

IF MADE REFUNDABLE, 7.4 MILLION MORE FAMILIES WOULD BE ABLE TO CLAIM THE CHILD AND DEPENDENT CARE TAX CREDIT.

The Child and Dependent Care Tax Credit (CDCTC) is a tax benefit that allows some families to reduce the amount of federal income taxes owed by subtracting a portion of their yearly child care (or dependent adult care) expenses from their year-end federal tax bill. The credit is intended to help working parents defray the high cost of securing safe, professional care for their young children. The CDCTC is structured so that the maximum credit is available to lower-income families and its value diminishes as a family's income rises. In theory, the maximum credit is \$1,050 for families who make less than \$15,000 and who have one eligible child, (the credit is twice that for families with two or more eligible children). However, because the credit is non-refundable, no actual families are able to claim the maximum credit, since any family with one child that makes only \$15,000 a year would owe no federal income tax at the end of that year. In fact, most families living below 200% of the federal poverty line are not able to claim any benefit from the CDCTC at all.

A bill recently introduced in the Senate, the Family Tax Relief Act of 2009 (S.997), would make the CDCTC fully refundable, as well as increasing the overall value of the credit. This change would mean that millions of additional families could make use of the CDCTC to help cover the costs of providing care for their children so that they can work. Indeed, making this change would mean that more than 7.4 million additional families would be able to benefit from the CDCTC, including more than 13 million children under the age of 13. These families meet all the existing eligibility requirements for the CDCTC. They all have young children and all the parents work at least part time. The only reason that they cannot now benefit from the credit is that they do not have a federal income tax bill to reduce.

Nationwide, nearly one five families with children are unable to claim the CDCTC because it is non-refundable. This percentage varies somewhat by state. Nebraska boasts the higher share of families with children who fall into this category with more than 26%, and New Jersey has the smallest percentage with just over 12%. Overall, California is home to the most number of families who would benefit from making the CDCTC refundable (more than 800,000 families with over 1.4 million young children), and the District of Columbia has the fewest (under 10,000 families).

FAMILIES NEWLY ABLE TO CLAIM CDCTC UNDER S.997

	Households	Young Children	Percent of All Households with Children
USA	7401735	13134722	19.2%
Alabama	130935	221393	21.4%
Alaska	14887	31343	16.4%
Arizona	155035	303809	20.4%
Arkansas	97349	177357	25.7%
California	802695	1434045	17.1%

Colorado	116919	215823	18.6%
Connecticut	56629	97649	12.3%
Delaware	17520	31926	16.3%
D.C.	9455	18648	17.7%
Florida	433832	751271	20.1%
Georgia	251029	443299	20.0%
Hawaii	21308	38828	14.3%
Idaho	47710	89758	24.2%
Illinois	292482	532749	17.6%
Indiana	178702	311665	21.3%
Iowa	88666	165694	22.9%
Kansas	88798	155486	23.9%
Kentucky	109942	191462	20.0%
Louisiana	125004	220112	22.4%
Maine	34759	59148	20.8%
Maryland	98777	169406	13.3%
Massachusetts	104932	172880	13.2%
Michigan	246422	440174	18.9%
Minnesota	122130	234049	18.0%
Mississippi	98851	170164	24.6%
Missouri	174899	311144	22.7%
Montana	27406	47159	24.4%
Nebraska	62002	116614	26.3%
Nevada	61892	109634	19.0%
New Hampshire	21304	35550	13.1%
New Jersey	139466	237475	12.2%
New Mexico	64473	111140	25.6%
New York	397079	673878	16.8%
North Carolina	262192	458716	22.4%
North Dakota	15744	24543	19.6%
Ohio	310288	539000	20.9%
Oklahoma	109703	200979	23.1%
Oregon	100912	178032	22.3%
Pennsylvania	263800	462941	17.6%
Rhode Island	22362	36455	17.2%
South Carolina	121408	205659	21.4%
South Dakota	21049	39148	21.4%
Tennessee	181529	314033	22.5%
Texas	688648	1251843	21.3%
Utah	71632	147460	20.4%
Vermont	15030	24808	18.9%
Virginia	161537	279222	16.3%
Washington	150727	275153	18.4%
West Virginia	47432	77018	21.0%
Wisconsin	148515	272489	20.6%
Wyoming	15938	26491	24.3%

METHODOLOGY

The estimate the number of households who would benefit from making the CDCTC refundable is based on an analysis of public use microdata from the 2006 American Community Survey. Households were counted as “benefiting” if their poverty status suggested a household income level below that which would cause them to have positive income tax liability. When determining the level of income that would incur positive tax liability, only the standard deduction, dependent exemption, child tax credit and earned income tax credit were used. Single parents were assumed to file as “Heads of Household,” and married parents were assumed to file jointly.

For several reasons, these are only lower-bound estimates. First, these numbers only include families who have no income tax liability. Making the CDCTC refundable would also benefit those families who have only a small amount of income tax liability. Second, these estimates do not include grandchildren living with their grandparents, nor other qualifying families such as those with a dependent spouse who is unable to care for him or herself. Third, for these estimates, income tax liability was calculated using only the Child Tax Credit and the earned income tax credit. There are likely many families who are able to reduce their income tax liability through the use of other credits and deductions. Taken together, these factors suggest that the actual number of families who would benefit from making the CDCTC refundable is even higher than 7.4 million.