NATIONAL WOMEN'S LAW CENTER
EXPANDING THE POSSIBILITIES

TAX & BUDGET

Frequently Asked Questions About Refundable Family Tax Credits

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A number of refundable tax provisions that help working families, including the Child Tax Credit (CTC) and Earned Income Tax Credit (EITC), were improved and expanded in 2001, 2003, and 2009. These credits, and their improvements, help millions of low- and moderate-income families work their way out of poverty, but the improvements are currently set to expire at the end of 2012.

What is a refundable tax credit?

Tax credits are a dollar-for-dollar reduction in the amount of taxes owed. If a tax filer owes less in federal income taxes than the amount the refundable credit is worth, he or she will receive some or all of the credit as a refund. Even if a tax credit is nonrefundable, however, it can benefit a family by lowering tax liability or increasing a refund.

How do these refundable tax credits help families?

The EITC is worth up to $5,891 in 2012, and the CTC is worth up to $1,000 per child. These refundable tax credits help hard-working families make ends meet and offset the other taxes families pay, including payroll taxes and state and local taxes.

Who is eligible for these refundable tax credits?

There are several requirements that families must meet to be eligible to claim these credits when they file their taxes, and you can read more about the EITC here and the CTC here. Two key requirements deal with children and income.

To claim the CTC, tax filers must have at least one child under age 17 who can be claimed as a dependent. The CTC is only available as a refund to parents who have earnings of at least $3,000 (in 2012). Families can receive 15 percent of their earnings above $3,000 as a refund, up to the $1,000 per child limit.

Low-income tax filers with no qualifying children can claim a small EITC refund. A larger refund is available to families with children, and is available to families at moderate-income levels. To claim the EITC, families must have income from work, and the amount they receive depends on their income and the number of children.

How do refundable tax credits reward work and strengthen families?

Refunds from the EITC and CTC are only available to people who earn income from work. They offset the other taxes that families pay and boost the wages of hard-working parents to help them lift their families out of poverty.

In 2011, Census data show that the EITC lifted the incomes of 5.7 million families above poverty, including 3.1 million children. The CTC lifted the incomes of 2.6 million people above poverty, including 1.4 million children.

How were the CTC and EITC improved in 2009?

In the American Recovery and Reinvestment Act of 2009, Congress lowered the earnings threshold for the refundable CTC, so that earnings above $3,000 would count. Congress also improved the EITC by providing a larger credit for families with three or more children and reducing the marriage penalty that the EITC can impose when two low-wage workers marry.

What will happen to families if those improvements aren't extended?

If Congress fails to extend the improvement in the CTC, only earnings above $13,300 in 2013 would count toward the refundable CTC. For a single mom with three children earning $14,500 working full time in a minimum wage job, the CTC would drop from $1,725 to $180—a loss of $1,545. (If her hours were reduced so she only earned $13,000, she would get nothing from the CTC in 2013.) For a married couple with three children, both working at minimum wage jobs with a combined income of $29,000, the CTC would drop from $3,000 to $2,355—a loss of $645.

If Congress fails to extend the EITC improvements, the single mom described above would lose $666 from the EITC, for a combined loss of $2,211 in tax credits. The married couple described above would lose $1,081 from the EITC, for a combined loss of $1,726 in tax credits.

In all, low- and moderate-income families would lose $12.6 billion in tax credits in 2013—and women would suffer two-thirds of those losses.

Where do things stand in Congress?

A bill passed by the Senate, S. 3412, would renew the 2009 improvements to the CTC and EITC along with the 2001 and 2003 tax cuts for 98 percent of Americans (couples with incomes below $250,000, individuals with incomes below $200,000), while largely ending the Bush-era tax cuts on income above those levels. In contrast, the bill passed by the House, H.R. 8, would end the 2009 improvements to the CTC and EITC but extend the Bush-era tax cuts for the richest two percent, giving households with incomes above $1 million an average tax cut of $160,000 next year. President Obama has called on the House to pass the Senate bill to extend tax cuts for 98 percent of Americans.