

Worksheet Solutions **Tax Reform in the 1990s and 2000s**

Theme 2: Taxes in U.S. History
Lesson 7: Tax Reform in the 1990s and 2000s

Activity 1—Main Tax-Relief Measures 1990-2010

Describe the condition(s) that led to the following measures in the Act, and whether the purpose was to raise revenue, influence taxpayer behavior, and/or increase fairness:

Child Tax Credit

Condition(s):

Existing tax structure did not reduce tax liability enough to reflect a family's reduced ability to pay taxes as family size increased.

Purpose(s):

***Increase fairness* for lower income families with dependent children.**

Education Credit

Condition(s):

The only deductions allowed for education expenses were for maintaining or improving current job skills, or for meeting an employer's requirements for continued employment. There were no deductions for educational expenses that enabled taxpayers to begin working in a new trade or business.

Purpose(s):

***Increase fairness* for lower income taxpayers who want to pursue a new career or trade. *Influence behavior* by encouraging taxpayers to pursue education/training that will increase their employability and/or income.**

Economic Stimulus Tax Rebate

Condition(s):

To avert a recession and improve economic conditions, a stimulus package was approved to provide rebate checks to low- and middle-income taxpayers.

Purpose(s):

***Influence behavior* by encouraging taxpayers to increase their household spending.**

Making Work Pay Credit

Condition(s):

Average American workers were facing tough economic times and had little income to spend, which was stagnating the economy.

Purpose(s):

***Influence behavior* by rewarding working taxpayers with a credit that might encourage them to spend and get the economy moving again.**

First Time Homebuyer Credit

Condition(s):

Individuals have trouble coming up with the down payment for a home, and might not qualify for a mortgage.

Purpose(s):

***Increase fairness* for qualified lower income families who want to buy their first home in a tough housing market. *Influence behavior* by encouraging taxpayers to buy their primary residence.**

Activity 2—Refundable and Nonrefundable Tax Credits

Key Terms

income taxes—Taxes on income, both earned (salaries, wages, tips, commissions) and unearned (interest, dividends). Income taxes can be levied on both individuals (personal income taxes) and businesses (business and corporate income taxes).

nonrefundable credit—when the amount of a credit is greater than the tax owed, taxpayers can only reduce their tax to zero; they cannot receive a “refund” for any excess nonrefundable credit.

refundable credit—when the amount of a credit is greater than the tax owed, taxpayers can receive a “refund” for some of the unused credit.

tax credit—A dollar-for-dollar reduction in the tax. Can be deducted directly from taxes owed.

Read each clue to the tax vocabulary and fill in the name of the corresponding credit(s).

The names of the education credits are

Hope credit, Lifetime Learning credit, American Opportunity credit

This kind of credit prevents taxpayers from receiving a refund for excess credit

Nonrefundable credit

Examples of refundable (or partially refundable) credits are

Child tax credit, First-Time Homebuyer credit, Making Work Pay credit, American Opportunity credit

Examples of nonrefundable credits are

Child and Dependent Care credit, Hope credit, Lifetime Learning credit

If Wilma applies the American Opportunity credit to her qualified college education expenses and the amount of the credit is more than the amount of tax she owes, can she receive a refund of some of the unused credit? Why or why not?

Yes, because it is a refundable credit.

If Fred applies the Lifetime Learning credit to his trade school expenses and the amount of the credit is more than the amount of tax he owes, can he receive a refund of some of the unused credit? Why or why not?

No, because it is a nonrefundable credit.