Tax Relief for Families with Children

Our tax system helps families
Whether we want to admit it or not, families with children deserve everyone’s support. That support is important in providing some equity in shouldering the enormous responsibility of raising our nation’s next generation. Fortunately, the U.S. income tax system provides valuable help in the form of tax credits. Tax credits can reduce or eliminate the amount of income tax a family must pay and even provide a cash refund in some instances. Here are some examples.

Earned Income Credit
The Earned Income Credit (EIC) is a tax credit for lower-income wage earners. For the 1998 tax year, a family raising one child and having earned income of less than $26,473 can receive a credit of up to $2,271. The credit reduces a family’s income tax dollar-for-dollar, and any remaining portion is refunded in cash.

Families raising two or more children and having earned income of less than $30,095 in 1998 can receive up to $3,756 in a combination of income tax reduced and cash refunded.

Qualifying children must have lived with the taxpayer for more than half of the year and be under age 19 or, if a full-time student, under 24.

For example, if a taxpayer raising one child was eligible for an EIC of $2,200 and was liable for $850 in income tax, the credit would first be used to pay the $850 in income tax and then provide a cash refund of the remaining $1,350.

Child Tax Credit
The Child Tax Credit of up to $400 per minor child (under age 17) is also applied against the taxpayer’s income tax. But a cash refund is paid only to the extent certain conditions are met.

For parents with one or two minor children, the credit of up to $400 per child can only be applied against income taxes. No portion of the credit exceeding income taxes is refundable.

For parents with more than two children, the situation is more complex. The credit of up to $400 per child is first applied against the family’s income tax. Any remaining portion is refundable but only to the extent that it represents the amount by which the payroll taxes withheld for Social Security and Medicare exceed any EIC for which the family is eligible.

For example, a family with three minor children would be eligible for a CTC of up to $1,200. If their income tax for 1998 were $900, then $900 of the $1,200 credit for three children would go toward eliminating this income tax.

What about the $300 left over? If the amount of payroll taxes withheld from the family’s paychecks exceeded the amount of their eligible EIC by $250, they would receive $250 of the remaining $300. If the difference in the payroll taxes withheld and the eligible EIC were $300 or more, all $300 would be refunded.

The Child Tax Credit begins to phase out for single filers with adjusted gross incomes above $75,000 and joint filers with adjusted gross incomes above $110,000.

Two education tax credits
The Hope Scholarship Tax Credit provides a tax credit of up to $1,500 per year for the first two years of your children’s post-secondary education. The amount of the credit is 100 percent of the first $1,000 paid for qualified tuition and related fees and 50 percent of the next $1,000 paid. This means that a taxpayer must pay at least $2,000 in qualified expenses to get the maximum credit. The $1,500 credit limit pertains to each eligible child in the family.

The Lifetime Learning Tax Credit provides a credit of up to $1,000 for every additional year of post-secondary education. The amount of the credit is limited to 20 percent of the first $5,000 in qualified tuition and related expenses. The $1,000 limit for any given year pertains to the total for the family, and qualified expenses must have been paid after June 30, 1998.

Eligibility for both of these education credits begins to phase out for taxpayers with adjusted gross incomes between $40,000-$50,000 (single filers) and $80,000-$100,000 (joint filers).

Ron Wall
Extension Specialist in Family Economics and Management