

Tax Policy 101: Tax Refundability

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Written by: Jenna Williams



Tax policy is complicated. Talking about taxes involves jargon, and concepts that can be confusing. For example, what is a 'refundable' tax credit? What exactly does that mean, and how does it help families? We answer these questions here with a quick breakdown of what refundability is and how it impacts families.

When a tax credit is refundable, it is available to all families. Even if a family doesn't owe anything when they file their income taxes, a refundable tax credit makes it possible for them to get money back in the form of a tax refund. Families can then use that money to pay for necessities.

A non-refundable tax credit can only ever be used to pay for taxes. If a family doesn't owe any taxes after deductions, they can't access any of the tax credit. If the family only owes a little in income taxes, they can only use the non-refundable credit to pay down whatever they owe.

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How does refundability impact a family like yours?

In the illustrated example below, the Thompsons have two young children and make a family household income of \$39,520 for the year. Based on their income and after deductions, they owe \$200 in taxes. Now imagine they qualify for a \$500 tax credit. Refundability can greatly impact how much they owe in taxes and whether they'll keep more of their earnings through a refund.

If the \$500 tax credit is non-refundable, it will be applied to offset what the Thompsons owe in taxes. Since they owe \$200, the credit will help reduce the amount they owe to \$0 – a positive outcome.

However, an even better outcome for young families arises when that \$500 tax credit is refundable. If refundable, the \$500 tax credit can go towards the amount they owe in taxes (\$200) **and** the remaining amount of \$300 would go back to the Thompsons as a refund. This \$300 can help with expenses like car repairs, new winter coats for the kids, and baby formula. Though it may not seem like a lot, families facing financial challenges can make good use of this help.



To learn more about making Utah's EITC refundable, go [here](#).

To learn more about making Utah's CTC refundable, go [here](#).

To read about other refundable tax credits in Utah, go [here](#).

Glossary

Tax Credit: a dollar-for-dollar amount that a taxpayer (s) claim on their tax return to reduce the income tax they owe. You can use this to reduce your tax bill and potentially increase your refund amount.

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Nonrefundable Tax Credit: reduces the taxes you owe --- allows a taxpayer to only receive a reduction of their tax liability until it reaches zero.

Refundable Tax Credit: allows a taxpayer to receive a refund if the credit they receive is greater than their tax liability.

Tax Policy: policies that determine how we collect taxes.