NEBRASKA	2,100	377	
NEW JERSEY		943	
NEW MEXICO	1,200	450 [e]	
NEW YORK	2,310	1,415	330
NORTH CAROLINA	780		100
OHIO	2,100		
OKLAHOMA	420	236	
OREGON	1,800 [d]	236	
RHODE ISLAND	525	1,179	
SOUTH CAROLINA	420		
VERMONT	1,050	1,509	
VIRGINIA	345	907 [f]	
WISCONSIN		2,028	

Source: National Women's Law Center

The following states offer no comparable tax provisions for families: Alabama, Alaska, Arizona, Connecticut, Florida, Michigan, Mississippi, Missouri, Nevada, New Hampshire, North Dakota, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Washington, West Virginia, and Wyoming.

a The dollar amounts listed in this table are based on figures from 2006 which have been updated to 2007 levels by making an adjustment for inflation where appropriate. The figures do not reflect any legislative changes which may have occurred since the fall of 2006.

b Colorado's credits are only available if certain fiscal conditions are met.

c These states have deductions for child care expenses rather than credits. Maryland offers both a deduction and a credit.

d Figure refers to Oregon's Child and Dependent Care Tax Credit. Oregon also offers a Working Families Child Care Credit equal to 40 percent of expenses for families with income below 250 percent of the poverty line.

e Figure refers to New Mexico's Low-Income Comprehensive Tax Rebate.

f Figure refers to the maximum per family under the Virginia Credit for Low-Income Taxpayers.