



# JOINT ECONOMIC COMMITTEE DEMOCRATS



REPRESENTATIVE PETE STARK (D-CA) – SENIOR DEMOCRAT

ECONOMIC POLICY BRIEF

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## PROPOSED INCREASE IN THE CHILD TAX CREDIT WILL LEAVE BEHIND MILLIONS OF LOW-INCOME CHILDREN

### Introduction

The Republican tax bill that is about to be voted on in Congress will short-change millions of low-income working families. A House-Senate conference is considering legislation that would permanently raise the child tax credit to \$1,000 per child. Without Congressional action, the credit will fall back to \$700 next year. However, for many low-income families raising the credit provides no additional tax relief. Indeed, some of these families will see their tax cuts shrink.

### Raising the Credit to \$1,000 Does Nothing to Help Low-Income Families

Despite the proposed increase in the credit amount to \$1,000, many low-income working families receiving refundable credits would not see any additional tax benefits in 2005 and subsequent years due to the limit on the refundable portion of the credit.

For example, a couple with two children and earnings of \$20,000 will be eligible for a refundable credit of \$1,350 or \$675 per child in 2005 (15 percent of earnings in excess of \$11,000). Because this limit is based on earnings and not the maximum per child credit, an increase in the per-child maximum from \$700 to \$1,000 will not change the amount of credit this family receives.

The Joint Economic Committee Democratic staff estimates that 2.8 million working families with 6.4 million children who are eligible for child credits will

not receive a higher credit in 2005, even if Congress raises the credit to \$1,000 per child. An additional estimated 2.8 million working families with 5 million children will have earnings below the eligibility threshold and thus not receive any credit.

### Earnings Threshold for Credit Should Be Returned to \$10,000

Currently, the earnings threshold at which families can qualify for a refundable child tax credit is indexed to inflation, and next year will reach \$11,000. Low-income working families can lose all or part of their credit if their earnings fail to keep pace with rising prices. That is just what has happened to many working families since the passage of the 2001 Tax Act, when the earnings threshold was set at \$10,000. From 2001 to 2003, real (inflation-adjusted) household income at the lowest 10th percentile of the population dropped by \$570, while the threshold has been indexed to keep pace with inflation.

If Congress were to return the earnings threshold for the child tax credit to \$10,000, 4.3 million low-income families with 9.2 million eligible children would receive higher child credits, according to estimates by the Joint Economic Committee Democrats. Setting the earnings threshold at \$10,000 next year and in future years would prevent working families from losing some of their credit if their earnings fail to grow as fast as inflation.

Because of the decline in the real value of the minimum wage over time and the rising earnings threshold for

the child credit, a full-time minimum wage worker no longer qualifies for the tax credit. A full-time, year-round minimum wage worker making about \$10,700 annually would not qualify for the child tax credit this year because the earnings threshold is \$10,750.

The Joint Committee on Taxation estimates that it would cost \$6.9 billion to keep the earnings threshold for refundable child tax credits at \$10,000 through 2010. This is a fraction of the \$61.5 billion cost of increasing the child credit to \$1,000 per child through 2010 – a tax cut that leaves out millions of children in low-income working families.

### **Conclusion**

Increasing next year's credit from \$700 to \$1,000 per child will not benefit millions of low-income working

families. Some low-income working families will not be eligible for the credit because their earnings are below the rising threshold. Others will miss out because their earnings, while above the threshold, are too low to qualify for a higher tax credit.

If Congress were to lower the earnings threshold for the refundable credit and not index it for inflation, more low-income working families would qualify for the credit, and families whose earnings fail to keep pace with inflation would not see their credit reduced. Efforts by Democrats to do this have been thwarted by the Republican-controlled Congress.

While Republicans purport to expand the child tax credit, their current proposals will actually leave millions of children behind. This amounts to a tax increase on working families.