

Earned Income Tax Credits (EITC)

At-A-Glance



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 \$36,052 (or \$41,132 for married workers) in 2011 tax year can get an EITC, ranging from \$9 to \$3,094.
- ◆ Workers with two qualifying children and AGI of less than \$40,964 (or \$46,044 for married workers) in 2011 tax year can get an EITC, ranging from \$10 to \$5,112.
- ◆ Workers with three or more qualifying children and AGI of less than \$43,998 (or \$49,078 for married workers) in 2011 tax year can get an EITC, ranging from \$11 to \$5,751.
- ◆ Even workers, between the ages of 25 and 64, who had no qualifying child and AGI below \$13,660 (or \$18,740 for married workers) in 2011, can get an EITC, ranging from \$2 to \$464.

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 \$3,150 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
 - 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 was withheld from their paychecks, meaning they would owe the IRS \$393 upon filing a tax return.
- If they qualify for an EITC of \$1,735, they will not owe any taxes and will qualify for a refund of \$1,342.

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

- ◆ In earlier tax years, some individuals could get a part of their EITC as an advance payment in each paycheck.
- ◆ Effective January 2011, the advance EITC payment is no longer available.

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.