



*Federal Policy Bulletin – June 2010*

## **Preserve work supports & tax relief for working families**

### *Extend improvements in the Child Tax Credit, Earned Income Tax Credit*

This year, Congress has an opportunity to maintain critical tax relief for low- and middle-income families, as originally implemented in the 2009 American Recovery and Reinvestment Act (ARRA). The federal Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) were both strengthened to better help struggling families cope during challenging times. Without an extension, both credit improvements would expire at the end of 2010, taking vital help away from hundreds of thousands of Illinois children and their families.

The EITC and CTC are among the nation's most effective anti-poverty programs. ARRA improvements in these credits have strengthened them greatly, lifting an additional 77,000 Illinoisans – including 43,000 children – above the federal poverty level.

These credits represent important work incentives, as they only go to people who work. They help the families of parents who take responsibility for their children. The credits have a long history of bipartisan support and have been expanded during economically challenging times – just when families need them most.

#### ***The EITC & CTC help struggling families***

The EITC is targeted at low-income households, and is worth as much as \$5,657 for a household with two parents and three or more children. The CTC is aimed at low- and middle-income families, with a maximum credit of \$1,000 per child. Working parents and their children are the core beneficiaries of both credits. The EITC and CTC:

- **Help low-income families put more of their earnings towards essentials**, such as food and medicine. The credits help families meet the costs of raising their children. Families, in turn, reinvest this money in the local economy.
- **Ease taxes for struggling families.** This is especially important in Illinois, where low-income families pay a disproportionately high share of their income in state and local taxes.
- **Act as a powerful work incentive.** To claim these credits, taxpayers must be working and earning income. The EITC has led to significant increases in employment, particularly among single mothers.

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## ***We must preserve these core improvements***

It's vital that we extend ARRA's strengthening of these important tax credits. That's particularly so in Illinois, where our state-level EITC – which adds to the value of its federal counterpart – is the nation's second-smallest such credit. And Illinois has no state-level CTC, making every dollar for that federal credit especially important.

### ***Earned Income Tax Credit improvements***

EITC eligibility kicks-in with a family's first dollar of earnings, and – depending upon their size – households earning up to \$48,279 can qualify for its help. But previously, the maximum credit amount went to families with two or more children. ARRA expanded the credit to add extra help for families with three or more kids, increasing their maximum benefit by about \$600. About 418,000 Illinois children stand to lose some of their EITC benefits if this measure is not extended.

Because the EITC amount often decreased for individuals when they married, ARRA also provided relief for the credit's so-called “marriage penalty.” This improvement raises the combined earnings level at which a married couple's credit begins to shrink.

### ***Child Tax Credit improvements***

ARRA expanded this credit to reach many of the lowest-income, working families who were previously excluded and boosted its amount for many more low-and middle-income families. The earnings threshold at which families begin to qualify for the credit was lowered from \$8,500 in 2008 to \$3,000 under ARRA. And now a family with two children is able to receive the full credit at an income level of \$16,333, compared with the previous level of \$21,993.

In tax year 2007, 1.1 million Illinois families received the CTC, with an average credit of about \$1,250. But without an extension, about 732,000 Illinois children would lose some or all of their CTC benefits.

**President Obama's FY 2011 budget proposal** would retain all of these improvements, further strengthening our already-effective anti-poverty, pro-work efforts. Congress should permanently extend these improvements, encouraging working parents to keep their jobs and provide for their kids.

*Source: Center on Budget and Policy Priorities*

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