

TAX & BUDGET

Frequently Asked Questions About Refundable Family Tax Credits

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A number of refundable tax provisions help millions of low- and moderate-income families work their way out of poverty and achieve greater economic security.

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 \$6,044 in 2013, 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 claim these credits when they file their taxes. 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 2013). 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 earnings, 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.

Where do the CTC and EITC stand now?

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. These improvements were extended for five years as part of the "Fiscal Cliff" deal that was passed on January 1, 2013. However, congressional tax-writing committees have begun looking at the federal tax code and considering possible changes, including to these credits for families. It remains to be seen whether reforms to the tax code will be proposed this year, and if so, whether these credits will be affected.