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## **Child Credit Phase-In Rules Hit Hurricane Victims Hardest**

Current federal tax law provides a credit against taxes otherwise due of up to \$1,000 for each child age 16 or under. Not all families are eligible for the full credits, however.

In particular, the \$1,000 child tax credit is phased in at lower income levels, in order to deny or limit its benefits to low-income working families. The threshold to begin receiving benefits was set at \$10,000 in earnings in 2001, and is adjusted upwards every year for inflation.

Because of these annual adjustments, the threshold to begin receiving any child credit has risen to \$11,000 in earnings this year. Above that level, the credit is phased in at 15 cents for every dollar of additional earnings. For example, a family with two children age 16 or under earning \$12,000 will receive \$150 in child credit. In contrast, a two-child family making, say, \$60,000 will receive the entire \$2,000 in credits.

By the end of this decade, the starting point for the child credit phase-in will rise to an estimated \$12,400 in earnings.

As a result of the phase-in, in 2010 some 16.9 million low-income children age 16 or under will receive less than the full \$1,000 credit. That will represent almost one out of four children age 16 or under nationwide.

If the phase-in threshold was returned to its original \$10,000 level and frozen there, then 8.8 million low-income children would receive higher credits than they will get under current law in 2010. The average increased benefit per affected child would be \$168.

The following table shows the estimated effects of the threshold in 2010. These effects vary substantially by state:

- The two states with the highest percentage of low-income children that lose some or all of their tax credits are hurricane-stricken Mississippi and Louisiana, where more than a third of all children age 16 or less are slated to get reduced or zero credits.
- In contrast, in states such as New Hampshire and Wisconsin, only one in eight children age 16 or under will lose some or all of their child credits due to the phase-in.

MORE . . .

Children under 17 with less than the full \$1,000 child credit under current law due to the low-income phase-in.  
Plus the effects of starting the phase-in at \$10,000, unindexed for inflation. In calendar 2010, by state.

	Current law				Start phase-in at \$10,000 (unindexed)		
	# of children under 17	# of children <17 with less than full credit due to phase-in	% of children <17 with less than full credit due to phase-in	Rank by % with less than full credit due to phase-in	# of children with increased credit	# of additional children with credit	Average increase in credit for children with increase
Note: #s of children are in thousands.							
<b>All States</b>	<b>69,955</b>	<b>16,923</b>	<b>24.2%</b>		<b>8,779</b>	<b>1,642</b>	<b>\$ +168</b>
Alabama	1,044	288	27.6%	9	164	26	175
Alaska	168	29	17.1%	40	13	*	151
Arizona	1,581	353	22.3%	22	170	45	161
Arkansas	666	184	27.7%	7	86	16	180
California	8,987	2,948	32.8%	3	1,640	336	156
Colorado	1,119	208	18.6%	37	116	9	165
Connecticut	756	104	13.8%	48	17	8	228
Delaware	190	43	22.9%	20	23	4	187
Dist of Col.	108	30	27.7%	8	8	4	178
Florida	3,867	1,062	27.5%	10	630	130	177
Georgia	2,412	677	28.1%	6	459	56	163
Hawaii	290	77	26.5%	12	30	10	176
Idaho	379	77	20.3%	29	47	5	154
Illinois	2,967	700	23.6%	18	317	109	138
Indiana	1,498	257	17.1%	39	134	8	173
Iowa	654	102	15.6%	46	45	3	176
Kansas	650	127	19.5%	32	58	2	180
Kentucky	938	230	24.5%	16	118	34	175
Louisiana	1,111	375	33.7%	2	214	45	176
Maine	250	46	18.3%	38	17	2	240
Maryland	1,339	265	19.8%	31	160	47	152
Massachusetts	1,369	273	20.0%	30	103	11	173
Michigan	2,310	394	17.1%	42	188	98	132
Minnesota	1,183	160	13.5%	49	45	11	176
Mississippi	729	269	36.9%	1	146	25	201
Missouri	1,321	292	22.1%	23	138	30	170
Montana	198	37	18.7%	36	17	4	174
Nebraska	407	66	16.2%	45	23	1	157
Nevada	633	132	20.9%	28	73	9	192
New Hampshire	290	35	12.0%	51	23	1	154
New Jersey	1,952	425	21.8%	25	186	25	166
New Mexico	452	116	25.7%	14	60	11	177
New York	4,085	1,149	28.1%	5	487	79	179
North Carolina	2,163	491	22.7%	21	251	47	183
North Dakota	131	19	14.4%	47	7	0	266
Ohio	2,562	435	17.0%	43	183	38	180
Oklahoma	846	203	24.0%	17	116	17	171
Oregon	819	138	16.9%	44	67	12	176
Pennsylvania	2,548	584	22.9%	19	264	36	158
Rhode Island	229	58	25.5%	15	25	*	159
South Carolina	985	267	27.1%	11	158	25	188
South Dakota	182	35	19.4%	33	21	1	158
Tennessee	1,400	308	22.0%	24	177	23	215
Texas	6,473	1,840	28.4%	4	1,080	169	166
Utah	772	146	18.9%	35	79	10	147
Vermont	120	26	21.7%	26	8	1	194
Virginia	1,752	331	18.9%	34	141	16	196
Washington	1,381	236	17.1%	41	118	13	170
West Virginia	349	92	26.4%	13	34	7	186
Wisconsin	1,227	158	12.9%	50	83	22	161
Wyoming	110	23	20.9%	27	14	2	118

Source: Institute on Taxation and Economic Policy Tax Model, October 2005.

Note: \* = less than 0.5 thousand.