



## Family Friendly Changes Are in the Federal Tax Bill

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The recently approved \$1.3 trillion federal tax cut plan contains some good news for Minnesota families at all income levels. First, many middle and upper-middle class families will benefit from the gradual doubling of the current child tax credit from \$500 to \$1,000 by 2010. In 2001, the credit will be \$600 per child.

In addition, thanks to advocacy efforts led by the national office of Children's Defense Fund in Washington, D.C., approximately 47,000 lower-income Minnesota families will benefit from changes that make the child tax credit refundable. While these families pay little or no income taxes, a significant amount of their income goes to pay other taxes such as sales and payroll. They also face substantial child-rearing costs. The changes approved this year will result in these families receiving a child tax credit refund. For tax years 2001-2004, the refund will be equal to 10% of their earnings above \$10,000 up to the child tax credit maximum. Beginning in 2005, the refund will increase to 15% of earnings above \$10,000. For example, next year, a family earning \$15,000 with one child will receive \$500. In 2005, that family will receive \$750.

Nationally, the changes will benefit seven million families, who previously did not benefit from the child tax credit. Through this measure alone, half a million children will be lifted out of poverty. Other family-friendly changes in the tax bill include changes in the dependent care (i.e., child care) tax credit, which has not been updated for inflation since 1981. The federal legislation increases the limits on qualifying child care expenses from \$2,400 to \$3,000 for one child and from \$4,800 to \$6,000 for two or more children; increases the percentage of qualifying expenses from 30% to 35%; and raises the income level at which the maximum credit can be claimed from \$10,000 to \$15,000. As a result, some families could receive as much as \$402 for one child or \$804 for two or more children more than under current law. However, the federal credit (unlike Minnesota's credit) is still not refundable, so lower-income working families do not benefit.

Finally, the federal legislation also makes changes to the federal earned income tax credit (EITC). The tax bill increases the income level at which the phasing-out of the credit begins and also increases the total amount of income families can earn before they lose any benefit from the EITC. This change will be phased in so that by 2008, families with one child will receive some credit until their incomes reaches \$31,000. Families with two or more children can go to \$35,000 a year. The bill also makes it easier for families to apply for the credit.

While these changes were not the main focus of the \$1.3 billion tax cut, they will be important to many families. They would not have occurred without substantial effort on the part of advocates and concerned constituents.

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