



★ ★ COMMITTEE ON ★ ★
WAYS AND MEANS
CHAIRMAN KEVIN BRADY

Overview of the Refundable Tax Credit Policies Included in: *The “Protecting Americans from Tax Hikes Act”*

- **The Earned Income Tax Credit (“EITC”)**
 - The permanent Earned Income Tax Credit has been a part of the tax code since 1975.
 - Conservative think tanks such as AEI have concluded that EITC is effective as a work incentive that encourages low-income individuals to enter the workforce and work more hours.
 - Republicans also have argued that expanding the EITC is better than raising the minimum wage because the cost is not imposed on the employer.
 - The modifications to the EITC increase the cost of the credit by less than 5%.
 - One modification reduces the marriage penalty within the EITC. Marriage penalties plague multiple government benefit programs, including the EITC. These penalties discourage the formation of stable, married households in which children are most likely to thrive and escape poverty. The other modification encourages work especially among parents with larger families by continuing to adjust the credit upward for those with three or more children.
- **The Child Tax Credit (“CTC”)**
 - The permanent \$1,000 Child Tax Credit, like the dependent exemption, is a structural pro-family component of the tax code that recognizes the high costs of raising children.
 - The CTC has long been a conservative priority, and most Republican tax plans, from Chairman Camp to the current Presidential candidates, have proposed expanding it.
 - The credit is partially refundable, but only to the extent of 15% of wages above a threshold amount.
 - Thus, like the EITC, the CTC encourages work because each additional \$100 of wages translates into an additional \$15 of refundable credit if you earn more than the threshold.
 - The modification in this bill drops that wage threshold to \$3,000, encouraging low-income parents to work even part-time if that’s all that is available.
- **The American Opportunity Tax Credit (“AOTC”)**
 - Under permanent law, the Hope credit provides a non-refundable tax credit for college tuition, but the credit starts phasing out at around \$55,000 for single filers and \$110,000 for married couples.
 - The temporary American Opportunity Tax Credit, which replaces the Hope credit, doesn’t start phasing out until \$80,000 for single filers and \$160,000 for married couples, thus providing education-related tax relief to far more middle-income families.
 - The AOTC also is partially (40%) refundable, making more low-income students eligible for college tuition assistance.
 - The modification makes the current AOTC permanent.