

Expanded child tax credit in the American Recovery and Reinvestment Act of 2009

Dear Reader,

I am writing regarding a provision in the recently enacted "American Recovery and Reinvestment Act of 2009" which expands the child tax credit for millions of children in low-income working families. Here are the details.

Currently, a taxpayer receives a \$1,000 tax credit for each qualifying child under the age of 17. To the extent the child tax credit exceeds the taxpayer's tax liability, the taxpayer is eligible for a refundable credit (the additional child tax credit) equal to 15% of earned income in excess of a threshold dollar amount. The threshold dollar amount was \$8,500 in 2008.

The new law increases the eligibility for the refundable child tax credit in 2009 and 2010 by lowering the earned income threshold to \$3,000. This means that working families with earnings above \$3,000 may qualify for at least a partial credit.

This change is significant because families with earnings just above the threshold qualify for a very small credit, because eligibility phases in slowly, at a rate of 15 cents per dollar of earnings above the threshold level. As a result, where the threshold is set has a large effect on families with incomes thousands of dollars above the threshold. For example, under the \$8,500 threshold that applied for tax year 2008, a family with two children did not qualify for the full credit of \$1,000 per child unless it had earnings of at least \$21,833. Under the new law, such a family will qualify for the full credit when its earnings reach \$16,333.

As a result of the change under the new law, an estimated 2.9 million more children will qualify for the credit than would have qualified under last year's \$8,500 earnings threshold, and an estimated 10 million children who would have received a partial credit under the \$8,500 threshold will receive a larger one under the new legislation.

If you would like more details about this or any other aspect of the new law, please do not hesitate to call.

