

# The Child Tax Credit: Extra Credit for Many Working Families



## What is the Child Tax Credit?

The Child Tax Credit (CTC) is a federal tax credit worth up to \$1,000 in 2004 for each child under age 17 claimed as a dependent on the worker's tax return. While the CTC has been in effect since 1998, Congress made changes to the credit in 2001 that made it available to millions more low- and moderate income working families and provided many families a larger CTC than they could have received in the past. This "*Additional CTC*" is *refundable*, meaning some families can get the credit even if they owe no income tax. Eligible families can receive the CTC refund in a check from the IRS.

## Who Can Claim the Child Tax Credit refund?

To be eligible for the CTC refund, a single or married worker must:

- be able to claim an exemption for a dependent child under age 17 on his or her tax return;
- have taxable earned income above \$10,750; and
- have either a Social Security number (SSN) or an Individual Taxpayer Identification Number (ITIN). ITINs are issued by the IRS to individuals who are unable to obtain a Social Security number. *Immigrant workers with either type of number may be able to claim the CTC refund.*

## Can a working family get both the Child Tax Credit Refund and the Earned Income Credit?

**Yes!!** Most low-wage working families that qualify for the CTC refund will also be eligible for the EIC. For many families that qualify for both credits, the EIC will be larger, but the CTC still will provide a significant income boost.

Despite the overlap in eligible families, there are important differences in the eligibility rules for the two credits and in the procedures for claiming them. In addition, there are some working families that qualify for the CTC, but do not qualify for the EIC. For example, a non-custodial father who can claim his child as a dependent can get the CTC, but he cannot claim the EIC because his child does not live with him.

### Which children qualify for the Child Tax Credit?

A child claimed for the CTC must be *under age 17* at the end of 2004 and must be claimed as a dependent on the worker's tax return. The child *must* be either a citizen, or be a resident alien who *lives in the*

### How do families get the Child Tax Credit refund?

**1. File a federal income tax return — Form 1040 or 1040A, but *not* 1040EZ.** The instructions and worksheet included in the IRS tax form packet will help tax filers figure their income tax and calculate their maximum possible CTC. The CTC is first used to reduce or eliminate any income tax a tax filer owes. If any of the CTC is remaining after the income tax has been eliminated (i.e. if the family's income tax was less than its maximum CTC), the tax filer

moves on to the next step in the process — Form 8812.

**2. File Form 8812.** Form 8812, "Additional Child Tax Credit," is used to find out if the family

qualifies for a CTC refund and, if so, the amount of the refund. This form must be attached to the tax return for a family to receive the CTC refund.

## How much will families receive?

- Eligible families can get up to \$1,000 for each dependent child under age 17 claimed on their tax return. (For example, a parent with two such children can claim a CTC of up to \$2,000 — 2 children x \$1,000.) The CTC first is used to reduce or eliminate a family's income tax liability. Families may be able to get all or part of any remaining CTC as a refund.
- The CTC refund is based on the amount by which the income of a worker (and spouse, if married) exceeds \$10,750. Families with CTC remaining after their income tax liability has been eliminated may receive a refund in the lesser of two amounts: (1) the amount of the family's CTC that remains, or (2) 15 percent of the family's earned income over \$10,750. (For example, if a family earns \$15,000, the amount of its income above \$10,750 is \$4,250:  $\$15,000 - \$10,750 = \$4,250$ ; 15 percent of \$4,250 is \$638.)

## Examples of families that will benefit:

- Maxine is a single parent with a 13-year-old child. She earned \$15,000 in 2004 and owes \$165 in income tax. Her maximum CTC of \$1,000 is first used to eliminate her \$165 income tax, leaving \$835 of it remaining ( $\$1,000 - \$165 = \$835$ ). 15 percent of Maxine's earnings over \$10,750 is \$638. Since the remaining CTC of \$835 is more than \$425, Maxine is eligible to receive a CTC refund for the lower amount — \$638. She also is eligible for an EIC of \$2,453, bringing her total refund to \$3,091!
- Sam and Barbara are married and raising four children under age 17. They earned \$25,000 in 2004 and owe no income tax. Their maximum CTC is \$4,000 (4 children x \$1,000). 15 percent of their earnings over \$10,750 is \$1,425 ( $\$25,000 - \$10,750 = \$14,250$ ; 15 percent of \$14,250 is \$2,138). Since the couple has no income tax liability, none of their CTC is used — the full \$4,000 remains. Since this is more than 15 percent of their earnings above \$10,750, Sam and Barbara receive a CTC refund of \$2,138. They also qualify for an EIC of \$2,209, bringing their total refund to \$4,346!

## Does the child tax credit affect public assistance benefits?

The Additional CTC refund does not count as income in determining eligibility for any federal, state or local program benefits, such as cash assistance ("welfare"), Medicaid, the State Children's Health Insurance Program (SCHIP), food stamps, SSI, emergency heating assistance, or public or subsidized housing, financed even in part by federal funds. CTC refunds do not count toward resource limits in these programs in the month of receipt or the following month.

## Can immigrant workers claim the child tax credit?

Immigrant workers must have *either* a Social Security number or an Individual Taxpayer Identification Number (ITIN) in order to claim the CTC. Although workers with a dependent in Mexico or Canada often obtain ITINs in order to claim an exemption for the dependent on their tax return, a dependent child claimed for the CTC must be either a U.S. citizen or be a legal resident alien who lives in the U.S. The child does not have to live in the worker's home.