



**First Focus** is a bipartisan advocacy organization that is committed to making children and their families a priority in federal policy and budget decisions. Children's health, education, family economics, child welfare, and child safety are the five core issue areas around which First Focus is working to promote bipartisan policy solutions.

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# WORKING TOWARDS A CHILD-FRIENDLY TAX CODE

## CHILD TAX CREDIT

- ◆ **Protect the Credit's Value** – According to current law, the size of the Child Tax Credit is scheduled to drop by 50% after 2010. Any larger tax reform package should include provisions extending permanently the CTC at its current value, at minimum.
- ◆ **Include All Low Income Families** – Due to the current design of the Credit, working families at the bottom of the income spectrum often benefit less and, in some cases, they do not benefit. The “income floor” for the CTC should be lowered and de-indexed to inflation. Alternatively, the floor should be removed entirely and the credit phased in beginning with the first dollar earned (similar to the design of the Earned Income Tax Credit)
- ◆ **Add a “Baby Benefit”** – The CTC is designed to help families cover some of the costs of raising children, so that more of our children grow up healthy and strong. There is no more important period in a child's development than her early years. The CTC should reflect that reality and be doubled in value for a child under two years old.

## EARNED INCOME TAX CREDIT

- ◆ **Protect the Credit's Value** - The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) made several beneficial reforms to the EITC, including reducing marriage penalties. These provisions are set to expire after 2010. Congress should act to ensure that the EITC does not penalize married couples in the future.
- ◆ **Adjust the Credit For Bigger Families** – Currently, the size of the credit depends on the number of children in the family, up until two children. Families with more than two children are treated the same as those with only two children. The Earned Income Tax Credit should take account of the greater expenses that larger families have.

## THE CHILD AND DEPENDENT CARE CREDIT

- ◆ **Make the Credit Refundable** – For low income families, EGTRRA increased the rate at which child care expenses could be claimed for the Child and Dependent Care Credit (CDCTC). Unfortunately, that change did little to benefit low-income families since CDCTC is non-refundable, meaning that families only benefit if they owe income taxes. Nearly 40% of American households do not owe income taxes, so not one of those households can claim the credit. Making the CDCTC fully or even partially refundable would allow all families to reduce their child care costs.
- ◆ **Boost the Credit's Value** – In 2006, the average CDCTC benefit was less than \$600 per household. The average yearly cost of child care for just one child is more than 15 times that. Between the lack of refundability and the relatively small size of the credit, the CDCTC is failing in its primary goal to help defray the costs of childcare. Congress should increase the cap on eligible care expenses and also boost the percentage of these expenses used to calculate the credit.

## HEALTH CARE CREDITS

- ◆ **Don't Leave Out Kids** – In the current debate over comprehensive health care reform, many are looking to the tax code to provide policy solutions. While refundable tax credits may be part of the eventual solution, most current proposals leave children out. Under many current proposals from both sides of the aisle families receive twice the credit that individuals do. Simply doubling the credit size for families does not work because family health insurance coverage isn't simply twice as expensive as individual coverage. In fact, family coverage costs up to three times as much as individual coverage. Any inclusion of health care tax credits must account for the higher costs of family coverage.



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