

What Is Earned Income for the Earned Income Credit and Child Tax Credit?

Earned Income

Includes:

Taxable Earned Income:

- Wages, salaries, and tips
- Union strike benefits
- Long-term disability benefits received prior to minimum retirement age
- Net earnings from self-employment
- Gross income received as a statutory employee
- **Exception:** Military combat pay is non-taxable earned income, up to the highest pay level for enlisted personnel. Combat pay is counted to determine eligibility for the CTC. Military personnel may choose to count their non-taxable combat pay in determining eligibility for the EIC, if it is advantageous to do so.

If investment income exceeds \$2,950, the EIC may not be claimed. Investment income includes taxable interest, tax-exempt interest, and capital gain distributions.

For more detail, see IRS Publication 596, “Earned Income Credit.”

Does not include:

- Interest and dividends
- Social security and railroad retirement benefits
- Welfare benefits
- Workfare payments
- Pensions or annuities
- Veterans’ benefits (including VA rehabilitation payments)
- Workers’ compensation benefits
- Alimony and Child Support
- Non-taxable foster care payments
- Unemployment compensation (insurance)
- Earnings for work performed while an inmate at a penal institution
- Taxable scholarship or fellowship grants that are not reported on Form W-2

Nontaxable earned income:

- Salary deferrals (for example: under a 401(k) plan)
- Military basic housing and subsistence allowances
- Meals or lodging provided by an employer for the convenience of the employer
- Housing allowance or rental value of a parsonage for the clergy
- Excludable dependent care benefits
- Salary reductions such as under a cafeteria plan
- Anything else of value you get from an employer for services you performed even if it is not taxable