New Rules Improve How Tax Credits Affect Eligibility for Other Public Benefits

Before 2010, refunds from the Earned Income Credit and Child Tax Credit did not count as income in determining eligibility for the major federal public benefit programs, such as Medicaid, food stamps (now SNAP), SSI and public housing. However, differences in the rules for the two credits created uncertainty in regard to other programs, such as Low Income Heating and Energy Assistance (LIHEAP). The rules held that CTC refunds did not count as income for any federally funded program, even if only partially funded by federal dollars. But previously, the EIC rules were not that broad and it was left to states to decide the rules for some programs. In addition, there have been a wide variety of rules on at what point savings from the EIC and CTC are counted against the resource limits (or asset tests) for public benefit programs.

New Rules Are Simpler

The tax bill enacted by Congress in December 2010 has greatly simplified and standardized the rules for how EIC and CTC refunds, as well as any tax refund, are treated in determining eligibility for other public benefit programs:

- tax refunds are not counted as income in determining eligibility for any federally-funded public benefit;
- amounts saved from tax refunds are not counted toward resource limits in public benefit programs for 12 months after the refund is received.

These new rules are effective for 2010 through 2012, the period covered by the legislation, which temporarily extended the expansions of the EIC, CTC and other tax credits enacted by the American Recovery and Reinvestment Tax Act of 2009 (ARRA).

The national headquarters of agencies administering federally-funded public benefits have already issued guidance on the new rules for their local offices. These are available at the national agency websites.

The new rules should be helpful to outreach organizations and agencies to encourage lower-income workers to participate in asset-building programs and to open savings accounts without fear of exceeding resource limits and jeopardizing their eligibility for important public benefits. It may also help alleviate the fears of those who are concerned that refunds from tax credits might count as additional income and cause them to lose eligibility for crucial public benefits they receive, such as Medicaid.

Refunds Don't Count As Income

The new rules exclude any federal tax refund from counting as income in determining eligibility for any federally-funded public benefit program, or affecting the amount of the benefit. This includes state and local programs only partially funded by federal dollars. Tax refunds can include benefits from the EIC, CTC, other federal tax credits, or refund of a filer's over withheld income tax.

Example: Monica earned $15,000 in 2011 and is raising her ten-year old daughter. Monica can claim the EIC, CTC, and a refund of over-withheld income tax. Her check from the IRS is not considered as additional income if she applies for SNAP benefits (food stamps), for Medicaid or for the Low Income Heating and Energy Assistance Program.

Refunds and Resource Limits

The legislation also provides that refunds that are saved by the filer do not count against the resource limits of any federally-funded public benefit program for 12 months after the refund is received.

Example: Monica has $800 in a savings account. She decides to save $1,500 of her tax refund for an anticipated expense later in the year. Now her savings account shows $2,300 on deposit. If she applies for a federally-funded benefit program, she can show her tax return to indicate the amount of her tax refund and her $1,500 bank deposit, so that this new amount will not be added to her previous savings of $800. This exclusion lasts for 12 months after she receives her refund.

Individual Development Accounts (IDAs)

Separate rules under the U.S. Department of Health and Human Services have excluded funds held in Individual Development Accounts (IDAs - matched savings), including both an individual's deposits and matching contributions, from being counted against resource limits for federally funded programs. There is no time limit on this exclusion. This means, for example, that if an individual deposits all or part of an EIC refund into an IDA account, that amount will not count against those program resource limits. The new rules for treatment of tax refunds do not change the IDA policy. IDA deposits are not subject to a new 12 month limit on the exclusion of tax refunds from resource limits.

In case questions arise, the new provision is found here: PL 111-312, Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Sec. 728