

Extension of expanded child tax credit in the 2010 Tax Relief Act

Dear Client,

I am writing to provide details regarding provisions in the recently enacted “Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010,” which make several important changes to the child tax credit, which is an up-to-\$1,000 credit (i.e., dollar-for-dollar reduction in tax) for each qualifying child under the age of 17 that taxpayers with incomes below certain levels can take against their federal tax liability.

\$1,000 maximum child tax credit is extended for two years.

Under pre-Act law the maximum amount of the credit per child was \$1,000 through 2010, but was scheduled to drop to \$500 after 2010. The Act extends the \$1,000 child tax credit through 2012.

Phaseout amounts are left unchanged.

The aggregate amount of child credits that may be claimed is phased out (i.e., gradually reduced) for individuals with income over certain threshold amounts. Specifically, the otherwise allowable aggregate child tax credit amount is reduced by \$50 for each \$1,000 (or fraction thereof) of modified adjusted gross income over \$75,000 for single individuals or heads of households, \$110,000 for married individuals filing joint returns, and \$55,000 for married individuals filing separate returns. The new law leaves these phaseout levels in place.

Allowance of the credit against the alternative minimum tax (AMT) is extended for two years.

The credit is allowable against the regular tax and, under pre-Act law, it was also allowable against the AMT, although this provision was scheduled to expire after 2010. The Act provides a two-year extension (through 2012) of the allowance of the child tax credit against the AMT.

Expanded rules for the additional child tax credit are extended for two years.

To the extent the child tax credit exceeds the taxpayer's tax liability, the taxpayer is eligible for a refundable credit (the additional child tax credit) equal to 15 percent of earned income in excess of a threshold dollar amount (the “earned income” formula). For 2009 and 2010, the threshold was set at \$3,000, but under pre-Act law the ability to determine the refundable child credit based on earned income in excess of the threshold dollar amount was set to expire after 2010. The new law extends the earned income formula for determining the refundable child credit for two years (through 2012), with the earned income threshold of \$3,000.

Treatment of refundable portion of child tax credit not as income is extended for two years.

The new law extends for two years (through 2012) the rule that the refundable portion of the child tax credit does not constitute income and will not be treated as resources for purposes of determining eligibility or the amount or nature of benefits or assistance under any federal program or any state or local program financed with federal funds.

I hope this information is helpful. If you would like more details about the child tax credit or any other aspect of the new law, please do not hesitate to call.