

# Earned Income Tax Credits

## Intent & Effect

- ◆ Intent is to offset a portion of living expenses and FICA contributions providing much needed support to low-income workers.
- ◆ Typically results in a reduction of taxes owed or a refund to the wage-earner.
- ◆ EITC and advance payments will not be considered as income in these programs: Medicaid, SSI, Food Stamps, and subsidized housing for low income families
- ◆ In New York State, the EITC and advance payment is not considered income by cash public assistance programs. (This may not be the case in other states.)

## Who Qualifies? What is the EITC Worth?

- ◆ Workers with one qualifying child and adjusted gross income (AGI) of less than \$33,995 (or \$36,995 for married workers) in 2008 can get an EITC, ranging from \$3 to \$2,917.
- ◆ Workers with more than one qualifying child and AGI of less than \$38,646 (or \$41,646 for married workers) in 2008 can get an EITC, ranging from \$1 to \$4,824.
- ◆ Even workers, between the ages of 25 and 64, who had no qualifying child and AGI below \$12,880 (or \$15,880 for married workers) in 2008, can get an EITC, ranging from \$3 to \$438.

## Four Main Categories of Rules

- ◆ Rules For Everyone
  - Must have earned income and a valid Social Security number
  - Tax filing status cannot be “married, filing separately”
  - Must be a U.S. citizen or resident alien all year
  - Must not have foreign earned income
  - Investment income must be \$2,900 or less
- ◆ Rules For Determining If There Is A Qualifying Child
  - Qualifying child must be a citizen and under age 19 or under age 24 and a full-time student at end of tax year, or any age if permanently and totally disabled
  - Qualifying child can be: son, daughter, stepson, stepdaughter, or descendant of any of them; or brother, sister, stepbrother, stepsister, or a descendant of any of them, whom taxpayer cares for as own child; or eligible foster child
  - Cannot be the qualifying child of another person with a modified adjusted gross income (AGI)
  - Person claiming the credit cannot be a qualifying child of another person
- ◆ Rules If There Are No Qualifying Children
  - Qualifying individual must be at least age 25 but under age 65

- o Cannot be the dependent or a qualifying child of another person
- o Must have lived in the U.S. for more than half of the year
- ◆ Rules For Computing and Claiming The Credit
  - o Qualifying individual's income must meet certain criteria
  - o Qualifying individual's modified AGI must meet certain criteria

## **The EITC is a Credit, Not a Deduction**

- ◆ As a credit, the tax savings are equal to the full value of the credit.
- ◆ If the credit exceeds the amount of taxes owed by the taxpayer, the individual will get a refund.
- ◆ Example: A married couple with children would ordinarily owe \$623 in taxes
  - o \$230 was withheld from their paychecks, meaning they would owe the IRS \$393 upon filing a tax return.
  - o If they qualify for an EITC of \$1,735, they will not owe any taxes and will qualify for a refund of \$1342

Note: If the \$1,735 had been a deduction, rather than a credit, it might only have reduced the taxes owed by \$174 (if we assume a 10 percent tax bracket).

## **Advance Payment of Earned Income Tax Credit**

- ◆ Does the individual expect earned income and modified AGI will each be less than:
  - o About \$35,463 (\$38,853, if married and filing jointly)
- ◆ Does the individual expect to be eligible for EITC in the next year?
- ◆ Does the qualifying individual expect to have a qualifying child?
- ◆ Does the individual have wages subject to withholding of federal income tax, social security tax, or Medicare tax?
  - o If all these criteria are met, the individual will qualify for an advance payment not to exceed \$1,826 for 2009

## **The EITC Hotline Number – 888-4-EITC-4U (888-434-8248)**

- ◆ Individuals can call this toll-free number for more information about the earned income tax credit
- ◆ By calling this toll-free number, individuals will obtain the phone number of a local free tax preparation site near their zip code.