



The Child Tax Credit: Extra Credit for Many Working Families!

What is the Child Tax Credit?

The Child Tax Credit (CTC) is a federal tax credit worth up to \$1,000 in 2005 for each qualifying child under age 17 claimed on the worker's tax return. While the CTC has been in effect since 1998, Congress changed the credit in 2001 to make it available to millions more low- and moderate-income working families and provided many families a larger CTC than they could have received in the past. This "Additional CTC" is refundable, meaning some families can get the credit even if they owe no income tax. (This kit refers to the "Additional CTC" as the "CTC refund.") Eligible families can receive the CTC refund in a check from the IRS.

Who Can Claim the Child Tax Credit refund?

To be eligible for the CTC refund, a single or married worker must:

- have a qualifying child under age 17;
- have taxable earned income above \$11,000; and
- have either a Social Security number (SSN) or an Individual Taxpayer Identification Number (ITIN). ITINs are issued by the IRS to individuals who are unable to obtain a Social Security number. *Immigrant workers with either type of number may be able to claim the CTC refund.*

Can a working family get both the Child Tax Credit Refund and the Earned Income Credit?

Yes!! Most low-wage working families that qualify for the CTC refund will also be eligible for the EIC. For many families that qualify for both credits, the EIC will be larger, but the CTC still will provide a significant income boost. Despite the overlap in eligible families, there are important differences in the eligibility rules for the two credits and in the procedures for claiming them. *For a comparison of the two sets of rules, see the table on p. 8 of this booklet.*

Who is a "Qualifying Child" for the CTC?

- Sons, daughters, stepchildren, grandchildren and adopted children
- Brothers, sisters, stepbrothers, or stepsisters — as well as descendants of such relatives
- Foster children who are placed with the worker by an authorized government or private placement agency

A child claimed for the CTC must be under age 17 at the end of 2005. The child must live with the worker for more than half of the year in the U.S. and must be either a citizen or a resident alien. The child must have either a valid Social Security number or an Individual Taxpayer Identification Number (ITIN).

Note: Previous rules required the child to be claimed as a dependent on the worker's tax return, but that is not a requirement beginning in 2005. However, note that the child may not be claimed for the CTC if the child provides over one-half of his or her own support. There is one exception to the new qualifying child rules for the CTC: a non-custodial parent who is allowed to claim his or her child as a dependent by a divorce or separation agreement is the parent entitled to claim the child for the CTC. (In these cases, the custodial parent must sign IRS Form 8332, "Release of Claim for Child of Divorced or Separated Parents," and the form must be attached to the tax return of the non-custodial parent.) However, the non-custodial parent cannot claim the EIC because the child does not live with him for more than half of the year. If eligible, the parent with whom the child lives may claim the child for the EIC.

How do families get the Child Tax Credit refund?

1. File a federal income tax return — Form 1040 or 1040A, but not 1040EZ. The instructions and worksheet included in the IRS tax form packet will help tax filers figure their income tax and calculate their maximum possible CTC. The CTC is first used to reduce or eliminate any income tax a tax filer owes. If any of the CTC is remaining after the income tax has been eliminated (i.e. if the family's income tax was less than its maximum CTC), the tax filer moves on to the next step in the process — Form 8812.

2. File Form 8812. Form 8812, "Additional Child Tax Credit," is used to find out if the family qualifies for a CTC refund and, if so, the amount of the refund. This form must be attached to the tax return for a family to receive the CTC refund.

3. New form if child is not a dependent. In most cases a child claimed for the CTC will also be claimed as a dependent. For those rare cases in which a child claimed for the CTC is not listed on the filer's tax return as a dependent, a new Form 8901, "Information on Qualifying Children Who Are Not Dependents," must be attached to the return. The filer will provide on this form the child's name, Social Security number and relationship to the tax filer.

How does the CTC work?

- Eligible families can get up to \$1,000 for each qualifying child under age 17 claimed on their tax return. (For example, a parent with two such children can claim a CTC of up to \$2,000 — 2 children x \$1,000.) The CTC first is used to reduce or eliminate a family's income tax liability. Families may be able to get all or part of any remaining CTC as a refund.
- The CTC refund is based on the amount by which the earned income of a worker (and spouse, if married) exceeds \$11,000. Families with any CTC remaining after their income tax liability has been eliminated may receive a refund in the lesser of two amounts: (1) the amount of the family's CTC that remains, or (2) 15 percent of the family's earned income over \$11,000. (For example, if a family earns \$15,000, 15 percent of its income above \$11,000 is \$600: $\$15,000 - \$11,000 = \$4,000$; 15 percent of \$4,000 is \$600.)

Examples of families that will benefit:

- Maxine is a single parent with a 14-year-old child. She earned \$15,000 in 2005 and had \$130 in income tax withheld from her pay. Her maximum CTC of \$1,000 is first used to eliminate her \$130 income tax, leaving \$870 of it

remaining (\$1,000 - \$130 = \$870). Fifteen percent (15%) of Maxine's earnings over \$11,000 is \$600. Since the remaining CTC of \$870 is more than \$600, Maxine is eligible to receive a CTC refund for the lower amount — \$600. (She also is eligible for an EIC of \$2,562 and is repaid her \$130 income tax, bringing her total refund to \$3,292!)

- Sam and Barbara are married and raising four children under age 17. They earned \$25,000 in 2005 and owe no income tax. Their maximum CTC is \$4,000 (4 children x \$1,000). Fifteen percent (15%) of their earnings over \$11,000 is \$2,100 (\$25,000 - \$11,000 = \$14,000; 15 percent of \$14,000 is \$2,100). Since the couple has no income tax liability, none of their CTC is used — the full \$4,000 remains. Since this is more than 15 percent of their earnings above \$11,000, Sam and Barbara receive a CTC refund of \$2,100. (They also qualify for an EIC of \$2,583, bringing their total refund to \$4,683!)

Does the CTC affect public benefits?

The CTC refund does not count as income in determining eligibility for any federal, state or local program benefits financed even in part by federal funds such as food stamps, SSI, or child care. Some benefit programs count the EIC as a resource under certain circumstances. *For more information, see "Learn More: Questions and Answers About the EIC," on p. 17 of this booklet.*

Can immigrant workers claim the Child Tax Credit?

Immigrant workers must have either a Social Security number or an Individual Taxpayer Identification Number (ITIN) in order to claim the CTC. Workers with a dependent living in Mexico or Canada often obtain ITINs in order to claim an exemption for the dependent on their tax return. However, a child claimed for the CTC must be either a U.S. citizen or a resident alien who lives in the U.S. *For more information on Individual Taxpayer Identification Numbers, see p. 23 in the booklet in this kit, "Opportunities for Linking Workers to Free Tax Help and Asset Development."*

Note: *The information in this fact sheet is based on new "qualifying child" rules passed by Congress, which take effect in 2005. For more information, see the chart on the following page and the fact sheet on p. 9 of this booklet "New Qualifying Child Rules Begin in 2005: Claims for the Child Tax Credit and other Tax Benefits May be Affected." CTC claims for prior years must follow the qualifying child rules previously in effect.*