

EARNED INCOME TAX CREDIT FACT SHEET FOR ADVOCATES

PREPARED BY SC APPLESEED LEGAL JUSTICE CENTER[†]

“[I]n 1998 alone, the Earned Income Tax Credit lifted 4.8 million people out of poverty, and of those, 2.6 million were children.”

The Earned Income Tax Credit (EITC), sometimes called the Earned Income Credit (EIC), is a tax credit available to individuals who qualify when they file their income tax returns each year. This tax credit is different from the Child Tax Credit.

Currently, South Carolina does not have a state EITC, so the only one that applies in SC is the federal EITC.

The EITC is an attempt to reduce poverty by lowering or eliminating a worker's tax burden.

To qualify, the taxpayer (or spouse) must have a job and wages below a certain level (e.g., for the 2009 tax year, this level was \$13,440 for a worker with no children). This income level changes yearly and is based on the number of qualifying children the taxpayer has. To find out if the taxpayer qualifies for the EITC, see the checklist on the last page of IRS Publication 596.

The EITC does not keep someone from getting or continuing to receive SSI, TANF, Medicaid, or other benefits.

Working documented immigrants can claim the EITC, usually using an ITIN (individual taxpayer identification number) if the taxpayer does not have a SSN (social security number), but may be required to have been a U.S. Citizen or Resident Alien for the entire tax year

- Also, the immigrant worker's main home must be the U.S. and
- Immigrant children must have lived with the person in the U.S. for more than six months out of the year to treat them as qualifying children

The individual must file a tax return, even if the person does not owe any taxes or did not earn enough money to require filing;

- Cannot have a filing status of “married filing separately;”
- Must have earned income from employment or self-employment;
- Cannot file IRS Forms 2555 or 2555-EZ (i.e., you cannot exclude foreign income and still claim the EIC);
- Cannot be the qualifying child of another person and still claim the EITC; and
- Must have an investment income under a certain amount (For the 2009 Tax Year, this amount is \$3,100.)
- Workers with children cannot file 1040EZ and must attach Schedule EIC to either their Form 1040 or 1040A

The taxpayer does not necessarily have to be currently working (because getting the EITC is based on employment and income in the prior calendar year).

Children—raising children in the home affects the amount of the EITC that an individual will receive.

- The child must live in the household for at least 6 months of the year;
- Claims by custodial parents have priority;
- Improperly claiming children may result in penalties.

Advance payment (in the taxpayer's paychecks) may be available rather than lump sum, but the worker must complete a W-5 and give it to the employer.

Computing the EITC can be really tricky because there are so many rates and limitations (and changes are made from year to year). Also, it's one of the most heavily audited claims. Assistance in preparing these claims is recommended. To locate VITA sites or to get IRS publications, call 1-800-829-1040.

*“The Earned Income Credit pulls more **children out of poverty** than the combined total of any other means-tested program (such as food stamps).”*

[†] With information from THE CENTER ON BUDGET AND POLICY PRIORITIES and the Internal Revenue Service (www.irs.gov).