

WHAT THE TAX COMPROMISE MEANS FOR CHILDREN AND WORKING FAMILIES



The national child poverty rate has been steadily increasing throughout the recession to a point where more than one in five children in the US lives in a family whose income falls below the federal poverty line. Hardly any state has been immune. A First Focus report earlier this year found that in 2009, child poverty increased in 46 states and DC.

This week, the United States Senate will debate the **Reid Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act** based on the Tax Compromise announced by President Obama on December 6. The following provisions will help children and working families as our economy continues to recover: extension of Unemployment Insurance; expansions of the Child Tax Credit, Earned Income Tax Credit, Child and Dependent Care Credit; and a payroll tax cut.

Unemployment Insurance

More than 1 in 10 kids (7.7 million) have an unemployed parent and unemployment benefits kept 3.3 million families and 1 million children from falling into poverty in 2009 alone.

- The Tax Compromise extends unemployment benefits at the current level through the end of 2011.

Child Tax Credit (CTC)

The CTC is one of this country's most important tax provisions for children. The American Recovery and Reinvestment Act (ARRA) made an important improvement by expanding income eligibility and allowing more low-income working families to access this credit.

- The Tax Compromise extends this \$1,000 child tax credit and the \$3,000 refundability threshold established by ARRA for another two years.

Earned Income Tax Credit (EITC)

The EITC has been hailed as the federal government's most successful anti-poverty program. It is a tax provision that encourages work and strong families, helping parents who work hard for low or minimum wages meet their children's basic needs. The EITC expansion for families with more than 2 children strengthens the effectiveness of the EITC by acknowledging the increased financial needs of larger families and targeting tax relief and support accordingly.

- The Tax Compromise extends the ARRA expansions of the EITC, including the provision for families with more than 2 children, for another two years.

Child and Dependent Care Credit (CDCTC)

The CDCTC helps working parents defray the high cost of securing safe, professional care for their young children. According to estimates, 2 million families with children will lose the credit entirely and another 2.4 million will see the value of their credit fall if this benefit expires.

- The Tax Compromise extends the increased credit value and expanded income eligibility for an additional two years.

Payroll Tax Cut

Each year 6.2 percent of a worker's income, up to \$106,800, is withheld from their paychecks for Social Security.

- The Tax Compromise includes a 2 percent payroll tax cut for workers during 2011.

For Additional Information Contact:

Chris Kelly,

Senior Director, Tax & Budget Policy
ChrisK@firstfocus.net; 202.657.0640