

# The Earned Income Credit: A Powerful Benefit for People Who Work

## ***What is the Earned Income Credit (EIC)?***

The EIC is a tax benefit for working people who earn low or moderate incomes. It has several important purposes: to offset taxes, to supplement very low wages, and to provide a work incentive.

The EIC can offset some or all of the taxes workers must pay, such as payroll taxes, and can help cover any federal income tax workers may still owe at tax time. Besides offsetting taxes, workers earning low wages may also get cash back through the EIC refund. Workers who qualify for the EIC and claim it on their federal tax return can receive a refund check from the IRS even if their earnings were too small to owe income tax.

## ***Who can get the EIC and how much is it worth?***

Single or married people who worked full-time or part-time at some point in 2008 can qualify for the EIC, depending on their income.

- Workers who were raising one child in their home and had income of less than \$33,995 (or \$36,995 for married workers) in 2008 can get an EIC of up to **\$2,917**.
- Workers who were raising more than one child in their home and had income of less than \$38,646 (or \$41,646 for married workers) in 2008 can get an EIC of up to **\$4,824**.

## **Who is a “Qualifying Child” for the EIC?**

- Sons, daughters, stepchildren, grandchildren and adopted children
- Brothers, sisters, stepbrothers, or stepsisters — as well as descendants of such relatives
- Foster children who are placed with the worker by an authorized government or private placement agency

“Qualifying children” must live with the worker for more than half of the year. They must be under age 19, or under age 24 if they are full-time students. Children of any age who have total and permanent disabilities also may be qualifying children. Valid Social Security numbers are required for qualifying children born before December 31, 2008.

- Workers who were not raising children in their home, were between ages 25 and 64 on December 31, 2008, and had income below \$12,880 (or \$15,880 for married workers) can get an EIC up to **\$438**.

Workers with investment income exceeding \$2,950 in 2008 may not claim the EIC.

## ***How does the EIC work?***

- **Eligible workers can pay less in taxes and get a check from the IRS.** Mr. and Mrs. Johnson have two children, ages 21 and 22, in college. They earned \$29,000 in 2008 and owe the IRS \$410 in income tax — none of it withheld from their pay during the year. Their income makes them eligible for an EIC of \$2,663. So, the EIC eliminates their \$410

income tax — now they owe the IRS nothing — and gives them a refund of \$2,253.

- **Eligible workers who owe no income taxes can get a check from the IRS.**

Marlene Rogers is raising two children and earned \$10,000 in 2008. Her Social Security payroll tax was \$765. She is eligible for an EIC refund check of \$4,000 — it pays her back the amount of her payroll tax and she gets \$3,235 in addition.

## ***How do you get the EIC?***

- Workers raising a “qualifying child” in their home in 2008 must file either Form 1040 or 1040A and *must* fill out and attach Schedule EIC. Workers with children cannot get the EIC if they file Form 1040EZ or do not attach Schedule EIC. Married workers must file a joint return to get the EIC.
- Workers who were not raising a “qualifying child” in their home in 2008 can file any tax form — including the 1040EZ. These workers write the dollar amount of their credit on the Earned Income Credit line on the tax form. They do not file Schedule EIC.
- A correct name and Social Security number must be provided for every person listed on the tax return and Schedule EIC. If this information is incorrect or missing, the IRS will delay the refund.
- Workers don’t have to calculate their own EIC; if they choose, the IRS will do it for them! Write “EIC” to the left of the line on the tax form for the amount of the EIC.

**Workers raising children can get the EIC in their paychecks!** Workers who are raising children can get part of their EIC in their

paychecks throughout the year and part in a check from the IRS after they file their tax return. This is called the Advance EIC. To get the Advance EIC, eligible workers fill out IRS Form W-5, the “Earned Income Credit Advance Payment Certificate,” and give it to their employer. Workers can file a W-5 at any time during the year. To continue getting Advance EIC at the beginning of each new year, they must file a new W-5 with their employer.

## ***Workers can get FREE help filing their tax forms***

Many families that apply for the EIC pay someone to complete their tax forms. This can often cost between \$55 and \$130, or can be more. Getting a “quick tax refund” that comes back in a few days costs even more. Paying for tax preparation takes away from the value of the EIC. But low-income workers can get free help with tax preparation through a program called VITA (Volunteer Income Tax Assistance).

## ***Does the EIC affect eligibility for other public benefits?***

The EIC does not count as income in determining eligibility for benefits like cash assistance (“welfare”), Medicaid, food stamps, SSI or public housing. Some benefit programs count saving the EIC as a resource under certain circumstances.

## ***Can immigrant workers get the EIC?***

Many immigrants who are legally authorized to work can qualify for the EIC, as long as they meet the other eligibility requirements.