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## Tax Law Omits Child Credit in Low-Income Brackets

By DAVID FIRESTONE

**W**ASHINGTON, May 28 — A last-minute revision by House and Senate leaders in the tax bill that President Bush signed today will prevent millions of minimum-wage families from receiving the increased child credit that is in the measure, say Congressional officials and outside groups.

Most taxpayers will receive a \$400-a-child check in the mail this summer as a result of the law, which raises the child tax credit, to \$1,000 from \$600. It had been clear from the beginning that the wealthiest families would not receive the credit, which is intended to phase out at high incomes.

But after studying the bill approved on Friday, liberal and child advocacy groups discovered that a different group of families would also not benefit from the \$400 increase — families who make just above the minimum wage.

Because of the formula for calculating the credit, most families with incomes from \$10,500 to \$26,625 will not benefit. The Center on Budget and Policy Priorities, a liberal group, says those families include 11.9 million children, or one of every six children under 17.

"I don't know why they would cut that out of the bill," said Senator Blanche Lincoln, the Arkansas Democrat who persuaded the full Senate to send the credit to many more low income families before the provision was dropped in conference. "These are the people who need it the most and who will spend it the most. These are the people who buy the blue jeans and the detergent and who will stimulate the economy with their spending."

Ms. Lincoln noted that nearly half of all taxpayers in her state had adjusted gross incomes that were less than \$20,000.

Families with incomes lower than \$10,500 will also not receive the refund checks. But under the 2001 tax revision, they would not have been eligible for either the \$600 or the \$1,000 credits because they do not pay federal taxes. Proposals to give them the credits failed on the House and Senate floors on party-line votes.

The Senate provision that did pass was intended to help those families making \$10,500 to \$26,625 who do pay federal taxes and could have taken all or part of the \$600 credit. The provision, which would have cost \$3.5 billion, would have allowed those families to receive some or all of the extra \$400 in the new law.

Most families with children who make about \$30,000 or less are also eligible for the earned income credit, which the law does not change. In addition, the law has a few other benefits for low income earners, like expanding the lowest tax bracket and a temporary reduction in the penalty on two-income

couples.

Several centrist senators worked hard to make the child credit fully refundable for all low income families, and the full Senate voted this month to include a provision that would have included the minimum-wage families. But the provision was dropped in the House-Senate conference, where tax writers spent days trying to cram many tax cuts — most prominently, cuts in the taxes on stock dividends and capital gains — into a bill that the Senate said could not be larger than \$350 billion.

House Republicans, who acknowledged the gap on the child credit, blamed the Senate for insisting on its \$350 billion cap, saying the low-income families could have been covered had the Senate been more flexible.

A spokeswoman for the Republicans on the House Ways and Means Committee, Christin Tinsworth, noted that the provision was included in an agreement reached last week by Representative Bill Thomas, Republican of California, the committee chairman, and Senator Charles E. Grassley, Republican of Iowa, chairman of the Senate Finance Committee.

That agreement would have cost \$380 billion, but it fell apart when an important swing senator, George V. Voinovich, Republican of Ohio, said he could not approve any bill that exceeded \$350 billion. To satisfy him and the Senate, Ms. Tinsworth said, the child credit provision was dropped, along with other costs.

"The Senate preferred to have \$20 billion in state aid," she said. "But when we had to squeeze it all to \$350 billion, they weren't talking about the child credits. This bill does a lot to help people who need help. But its primary purpose was to generate jobs. Apparently, whatever we do is not going to be enough for some segments of the population."

But Democrats and children's advocacy groups said the Republican demand for large cuts in the dividend tax, which they said benefits primarily wealthy taxpayers, pushed away the credit from low income families.

"If we were going to have a tax cut to give \$1,000 to all these other kids, there's no reason not to include these kids, too," said David Harris, president of the Children's Research and Education Institute. "Their families are working and playing by the rules and are left out, though it would not have cost too much to include them."

A spokeswoman for Mr. Voinovich said the senator would have been happy to extend the child credits, but believed that the entire package should not pass \$350 billion. The tax writers were free to reduce the dividend tax cut, noted the spokeswoman, Marcie Ridgway.

The gap in the number of families who receive the child credit occurs because of how the formula was arranged in 2001. Congress decided then to give refunds of the credit to low income families, but just to a maximum of 10 percent of the amount they made over \$10,000, or a refund of \$600, whichever was lower. The \$10,000 amount was indexed to inflation and is now \$10,500.

When the credit was raised to \$1,000, many families could not qualify for the extra amount, because the 10 percent maximum still limited them. Ms. Lincoln proposed raising the formula to 15 percent, which would have covered the increase in the credit for most of those families. Her proposal made it through the Senate Finance Committee, but later she voted against the full cut.

Because her vote and those of other supporters were not necessary for final passage, Republicans knew they could drop the provision without hurting the bill's chances in the Senate.

"I guess this shows us what our priorities are," Ms. Lincoln said. "I think this tax bill is very irresponsible in the way it treats families."

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