

FOIA MARKER

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Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: Public Liaison

Series/Staff Member: Subject Files

Subseries:

OA/ID Number: 14432

FolderID:

Folder Title:

(President's) Middle Class Bill of Rights

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Row:

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Section:

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\$500 PER CHILD TAX CREDIT

A \$500 per child tax credit was a central component of the President's Middle Class Bill of Rights, first proposed in 1994 and contained in every Administration budget since then.

- **Middle Class Tax-Relief for Child-Rearing.** The President's balanced budget provides up to a \$500 non-refundable tax credit for each child under age 13, benefiting about 19 million families with 37 million children. The President's proposed \$1,500 college tax credit and education deduction would benefit families with older children. The credit would be phased in, starting at \$300 per child in tax years 1996, 1997, and 1998, and rising to \$500 per child in 1999 and beyond.
- **Income Eligibility and Indexing.** The child tax credit would be phased out for taxpayers with AGI between \$60,000 and \$75,000. The credit and phase-out range would be indexed for inflation starting in 2000.
- **Interaction with the Earned Income Tax Credit.** To make it easier for working families to get the benefit of both the \$500 child tax credit and the Earned Income Tax Credit that the President expanded in 1993, families would first deduct the child credit from their income taxes before deducting the refundable EITC. This means that a family with two children and a \$1,000 tax liability and a \$1,000 EITC, would still get \$1,000 from the child tax credit and another \$1,000 refunded from the EITC.

<p>Family Earning \$35,000 Two children age 10 and 12</p> <p>\$1,000 TAX CUT 37% tax cut</p> <p>(assumes standard deduction)</p>	<p>Family Earning \$48,600 Two children age 5 and 7</p> <p>\$1,000 TAX CUT 22% tax cut</p> <p>(assumes itemized deductions equal 18% of income)</p>
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EXPANDED IRAs

The President first proposed expanding IRAs in 1994 as part of the Middle Class Bill of Rights, and has included it in every Administration budget since then. The President's proposal doubles the income limits for IRAs to make 20 million more families eligible for tax-deductible IRA contributions and would allow penalty-free withdrawals for education, first-time home ownership, major medical expenses, and during long-term unemployment.

- **Doubles Income Limits -- Making 20 Million More Families Eligible:** Deductible IRAs are currently available only to families with incomes under \$50,000 or who are not covered by an employer-provided pension plan. Eligibility for deductible IRAs is currently phased-out for single taxpayers with incomes between \$25,000 and \$35,000, and for married couples with incomes between \$40,000 and \$50,000.

The President's proposal doubles the income limits, making more middle class families -- especially those with two incomes -- eligible for this expanded IRA. It doubles the income limits for making tax-deductible IRA contributions from \$50,000 to \$100,000 for married couples, and from \$35,000 to \$70,000 for single taxpayers. It indexes these thresholds as well as the \$2,000 maximum annual contribution amount, for inflation.

- **Allows Early Withdrawals for Education, First Home Purchases, Major Medical Expenses and During Long-Term Unemployment.** The current penalties for early withdrawals may discourage many from saving. Under current law, IRA savings can be withdrawn penalty-free only after age 59 1/2. Before age 59 1/2, withdrawals generally are subject to a 10% penalty tax.

The President's proposal would allow penalty-free withdrawals for major life expenses, such as education and training, first-time home purchases, and financially devastating medical expenses such as nursing home care for a parent. To promote the education needed in the new economy, the President's proposal would allow penalty-free withdrawals for the education of workers and their families and would permit investment of IRA funds in State pre-paid tuition programs.