

TAXES AND BENEFITS HANDOUT

Questions About the Earned Income Tax Credit (EITC)

The **Earned Income Tax Credit (EITC)** is money from the government to compensate you for your having to pay the same taxes as people with more money. It helps limited-income, working people and is similar to other programs like TANF or SSI. Earned income tax credit is different from these programs, however, because it is given as a “tax return.” This means that when you “file,” or send in your taxes to the government, if you fill out an extra form, called Schedule EITC, the government will either send you a check of your EITC money or add money to the amount it is already giving you back on your taxes.

Am I eligible?

Income Guidelines For 2002:

- You must have worked during 2002. You can be self-employed.
- If you are married, at least one spouse must work.
- You cannot have an “earned income” of more than: \$34,178 if you have more than one child, \$30,201 if you have one child or \$34,178 if you have no children.
- Your “earned income” is the amount of money that you earn which helps the government figure out how much EITC money you will get. Most people think of earned income as wages, salaries and tips. To figure out your EITC, however, the government includes even some income that isn’t normally counted toward your taxes. Some examples of this are: Disability payments from your employer (if you’re under age 65- otherwise they don’t count), money you earned in another country, pension contributions from your employer, meals or lodging from your employer, or disability insurance.
- However, there are some sources of money that don’t count toward what the government calls “earned income”: Alimony or child support, educational benefits from your employer, benefits from your employer to help you care for members of your family, adoption benefits from your employer, unemployment insurance, welfare benefits (like TANF or food stamps), social security benefits, veteran's benefits, money you earned when you were in jail and money you earned in a “community service” or “workfare” program that you had to participate in to keep your welfare benefits.
- However, if you make over \$2,450 in income like interest (from a bank account or on stock), dividends (on stock), rent (earned, not paid), royalty income (from things you’ve published), and capital gains income (from selling stocks), you don’t qualify for the EITC any more.

Residency/Citizenship Guidelines:

- You must have a Social Security Number. Your ITIN is not allowed for credit.
- You must be a U.S. citizen, resident alien or be married to a U.S. citizen or resident alien.

Family Guidelines:

- If you are married, you must turn your taxes in with your spouse (called “filing jointly”). You cannot “file separately,” or turn in different taxes, from your spouse. However, if you didn’t live with your spouse for more than 6 months during the last year, you may be eligible if you file as “head of household” and then receive the EITC.

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Questions About the Earned Income Tax Credit (Continued)

- If you DO NOT have a child,
 - You must be over the age of 25, but under 65. You cannot be the “dependent,” or rely on another person (other than someone you are married to) to support over one-half of your living costs. You cannot be a “child” (no matter what your age) claimed on someone else’s EITC form. You must have lived inside the United States (military duty outside the United States counts) for the whole year.

If you DO have a child, this child can only be counted on the EITC under certain circumstances. “Children” are people who you have legally adopted, your son, daughter or their descendants (grandchild, great grandchild etc.), members or your immediate family or foster children.¹ The child does not have to be your “dependent” (meaning that you provided more than half of their support) unless they are married- then you have to provide more than half their support to claim them on the EITC.

- The child must also be under age 19 or under age 24 and a full time student. You can claim a child that has a severe disability regardless of that child’s age.
- The child must have lived with you in the United States for half the year. Living together in a shelter counts toward this guideline. Any time your child spent in the hospital, in school, in juvenile detention or away on vacation, business or in the military counts as time with you. In some cases, more than one person may be eligible to claim a child for the EITC. If you cannot agree who should claim the child, the government will decide and it will be the person who earned the highest income.
- You cannot get the EITC, even if you have your own children, if you can be counted as someone else’s child.

I qualify! How do I get my money?

To claim the earned income credit, you must file your taxes using either form 1040A or form 1040 and you must also fill out an extra form, called Schedule EIC and attach it. As long as you fill in all the required information, the IRS will compute the amount of your credit for you.

It’s Worth It!

- If you are raising one child and earn less than \$30,201 you can get an EITC of up to **\$2,506**.
- If you are raising more than one child and make less than \$34,178 you can get an EITC of up to **\$4,140**.
- If you do not have children, are between ages 25 and 64 and earned less than \$10,710 you can get an EITC of up to **\$364**.

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¹ “Foster children” are defined by the government as children that lived in your home for half the year, which you raised as if they were your own, and are either related to you biologically or legally (you adopted them), like in the examples above, or were placed in your home by an agency like the Department of Social Services. Unless formally placed by an authorized placement agency, cousins, the child of a friend who is unable to raise the child him or herself, or a disabled adult cannot be claimed on the EITC.

Questions About the Earned Income Tax Credit (Continued)

Don't worry- EITC Credit doesn't affect other benefits.

Money from EITC doesn't count when determining your eligibility for TANF, Medicaid, SSI, food stamps or low-income housing.

Getting Your EITC money in your paycheck.

As long as you have a child, earned income less than \$29,000 and you pay federal income tax, social security tax and Medicare tax out of your wages, you can arrange to get your EITC added to your monthly paycheck. If you earn between \$490 and \$1000 a month, this could result in up to \$50 dollars extra each paycheck.

If you choose monthly payments, you use up about half of your EITC money for the year and you still get the rest of your EITC and any other tax refund you deserve in the spring. The system is set up so that you won't end up owing more just because you got the money in your paycheck.

How?

- Submit form W-5 to your employer. If your spouse submits, you must also turn in the form.
- If you need to get this form, you can ask your employer for it, or otherwise get the form off the internet at www.irs.gov, by fax at 1-703-368-9694 or call 1-800-829-3676.
- At the end of the year you will need to file form 1040 or 1040A and report this income to the government. You can find how much you were paid by looking in box 9 of your W-2 form, the form that you are sent in the mail that tells how much you earned at each of your jobs.

It's not a good idea to get the EITC in your paycheck if...

- You hold more than one job
- Your earned income might increase a lot over the year
- You get paid by the day
- You are self employed

If these situations apply to you it is difficult for the government to figure out how much you should get and you could end up owing tax in April.

You can file a W-5 at any time during the year, but you must file a new W-5 at the beginning of each year to continue getting the EITC in your paycheck. Your employer is required by law to include EITC in your paycheck if you want it and it is not their business to determine whether you are eligible.

If you are planning to get married or expect a large increase in income during the year, you should ask your employer to stop putting Advance EITC payments in your paycheck. To do this, file a new W-5 form with your employer and indicate you don't want to receive advance payments any more.

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Questions About the Earned Income Tax Credit (Continued)

I was eligible in the past, but I didn't claim my credit. Have I missed out?

No. You can file for the EITC after you have sent in your taxes for the year. You just have to fill out a Form 1040X and attach it to a copy of the regular tax form. If you are claiming a child for the EITC, you must also fill out and attach an extra form, Schedule EIC, for that year. For copies of prior-year forms, call 1-800-TAX-FORM.

You can also claim the EITC for three back years, even if you didn't file taxes those years. Even if you didn't receive the EITC in the past because you were not a citizen, but now are, you can still get 3 back years if you were eligible, if it was only citizenship that was the barrier. You must file a separate return for each prior year if you didn't before and, if you are claiming a child for the EITC, also fill out and attach the extra form, Schedule EIC, for that year. Form 1040X is not required unless you filed before. There is no late filing penalty.

Massachusetts Earned Income Tax Credit

Massachusetts offers an EITC to limited income taxpayers in the state who qualify for the federal EITC. If you are a resident of Massachusetts, you can get 15% of your federal EITC amount back from Massachusetts, on top of any other refund you are getting. To get this amount, you simply need to fill out the regular Massachusetts tax form, and add your federal EITC amount in line 37. No extra paper work is required.

BEWARE

Of tax preparation services that will offer you loans based on your tax refund and/or EITC. There are ways to file your taxes so that you receive your refund and EITC fast! See the attached handbook for VITA sites, or contact, Greater Boston Legal Services, 617-371-1234, ask for the employment unit.

If you have a question that wasn't answered here, check:

IRS Publication 596, available by Internet, fax or phone.

Sources:

<http://www.taxgaga.com>

<http://www.irs.gov>

<http://www.cbpp.org>

<http://www.massdor.com>

