

Get the EIC in Your Paycheck!

The Advance EIC



What is the Advance EIC?

Most workers get the EIC in one large check from the IRS after they file a tax return. But there is another choice: employers can add part of a worker's EIC to every paycheck, and the worker gets the rest of the credit after filing a tax return. This is called "Advance EIC payment." Advance payments are not taxable income.

In 2010, Advance EIC payments will be available to any worker with at least one qualifying child who expects 2010 income of less than \$35,535 (or \$40,535 for married workers). Advance EIC payments are not available to workers who are not raising a qualifying child in their home.

What are the advantages of Advance EIC payment?

For many workers, getting part of their EIC in each paycheck can help them meet regular expenses such as rent, groceries, and transportation to work. A worker earning between \$490 and \$1,500 a month, for example, can get about *\$50 to \$65 extra in each bi-weekly paycheck*. Advance EIC payments are not counted as additional income in determining eligibility for public benefits such as cash assistance, housing assistance, food stamps and Medicaid. Employers also benefit from promoting Advance EIC payments — they can help employees increase their take-home pay through an easy payroll adjustment.

How do you get the Advance EIC payment?

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. The W-5 is available from employers *or by calling 1-800-TAX-FORM*, or by downloading it from the IRS website at: www.irs.gov/formspubs. *The Form W-5 may be photocopied and distributed.*

Eligible workers can file a W-5 at any time during the year. To continue getting the EIC in their paycheck at the beginning of each new year, they must file a new W-5 with their employer.

Married workers can choose Advance EIC payments, but if they do, both spouses should give a W-5 to their employers. The box on the W-5 indicating the worker's spouse also has a W-5 in effect should be checked "yes." This signals the employer of each spouse to figure the correct amount of the advance payment and avoid an EIC overpayment. If only one spouse chooses advance payment, the amount he or she receives may be too high.

A worker who is already receiving Advance EIC payments, and who expects a large pay increase during the year, should ask his or her employer to stop the advance payments. To do this, workers give their employer a new W-5 form with the box checked "no" to indicate they don't want to receive advance payments any more. **Remember!** Workers who get Advance EIC payments during the year *must* file a tax return after the end of the year and fill in the correct line to show the total amount received in advance payments. They must also complete Schedule EIC and attach it to their tax return.

What is the employer's role?

Advance EIC payments don't cost employers money. Employers simply subtract the advance payments they have added to their workers' paychecks from the total taxes withheld from all employees they would otherwise deposit with the IRS. Most automated payroll systems handle Advance EIC calculations.

Some employers may not be aware of the Advance EIC payment option. But under federal law, any eligible employee who files a W-5 must be given advance payments. Employers are not required to make sure employees are eligible for the EIC — that is the employee's responsibility. *For more information, see the IRS "Employer's Tax Guide Circular E," available free by calling 1-800-TAX-FORM, or from the IRS website at: www.irs.gov/formspubs.*

Protection against overpayment

Some workers decide against Advance EIC payments because they fear they will receive too much in advance and owe money back to the IRS after the end of the year. However, the advance payment procedure has built-in protections against overpayment. Workers who choose advance payment can get up to about half of the EIC amount to which they're entitled for the year. They get the rest as a refund when they file their tax return. This means workers can get Advance EIC payments and a year-end refund!

Some workers aren't eligible to get Advance EIC payments

Some workers who are eligible for the EIC are not allowed to get Advance EIC payments, including:

- Workers without qualifying children
- Workers who get paid day by day
- Workers with no Social Security and Medicare taxes withheld from their pay
- Self-employed workers, who cannot advance the EIC to themselves

Some workers should not choose Advance EIC payment

Eligibility for Advance EIC payments is based on the total income a worker expects to earn in a year, including the income of a spouse. Major changes in family income or the eligibility of a qualifying child during the year can decrease the EIC for which workers are eligible. If a worker continues to receive Advance EIC payments based on an incorrect estimate of eligibility, these payments may exceed the amount of the EIC. In this case, the worker would have to send the IRS a check at tax time to make up the difference.

The following workers should not use the advance payment option:

- Workers who hold two or more jobs simultaneously
- Workers with a working spouse, unless both spouses take advance payments during the year
- Workers who get married during the year, if both spouses work
- Workers who receive a large increase in their earned income during the year