

The child tax credit allows you to claim a credit of \$1,000 for each qualifying child. Thus, for example, a taxpayer with four qualifying children will be entitled to a credit of \$4,000.

A qualifying child is someone who (1) lives in your home for over half the year, (2) is your child, stepchild, adopted child, or foster child, or your brother or sister or stepsibling (or a descendant of any of these), (3) is under 17 years old at the close of the year, (4) does not provide over half of his or her own support for the year, and (5) is a U.S. citizen or resident. Where a person may be (and is claimed as) a qualifying child with respect to more than one taxpayer, special "tie-breaking" rules apply.

When claiming the dependency deduction for the qualifying child, that deduction *isn't* reduced or otherwise modified because of the child tax credit.

Where parents are divorced and the custodial parent signs away her right to the dependency exemption, the child credit is also lost.

The credit is phased-out for certain higher income taxpayers. Specifically, the amount of the credit allowable is reduced by \$50 for each \$1,000 (or part of \$1,000) of modified adjusted gross income (generally, the dollar amount shown on the last line of page 1 of your individual income tax return, but with certain adjustments) above a threshold amount, i.e., \$110,000 on a joint return, \$75,000 for single filers and heads of household, and \$55,000 for married individuals who file separate returns. This means, for example, that a married couple filing jointly who have one qualifying child are entitled to a credit of \$950 if their modified adjusted gross income is more than \$110,000 but not more than \$111,000. They lose the credit completely if their modified adjusted gross income is more than \$129,000.

If the otherwise allowable child tax credit is more than the amount of income tax you owe, the excess is refundable to the extent of the greater of:

- 15% of earned income above \$11,750 for 2007 (\$11,300 for 2006), or
- for taxpayers with three or more qualifying children, the excess of the taxpayer's social security taxes for the year over the taxpayer's earned income credit for the year.

Earned income includes combat pay (excludable from gross income) for these purposes.

Taxpayers with earned income of \$11,750 or less for 2007 (\$11,300 or less for 2006) will not qualify for any refundable child tax credit under the 15% rule above, although they may qualify under the "excess of social security taxes over earned income credit" rule. Credits that cannot be used to offset income tax owed (because the credits exceed the amount of tax) and that aren't refundable are lost.

To the extent that the child tax credit will reduce your income tax liability, you may want to consider a corresponding reduction in your wage withholding. You can do this by filing a new Form W-4, Employee's Withholding Allowance Certificate, with your employer.

Also bear in mind that if you qualify for the child tax credit you may also qualify for the earned income credit. You can claim both credits if you meet the requirements for both.