



Fact Sheet: Recovery Act Tax Credits for Families

There are two refundable federal tax credits that were expanded under the American Recovery and Reinvestment Act of 2009 (ARRA). These expansions gave families more generous refunds on their Tax Year 2009 taxes than they would have received otherwise.

These expansions must be made permanent through legislation by Congress, or the families will receive smaller refunds in subsequent tax years than they did in 2009.

The Federal Earned Income Tax Credit (EITC)

What the expansions did:

- Added a fourth tier to the EITC that provides a larger credit for households with three or more children, allowing those families to receive a credit that is \$629 higher than families with two children. (Normally, the tiers are for single, married with one child, and married with two or more children.)
- Reduced the “marriage penalty” for low-income families by allowing some married couples to receive larger tax credits relative to household income. (Normally, the combined household income limit for married couples filing jointly is \$3,000 more than for single individuals. The ARRA expansion made the married couple income limit \$5,000 higher than the single taxpayer income limit.)

What will happen if the expansions are not made permanent?

- More than 278,000 Michigan children will lose some of the EITC benefits that they had in Tax Year 2009.
- Married couples will have a lower income limit for eligibility and some will receive smaller credits than they received in Tax Year 2009.
- Because Michigan’s state EITC is based on 20 percent of the federal EITC, families that receive smaller federal refunds will also receive smaller state refunds.

The Federal Child Tax Credit (CTC)

What the expansion did:

- Lowered the minimum income threshold to \$3,000 for Tax Year 2009 (as opposed to \$8,500 for 2008).
- A family with two children was able to receive the maximum credit (\$1,000 per child) if its earnings were at least \$16,333 (as opposed to \$21,993 in 2008).

What will happen if the expansion is not made permanent?

- Families with household income below \$12,850 will not be able to claim the Child Tax Credit at all.
- Families earning less than \$26,183 will not receive the maximum credit.
- 584,000 Michigan children will lose some or all of their CTC benefits.
- A single parent earning minimum wage and raising two children will receive a credit of \$547.50 rather than \$2,000.

The Expansions Help the Economy

The expansions are helpful not only to working families, but to the economy as a whole, as low-income people tend to spend their refunds making purchases (often at local businesses).

According to Moody’s Economy.com, for every \$1 spent on refundable tax credits, \$1.22 in economic activity is generated within local communities.