

Making Children a Priority in the 2012 Tax Debate

How Families Fare in the Senate and House Tax Bills



As of August 1, 2012, the U.S. Senate and the U.S. House of Representatives each passed separate tax bills to extend for one year many – though not all – of the federal tax items currently set to expire on December 31, 2012. Among the package of expiring items are key provisions within four tax credits directly related to children and youth. These items include the Child Tax Credit (CTC), the Earned Income Tax Credit (EITC), the Child and Dependent Care Tax Credit (CDCTC), and the American Opportunity Tax Credit (AOTC). Below is a side-by-side analysis of how children and families fare in each bill.

S.3412: MIDDLE CLASS TAX CUT ACT¹

Child Tax Credit

Extends the current version of the CTC, preserving the maximum credit amount of \$1,000 per child and the qualifying income threshold of \$3,000, a key provision for low-income families.

IMPACT: Preserves access to the CTC for 8.9 million families and 16.4 million eligible children³.

Earned Income Tax Credit

Extends the current version of the EITC, preserving the “third tier” for families with more than two children and the increased income level phase-out for married couples.

IMPACT: Preserves access to the EITC for 6.5 million families and 15.9 million eligible children⁴.

Child and Dependent Care Tax Credit

Extends the current version of the CDCTC, preserving the lower qualifying income threshold and increased credit amount allowing claims up to \$3,000 for one child and \$6,000 for two or more children in care expenditures.

IMPACT: Preserves access to the CDCTC for the 2 million families made newly eligible by the 2001 improvements and the 2.4 million families who saw a \$340⁵ average increase in their credit.

American Opportunity Tax Credit

Extends the current version of the AOTC, preserving the maximum credit amount of \$2,500 for post-secondary education costs, the ability to claim the credit for up to four years of school, and the provision allowing up to \$1,000 of the credit to be refundable for low-income students.

IMPACT: Preserves access to the AOTC for the 11 million families who claim a \$1,100⁶ average annual credit.

H.R.8: JOB PROTECTION AND RECESSION PREVENTION ACT²

Child Tax Credit

Preserves the maximum credit amount of \$1,000 per child, but raises the qualifying income threshold to \$13,300, significantly reducing the refundable portion of the credit and cutting off access for families on minimum wage incomes.

IMPACT: 12 million families with children lose an average of \$800 per family in 2013⁷.

Earned Income Tax Credit

Ends the “third tier” credit provision recognizing families with more than two children and ends the “marriage penalty relief” by removing the income level phase-out for married couples.

IMPACT: Over 6 million families with children lose an average of \$500 per family in 2013⁸.

Child and Dependent Care Tax Credit

Extends the identical CDCTC provision as S. 3412, preserving the lower qualifying income threshold and increased credit amount.

IMPACT: Preserves access to the CDCTC for the 2 million families made newly eligible by the 2001 credit improvements and the 2.4 million families who saw a \$340 average increase in their credit.

American Opportunity Tax Credit

Eliminates the AOTC and reverts the credit back to the pre-2009 version, the Hope Credit. In doing so, decreases the maximum credit amount from \$2,500 down to \$1,800, decreases the credit availability from four years of post-secondary costs down to two years, and eliminates the refundable provision for low-income students.

IMPACT: Reduces the credit amount for all students and eliminates access to the credit for the up to 3.8 million low-income students made newly eligible to receive the AOTC⁹.

ADDITIONAL DIFFERENCES

Much of the tax debate to date has centered on the expiring tax cuts affecting households with the highest incomes. On this point, S. 3412 and H.R. 8 also differ. The Senate-passed bill would extend all tax cuts (including the family tax credits discussed above) for households with incomes less than \$250,000. Households earning more will still see a continued tax cut on their first \$250,000 in income, with the remainder of their income above \$250,000 taxed at a higher rate. The House-passed bill does not have the \$250,000 cap, and therefore would extend the current tax cuts in full to households with all incomes above this amount. As noted, however, the House-passed bill would end a number of improvements to tax credits that benefit low- and moderate-income families with children.

CONCLUSION

The differences between these two bills will not be reconciled before fall 2012, with the increasing likelihood that a final tax deal will only emerge after the November election. While much of the negotiation will likely center around the upper-income tax items, it is important to remember that family tax credits affecting 25 million working families and 29 million children are also at stake¹⁰.



For more information, please contact Megan Curran, Senior Director, Family Economics at (202) 657-0684 or meganc@firstfocus.net.

Notes

¹ This bill passed the Senate on July 25, 2012.

² This bill passed the House of Representatives on August 1, 2012.

³ Citizens for Tax Justice (July 2012) “The Debate Over Tax Cuts: It’s Not Just About The Rich”.

http://ctj.org/ctjreports/2012/07/the_debate_over_tax_cuts_its_not_just_about_the_rich.php (Accessed August 1, 2012).

⁴ *Ibid.*

⁵ Impact assessments are Tax Policy Center projections from 2011: http://www.taxpolicycenter.org/press/quickfacts_cdctc.cfm#three (Accessed August 1, 2012).

⁶ National Economic Council (July 2012) “The President’s Proposal to Extend the Middle Class Tax Cuts”, pg. 8.

http://www.whitehouse.gov/sites/default/files/uploads/middleclassreport_7_24_2012.pdf (Accessed August 1, 2012).

⁷ *Ibid.*

⁸ *Ibid.*

⁹ Center on Budget and Policy Priorities (February 2009) “Economic Recovery Package Gives 3.8 Million Low- and Moderate-Income Students – Thousands in Every State – Access to Higher-Education Tax Credit” <http://www.cbpp.org/files/1-21-09tax.pdf> (Accessed August 1, 2012).

¹⁰ National Economic Council (July 2012) “The President’s Proposal to Extend the Middle Class Tax Cuts”, pg. 7.

http://www.whitehouse.gov/sites/default/files/uploads/middleclassreport_7_24_2012.pdf (Accessed August 1, 2012).