

## What is the Earned Income Tax Credit?

The Earned Income Tax Credit (EITC) is a tax break for people who work, but do not earn high incomes. Those who qualify can reduce their federal tax liability, potentially receiving a refund.

To qualify, taxpayers must meet certain requirements and file a tax return, even if they did not earn enough money to be obligated to file a tax return.

The EITC has no effect on certain welfare benefits. In most cases, EITC payments will not be used to determine eligibility for Medicaid, Supplemental Security Income (SSI), food stamps, low-income housing or most Temporary Assistance for Needy Families (TANF) payments.

## Earned Income Tax Credit Criteria for Tax Year 2003

Taxpayers may claim the Earned Income Tax Credit (EITC) for tax year 2003 if their total earned income is at least \$1 and their earned income and adjusted gross income are both less than:

- \$11,230 (\$12,230 if married filing jointly) without a qualifying child;
- \$29,666 (\$30,666 if married filing jointly) with one qualifying child; or
- \$33,692 (\$34,692 if married filing jointly) with more than one qualifying child.

## Who Should Claim the Earned Income Tax Credit?

To claim the Earned Income Tax Credit (EITC), taxpayers must meet the following rules:

Rules For All Claimants		Rules If They Have A Qualifying Child	Rules If They Do Not Have A Qualifying Child
Must have a valid Social Security number	Investment income is limited to a certain amount.	Child must meet the relationship, age and residency tests.	Must be at least age 25 but under age 65.
Filing status cannot be "married filing separately."	Must have earned income.	Qualifying child cannot be used by more than one person to claim the EITC.	Cannot qualify as the dependent of another person.
Must be a U.S. citizen or resident alien all year.	Cannot be a qualifying child of another person.		Must have lived in the United States more than half of the tax year.
Cannot file IRS Tax Form 2555 or Form 2555-EZ (relating to foreign-earned income).			

**Key Terms:**

Earned Income –To qualify for the EITC, taxpayers must work full or part-time and have earned income during the year. If married and filing jointly, at least one spouse must work and have earned income. Earned income includes all taxable income gained from working. Nontaxable earned income generally does not count as earned income. Please refer to the chart for further details.

<b>Earned Income Includes:</b>	<b>Earned Income Does Not Include:</b>	
<ul style="list-style-type: none"><li>• Taxable wages, salaries and tips</li><li>• Net earnings from self-employment</li><li>• Gross income received as a statutory employee</li></ul>	<ul style="list-style-type: none"><li>• Interest and dividends</li><li>• Pensions and annuities</li><li>• Social Security and railroad retirement benefits</li><li>• Alimony and child support</li><li>• Welfare benefits</li><li>• Workers' compensation benefits</li><li>• Unemployment compensation (insurance)</li><li>• Veteran's benefits, including VA rehabilitation payments</li><li>• Certain workfare payments</li><li>• Earnings by one spouse treated as belonging to the other under community property laws</li><li>• Earnings while an inmate in a penal institution</li><li>• Salary deferrals, such as contributions to 401(k) plans, Federal Thrift Savings Plan (TSP)</li></ul>	<ul style="list-style-type: none"><li>• Salary reductions, such as those under a cafeteria plan and not included in taxable income</li><li>• Mandatory contributions to a state or local retirement plan</li><li>• For the military, basic housing and subsistence allowances; value of in-kind housing and subsistence, and combat zone compensation</li><li>• Meals and lodging provided for the convenience of the employer</li><li>• Excludable employer-provided benefits, such as dependent care, adoption and educational assistance</li><li>• Any other item of value (money, goods or services) that is received for work</li></ul>

**(Key Terms, continued)**

**Qualifying Child** – A child must meet certain requirements to be a qualifying child for the EITC. The following chart outlines the three criteria that must be met for a qualifying child: *relationship, age and residency*.

<b>Relationship</b>	<b>Age</b>	<b>Residency</b>
Son, daughter, stepson, stepdaughter, or a descendant of any of them  <b>OR</b>  Brother, sister, stepbrother, stepsister, or a descendant of any of them, whom the taxpayer cares for as his or her own child  <b>OR</b>  Eligible foster child placed with the taxpayer by an authorized placement agency whom the taxpayer cares for as his or her own child  <b>AND...</b>	Under age 19  <b>OR</b>  Under age 24 and a full-time student  <b>OR</b>  Any age and permanently and totally disabled at any time during the year  <b>AND...</b>	Lived with the taxpayer in the United States for more than half of the tax year

## Taxpayer Identification Numbers (TINs)

To claim the Earned Income Tax Credit (EITC), taxpayers (and their spouses, if filing a joint return) must have a valid Social Security number (SSN) issued by the Social Security Administration (SSA). Any qualifying child listed on Schedule EIC must also have a valid SSN.

### **U.S. citizens and aliens who are permanent residents of the United States:**

SSNs issued to U.S. citizens and permanent residents are valid SSNs for the EITC.

### **Aliens who are not permanent residents of the United States:**

***Not valid for employment.*** If a taxpayer's social security card (or the taxpayer's spouse's card, if filing a joint return) says "***not valid for employment***" and the SSN was issued solely so that the taxpayer (or spouse) could get a federally funded benefit, such as Medicaid, the SSN is not valid for the EITC, and the taxpayer ***cannot*** claim the EITC. If a qualifying child's social security card says "***not valid for employment***" and the SSN was issued solely so that the child could get a federally funded benefit, the taxpayer cannot claim the EITC on the basis of that child.

If the immigration status of the taxpayer (or spouse or qualifying child) changes to U.S. citizen or permanent resident, the individual can ask the SSA for a new social security card without the legend. The taxpayer can then file amended returns for open years (generally the last three tax years) for which the taxpayer is eligible to claim the credit.

***Valid for employment only with INS authorization.*** If a taxpayer's social security card (or spouse's card, if filing a joint return) says "***valid for employment only with INS authorization,***" the taxpayer (or spouse) has a valid SSN for the EITC.

### **Unacceptable TINs for the EITC:**

***Missing or incorrect SSN.*** If a SSN for a taxpayer (or spouse, if filing a joint return) is missing from the tax return or is incorrect, the EITC will be denied.

***Individual Taxpayer Identification Number.*** If, instead of a SSN, the taxpayer (or spouse, if filing a joint return) has an individual taxpayer identification number (ITIN), which is issued by the IRS to aliens who cannot get a SSN, the number is not valid for the EITC, and the taxpayer cannot claim the EITC.

***Adoption Taxpayer Identification Number.*** If a qualifying child has an ITIN or an adoption taxpayer identification number (ATIN), which is issued by the IRS for a child to adopting parents who cannot get a SSN for the child until the adoption is final, the number is not valid for the EITC, and the taxpayer cannot get the credit on the basis of that child.

## Difference between the Earned Income Tax Credit and Child Tax Credit

Many low-income working families that qualify for the Earned Income Tax Credit (EITC) may also be eligible for the new Child Tax Credit (CTC). Although there is overlap in eligible families, it's important to highlight the differences in eligibility rules and the procedures for claiming each credit.

<b>EITC</b>		<b>CTC</b>
Use qualifying child rules.	<b>Relationship</b>	Use same rules as EITC.
Use qualifying child rules.	<b>Age</b>	Child must be under age 17.
Child must live with the taxpayer in the United States for more than half of the tax year.	<b>Residency with Child</b>	Child must live in the United States, no specific time requirements. No requirement that child live with the taxpayer.
Not required.	<b>Dependency Exemption</b>	Must be allowed as a dependency exemption for the child.
Specific limits in income and investments; Earned income required; Adjusted Gross Income can affect credit amount.	<b>Income</b>	Income limits above EITC limits; No investment income limit; \$10,350 taxable earned income or more required for refundable portion; Adjusted Gross Income used to determine income tax liability.
A valid Social Security number (SSN) is required of taxpayer, spouse and qualifying child.	<b>Immigration and SSN</b>	Child must be U.S. citizen or resident alien; SSN or ITIN for parents and SSN, ITIN or ATIN for children are required.
Schedule EIC required for taxpayers with qualifying children; Schedule requires child's birth date, SSN and information on child's relationship to taxpayer.	<b>Forms</b>	Form 8812, "Additional Child Tax Credit," is required to claim the CTC refund.
EITC has no effect on certain welfare benefits. In most cases, EITC payments will not be used to determine eligibility for Medicaid, supplemental security income (SSI), food stamps or low-income housing. Temporary Assistance for Needy Families (TANF) payments may be affected, dependent on the state in which the taxpayer lives.	<b>Impact on Other Public Benefits</b>	CTC is not income for any federal, state or local program financed even in part by federal funds. CTC refunds do not count against resource limits the month of receipt and the following month.

