

EARNED INCOME TAX CREDIT (EITC)

Griffin
Hammis
Associates
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1



LEARNING OBJECTIVES

1. Describe the Earned Income Tax Credit (EITC)
2. List 9 key points about the EITC
3. Identify the eligibility criteria for the EITC
4. Explain the Benefit to Work Coach's role regarding the EITC

WHAT IS THE EARNED INCOME TAX CREDIT (EITC)?

- The Earned Income Tax Credit (EITC) is a tax credit for some workers with incomes below certain limits.
- The federal EITC can reduce or eliminate a worker's federal income taxes.
- The federal EITC is a “refundable” tax credit.
- This means that, in many cases, it not only eliminates federal income tax owed, but gives the worker extra money.

WHAT IS THE EARNED INCOME TAX CREDIT (EITC)?

- Workers who qualify for the federal EITC also qualify for the Michigan EITC, which applies to state income tax.
- The EITC has been hailed as one of the most effective poverty-fighting government programs in U. S. history.

9 KEY POINTS ABOUT THE EITC

1. It provides a powerful incentive for work.
2. Workers with kids (or some other dependents) benefit most.
3. Must file a tax return to qualify
4. May be able to get free tax preparation
5. May file for the EITC retroactively

9 KEY POINTS ABOUT THE EITC

6. May provide a disincentive for workers to work “under the table”
7. May combine the EITC with other tax credits and deductions
8. EITC refunds get special treatment for means-tested public benefits.
9. DB 101’s Benefits and Work Estimator shows the impact of the EITC.

9 KEY POINTS ABOUT THE EITC

- 1. It provides a powerful incentive for work**
 - Magnifies the impact of earnings from work by providing higher refunds
 - In many cases, the refund is greater than all federal income tax the worker would otherwise owe.
 - In effect, the government may pay the person extra to work.

9 KEY POINTS ABOUT THE EITC

2. **Workers with kids (or some other dependents) benefit most**

- Higher refunds for workers with “qualifying children”
- Maximum federal EITC in 2019:
 - \$529 if the worker has no qualifying children
 - \$3,526 with one qualifying child
 - \$5,828 with two qualifying children
 - \$6,557 with three or more qualifying children

9 KEY POINTS ABOUT THE EITC

2. Workers with kids (or some other dependents) benefit most

○ Example:

- LaToya earns \$9,360/year gross wages. She has no qualifying children. Her EITC is about \$455.
- If she had qualifying children, her refund would be about:
 - \$3,495 with 1 qualifying child
 - \$4,057 with 2 qualifying children
 - \$4,525 with 3 qualifying children

9 KEY POINTS ABOUT THE EITC

2. Workers with kids (or some other dependents) benefit most

- A “qualifying child” must meet 3 tests:
 - A. Relationship Test – The child must be the tax filer’s:
 - Child, stepchild, foster child, or descendant of any of them (e.g., grandchild or great-grandchild), OR
 - Sibling, half sibling, stepsibling, or a descendant of any of them (e.g., niece or nephew; great-niece or great-nephew)

9 KEY POINTS ABOUT THE EITC

2. Workers with kids (or some other dependents) benefit most

- A “qualifying child” must meet 3 tests:
 - B. Age Test – The child must be:
 - Under age 19 at year’s end, OR
 - Under age 24 and a student at year’s end, OR
 - Permanently and totally disabled (using SSA’s adult definition of disability) at some point during the year, and any age AND
 - Younger than the filer, unless permanently and totally disabled

9 KEY POINTS ABOUT THE EITC

2. **Workers with kids (or some other dependents) benefit most**
 - o A “qualifying child” must meet **3 tests**:
 - c. **Residency Test** – The child must have lived in the U. S. with the tax filer for at least half of the year. **NOTE**: A child who was born or died during the year is counted as having lived with the filer the entire year if the child lived with the filer the entire time s/he was alive during the year.

9 KEY POINTS ABOUT THE EITC

- 3. Must file a tax return to qualify**
 - The worker must file a tax return to receive the EITC.
 - To receive the Michigan EITC as well as the federal EITC, the worker must file both a federal and a state return.
 - Some workers earn little enough that they are not required to file a return, but they should still file if they qualify for the EITC.

9 KEY POINTS ABOUT THE EITC

- 4. **May be able to get free tax preparation**
 - Families with under \$55,000/year income can get free tax preparation from the Volunteer Income Tax Assistance (VITA) program or the Tax Counseling for the Elderly (TCE) (TCE is for taxpayers aged 60 or older)
 - **Call 1-800-906-9887** to find the nearest VITA or TCE program.

9 KEY POINTS ABOUT THE EITC

- 5. May file for the EITC retroactively**
 - A worker who would have been eligible for the EITC in the previous one or two years, but did not request the EITC or didn't file a tax return, may file for the EITC retroactively.
 - S/he can file a return or an amended return (Form 1040-X) for the prior one or two years.

9 KEY POINTS ABOUT THE EITC

- 6. May provide a disincentive for workers to work “under the table”**
 - Some workers work “under the table” (i.e., illegally) so they won’t have to pay taxes.
 - However, some of these workers would be better off financially if they worked legally and could use the EITC.

9 KEY POINTS ABOUT THE EITC

6. **May provide a disincentive for workers to work “under the table”**
 - **Example:**
 - Troy earns \$17,160/year in his job. He has three children, aged 4, 7 and 9, who live with him. He works “under the table” and pays no taxes.
 - If he worked legally and used the EITC, Troy would receive a refund of about \$6,644 more than all taxes withheld from his pay.

9 KEY POINTS ABOUT THE EITC

7. **May combine the EITC with other tax credits or deductions**

- A worker may claim other tax credits or deductions (e.g., the Child Tax Credit for the worker's dependent children under age 17) along with the EITC.
- The EITC often provides a larger refund than all other tax credits and deductions combined.

9 KEY POINTS ABOUT THE EITC

8. **EITC refunds get special treatment for means-tested public benefits.**
 - Federal and Michigan EITC refunds **do not count as income** for:
 - Medicaid
 - SSI
 - Food Assistance Program (FAP)
 - HUD-funded rental assistance
 - Family Independence Program (FIP)
 - Other benefits

9 KEY POINTS ABOUT THE EITC

8. **EITC refunds get special treatment for means-tested public benefits**
 - Federal and Michigan EITC refunds are treated as follows:
 - Medicaid – federal EITC refunds excluded for 12 months; state EITC refunds excluded for 9 months
 - SSI – federal EITC refunds excluded for 12 months; state EITC refunds counted
 - FAP & FIP – federal and state EITC refunds excluded

9 KEY POINTS ABOUT THE EITC

9. **DB 101's Benefits and Work Estimator shows the impact of the EITC.**
 - The Benefits and Work Estimator includes the EITC in its calculations of net income for earnings scenarios.
 - Near the bottom of the Results page, under “Adjustments”, you can select to show refundable tax credits as either a monthly average or a lump sum.

9 KEY POINTS ABOUT THE EITC

- 9. **DB 101's Benefits and Work Estimator shows the impact of the EITC.**
 - The next slide shows the Summary page of a session for Troy. Note the "Refundable Tax Credits" line.

9 KEY POINTS ABOUT THE EITC

Income		
Work income	\$0.00	\$1,430.00
+ Cash Benefits	+ \$785.00	+ \$785.00
+ Refundable Tax Credits (monthly avg.)	+ \$0.00	+ \$663.08
Total Income	\$785.00	\$2,878.08
Expenses		
Work expenses	\$0.00	\$0.00
+ Taxes	+ \$0.00	+ \$109.39
+ Rent you pay	+ \$600.00	+ \$600.00
+ Recommended health expenses	+ \$0.00	+ \$0.00
Total Expenses	\$600.00	\$709.39
Net Income		
	\$185.00	\$2,168.69

WHO'S ELIGIBLE FOR THE FEDERAL EITC?

1. Must have legally earned income of at least \$1 per year

WHO'S ELIGIBLE FOR THE FEDERAL EITC?

2. Earned income and adjusted gross income must be below:
 - \$15,570 – no qualifying children, single
 - \$21,370 – no qualifying children, married filing jointly
 - \$41,094 – one qualifying child, single
 - \$46,884 – one qualifying child, married filing jointly
 - \$46,703 – two qualifying children, single
 - \$52,493 – two qualifying children, married filing jointly
 - \$50,162 – three or more qualifying children, single
 - \$55,952 – three or more qualifying children, married filing jointly

WHO'S ELIGIBLE FOR THE FEDERAL EITC?

3. Must have a valid Social Security number for the filer, spouse and any qualifying children
4. Filing status can't be "married filing separately"
5. Must be a U. S. citizen or resident alien all tax year
6. Investment income must be \$3,600 or less for the year

WHO'S ELIGIBLE FOR THE FEDERAL EITC?

Additional rules if you DON'T have a qualifying child

1. You (or your spouse if married and filing jointly) **must be 25 – 64 years old** at the end of the year
2. Nobody else can claim you (or your spouse, if married and filing jointly) as a dependent
3. You can't be another person's qualifying child
4. You must have lived in the U. S. at least half the year

WHO'S ELIGIBLE FOR THE FEDERAL EITC?

Additional rules if you DO have a qualifying child

1. The child must meet the relationship, age and residency tests (see slides 10 – 12)
2. The child must not be claimed by anyone else for the EITC
3. You (the filer) can't be another person's qualifying child

WHO'S ELIGIBLE FOR THE FEDERAL EITC?

**Which of the following
taxpayers appear
likely eligible for the
EITC?**

WHO'S ELIGIBLE FOR THE FEDERAL EITC?

1. Bruno is unmarried and has no children. He receives SSI and earns \$1,250/month (\$15,000/year) gross wages. He is 52 years old. He is a U. S. citizen and lifelong U. S. resident with a valid Social Security number and no investment income. Nobody can claim Bruno as a dependent or qualifying child.

WHO'S ELIGIBLE FOR THE FEDERAL EITC?

1. Bruno is unmarried and has no children. He receives SSI and earns \$1,250/month (\$15,000/year) gross wages. He is 52 years old. He is a U. S. citizen and lifelong U. S. resident with a valid Social Security number and no investment income. Nobody can claim Bruno as a dependent or qualifying child. **Eligible**

WHO'S ELIGIBLE FOR THE FEDERAL EITC?

2. Teesa receives \$1,000 per month SSDI. She earns \$1,500/month (\$18,000/year) gross wages. She has no children. Teesa is 23 years old. Nobody can claim her as a dependent or qualifying child. She has lived in the U. S. all year as a resident alien, she has a valid Social Security number and no investment income.

WHO'S ELIGIBLE FOR THE FEDERAL EITC?

2. Teesa receives \$1,000 per month SSDI. She earns \$1,500/month (\$18,000/year) gross wages. She has no children. Teesa is 23 years old. Nobody can claim her as a dependent or qualifying child. She has lived in the U. S. all year as a resident alien, she has a valid Social Security number and no investment income. **Not eligible. Will not be age 25 by end of tax year.**

WHO'S ELIGIBLE FOR THE FEDERAL EITC?

3. Doreen is unmarried and has two children. Doreen earns \$3,833/month (\$46,000/year) gross wages and has no other income. Nobody can claim Doreen as a qualifying child. Doreen's daughter is 12 years old and her son is 8. Both children have lived with Doreen their entire lives. Nobody else is claiming Doreen's children as qualifying children. Doreen and her children are U. S. citizens and lifelong U. S. residents with valid Social Security numbers and no investment income.

WHO'S ELIGIBLE FOR THE FEDERAL EITC?

3. Doreen is unmarried and has two children. Doreen earns \$3,833/month (\$46,000/year) gross wages and has no other income. Nobody can claim Doreen as a qualifying child. Doreen's daughter is 12 years old and her son is 8. Both children have lived with Doreen their entire lives. Nobody else is claiming Doreen's children as qualifying children. Doreen and her children are U. S. citizens and lifelong U. S. residents with valid Social Security numbers and no investment income. **Eligible**

WHAT IS A BENEFIT TO WORK COACH'S ROLE REGARDING THE EITC?

- Your role regarding the EITC is to:
 - Explain to individuals that they may be able to receive larger tax refunds through the EITC, especially if they have qualifying children
 - Refer individuals for free tax preparation if their family income is under \$55,000/year

WHAT IS A BENEFIT TO WORK COACH'S ROLE REGARDING THE EITC?

- Your role regarding the EITC is to:
 - Encourage people who are working under the table to consider working legally, and point out that in some cases this might qualify them for refunds greater than all taxes they would otherwise owe
 - Refer to a Benefit Planner if you are uncertain about Benefits and Work Estimator results or have questions about the EITC