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Congress's Stimulus Bills Would Provide California Families with Children an Average \$824 to \$980 in Tax Cuts in 2009

Updated with Estimates for the Stimulus Bill Approved by the Senate on February 10

The economic stimulus bills being debated in Congress include several tax cuts that could significantly benefit working class families with children in California. Both the House of Representatives and the Senate have approved stimulus bills that would cost over \$800 billion. The House bill includes \$275 billion in tax cuts, while the Senate bill includes over \$350 billion in tax cuts. A House-Senate conference will meet this week to iron out the differences between the two bills.

Both bills would spend well over \$100 billion creating a "Making Work Pay Credit" (MWPC) worth up to \$500 for most working people (or \$1,000 for married couples). Both also include an expansion in the Earned Income Tax Credit (EITC) and a provision making the Child Tax Credit (CTC) more accessible to low-income families.

All three of these provisions would create or expand refundable income tax credits, which are the only type of income tax cut that can benefit parents who work and pay federal payroll taxes but do not earn enough to owe federal income taxes.

Refundable credits can allow a family of modest means to have negative income tax liability, meaning the IRS actually sends them a check instead of taking a tax payment from them. This check can be thought of as a way to offset the federal payroll taxes and other types of taxes that working families pay.

Lawmakers who are serious about reviving the economy should recognize that tax cuts will be less effective than government spending. There is no certainty that tax cuts will ever result in the sort of immediate spending that economists agree is needed to boost demand for goods and services.

But to the extent that Congress feels compelled to cut taxes, the proposals described here (the MWPC, the EITC and CTC improvements) are more likely to be effective stimulus than other types of tax cuts. This is because these tax cuts would put money in the hands of those who are most likely spend it quickly — low- and middle-income working families — and would therefore pump that money immediately into the U.S. economy.

Impact of Proposed Tax Cuts on Families with Children in California								
Income group	Ave. 2009 Income	Making Work Pay Credit (House Version)	Making Work Pay Credit (Senate Version)	EITC (Same in both bills)	Child Tax Credit (House Version)	Child Tax Credit (Senate Version)	Total (House Version)	Total (Senate Version)
Average benefits for families with children in the state in 2009								
Lowest 20%	\$13,000	\$ -488	\$ -487	\$ -51	\$ -819	\$ -279	\$ -1,357	\$ -817
Second 20%	27,500	-643	-644	-233	-411	-203	-1,287	-1,080
Middle 20%	44,400	-731	-731	-149	-120	-62	-1,000	-941
Fourth 20%	71,900	-856	-842	-8	-23	-7	-887	-857
Next 15%	131,600	-852	-754	-0	-7	-2	-859	-756
Next 4%	302,800	-91	-40	-0	-2	-0	-92	-40
Top 1%	1,791,700	-3	-3	-	-1	-0	-4	-3
ALL	\$ 80,300	\$ -679	\$ -655	\$ -79	\$ -222	\$ -90	\$ -980	\$ -824
Bottom 60%	\$28,300	\$ -632	\$ -632	\$ -150	\$ -417	\$ -172	\$ -1,199	\$ -954

Source: ITEP Microsimulation Model, February 2009

The Making Work Pay Credit (MWPC)

Both the House and Senate bills include a refundable Making Work Pay Credit that is equal to 6.2 percent of earnings, up to \$500 for singles and \$1,000 for married couples. The credit is the equivalent of a refund of Social Security taxes on the first \$8,100 in earnings for single persons and \$16,200 for married couples. The MWPC would be phased out for people with incomes over \$75,000 (or \$150,000 for married couples) under the House bill and \$70,000 (or \$140,000 for married couples) under the Senate bill.

Families with children in California would receive, on average, \$679 from the House MWPC provision and \$655 from the Senate MWPC provision in 2009.

Expansion of the Earned Income Tax Credit (EITC)

Currently, low-income workers with no children can sometimes receive a very small EITC equal to a maximum of 7.65 percent of eligible earnings, while the maximum EITC for families with children is 34 percent for those with one child and 40 percent for those with two or more children. Under the House and Senate stimulus bills, families with three or more children could receive a benefit equal to a maximum of 45 percent of eligible earnings.

The maximum benefit under current law is phased out at an income level that is higher for married couples than for singles. The plan would increase that difference, further reducing the “marriage penalty” in the EITC.

Families with children in California would receive, on average, \$79 in 2009 from the expansion of the EITC.

Making the Child Tax Credit (CTC) More Accessible to Low-Income Families

The House and Senate stimulus bills would also make the \$1,000 Child Tax Credit (CTC) more readily available to very poor families. Currently a parent who earns less than \$12,550 in 2009 is *too poor* to benefit from the CTC. People who pay federal payroll taxes but earn too little to pay federal income taxes do not benefit from a tax credit unless it is refundable. Currently the refundable portion of the CTC is limited to 15 percent of earnings *above* \$12,550 in 2009 (this threshold is indexed for inflation).

The House stimulus bill would remove this earnings threshold so that the refundable portion of the CTC would be equal to 15 percent of any earnings (the maximum credit would remain unchanged at \$1,000 per child). Families with children in California would receive, on average, \$222 in 2009 from this change.

The Senate bill would lower the earnings threshold for the refundable portion of the CTC to \$8,100, meaning it would help fewer families and provide less of a benefit to many families than the House version. Families with children in California would receive, on average, \$90 in 2009 from this change.

There is nothing preventing the Senate from approving a CTC provision that is just as generous as the House CTC provision. A recent report from Citizens for Tax Justice outlines \$124 billion in ineffective tax cuts that could be removed from the Senate bill to make room for provisions that are potentially more effective, like the House CTC provision, which only costs \$11 billion more than the Senate version.*

* Citizens for Tax Justice, "The Six Worst Tax Cuts in the Senate Stimulus Bill: Summary," February 10, 2009. <http://www.ctj.org/pdf/sixworsttaxcutsummary.pdf>