

## Earned Income Tax Credit

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### Intent and 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 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 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 \$41,756 (or \$47,646 for married workers) in 2020 tax year can get an EITC, up to \$3,584.
- ◆ Workers with two qualifying children and AGI of less than \$47,440 (or \$53,330 for married workers) in 2020 tax year can get an EITC, up to \$5,920.
- ◆ Workers with three or more qualifying children and AGI of less than \$50,954 (or \$56,844 for married workers) in 2020 tax year can get an EITC, up to \$6,660.
- ◆ Even workers, between the ages of 25 and 64, who had no qualifying child and AGI below \$15,820 (or \$21,710 for married workers) in 2020, can get an EITC, up to \$538.

### 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 \$3,650 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 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
  - Cannot be the dependent or a qualifying child of another person
  - Must have lived in the U.S. for more than half of the year
  
- ◆ Rules For Computing and Claiming The Credit
  - Qualifying individual's income must meet certain criteria
  - 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
  - \$230 withheld from their paychecks, meaning they would owe IRS \$393 upon filing a tax return.
  - If they qualify for EITC of \$1,850, will not owe any taxes and will qualify for a refund of \$1,457.

**Note:** If the \$1,850 had been a deduction, rather than a credit, it might only have reduced the taxes owed by \$185 (if we assume a 10 percent tax bracket).

### **NY State Earned Income Credit**

- ◆ Taxpayers who receive federal EITC may qualify for the New York State Earned Income Credit (EIC). The EIC is equal to 30% of the taxpayer's federal EITC reduced by any household credit allowances.
- ◆ Taxpayers may contact NYS Personal Income Tax Information Center at 518-457-5181 or visit [https://www.tax.ny.gov/pit/credits/earned\\_income\\_credit.htm](https://www.tax.ny.gov/pit/credits/earned_income_credit.htm) for further information.

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