



Center for Public Policy Priorities

THE POLICY PAGE

An Update on State and Federal Action

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MAKING WORK PAY: THE EARNED INCOME CREDIT AND THE-NOW REFUNDABLE CHILD TAX CREDIT

The Earned Income Credit (EIC) is a special tax benefit for working people who earn low or moderate incomes. The EIC reduces the tax burden on these workers, supplements their wages, and supports a transition from welfare to work. Workers who qualify for the EIC can get back some or all of the federal income tax taken out of their pay during the year and even get some additional cash. Workers whose earnings are too low to have paid taxes can still get the EIC. Annual benefits can be as large as \$4,008, but only about 80 percent of those eligible actually claim the credit. The Child Tax Credit now works towards a similar end—reducing the tax burden of parents by up to \$600 annually per qualifying child. Any remainder is then refundable to the parent.

It is vitally important that you make an immediate effort to let others know about the EIC and the changes in the Child Tax Credit.

WHO CAN GET THE EIC?

- Single or married people who worked full- or part-time during 2001 can qualify, depending on their income.
- Workers who were raising one child and had family income of less than \$28,281 can get an EIC of up to \$2,428. Workers who were raising more than one child and had family income of less than \$32,121 can get an EIC of up to \$4,008.
- Workers who were not raising children but were between ages 25 and 64 on Dec. 31, 2001 and had income below \$10,710 can get an EIC of up to \$364.

Many legal immigrants who are employed can get the EIC. In order to claim the EIC, immigrant workers, their spouses, and children must have valid Social Security numbers that permit them to work legally in the U.S.

HOW DO YOU GET THE EIC?

Workers raising children must file either Form 1040 or 1040A (not Form 1040EZ) and must fill out and attach Schedule EIC. Workers who were not raising children can file any tax form, including 1040EZ.

Workers don't have to calculate their own EIC; if they choose, the IRS will do it for them. They simply need to write "EIC" in the line marked "Earned Income Credit" on their tax return. Workers who are raising children can get part of their EIC in their paychecks throughout the year and the rest in a check from the IRS after they file their tax return.

Many workers who are eligible for the EIC don't feel comfortable filling out their tax forms themselves. But paying for commercial tax preparation takes money away from the worker's EIC. In many places there is another choice: trained volunteers who offer help filing federal income tax returns through the VITA (Volunteer Income Tax Assistance) program. VITA sites are located in churches, libraries, shopping malls, and other public places, and are open from early February through April 15 (the tax filing deadline). Some sites are equipped to file forms electronically, which speeds refunds.

A statewide list of this year's VITA locations is available at <http://window.state.tx.us/taxinfo/eic/98-371.pdf>

DOES THE EIC AFFECT WELFARE BENEFITS?

In most cases, the EIC does not affect eligibility for benefits such as TANF, cash assistance, Medicaid, Food Stamps, SSI,

or public or subsidized housing. People who work and also get public assistance can still get EIC.

WHO IS LEAST LIKELY TO KNOW THAT THEY ARE ELIGIBLE?

Workers who may not be aware of their eligibility for EIC, and therefore should be special targets for outreach, include:

- Workers who earn below the federal tax filing threshold and are generally not required to file a tax return—this includes workers who are eligible for the maximum EIC amount.
- Lower-wage workers who are new parents may not be aware that they are eligible for the EIC, particularly if they have no income tax liability.
- Public assistance recipients moving into employment; many such recipients may not previously have been employed or did not work after having a child and are unaware of tax benefits to which they may be entitled.
- Foster care parents who care for a child the entire year may be unable to claim the child as a dependent due to foster care payments, but can claim the EIC.
- Low-wage workers without children who may work intermittently, including homeless individuals.
- Legal immigrant workers who are unfamiliar with the tax system, may have language barriers and may not have access to tax preparation assistance. Some immigrant workers may also not understand the EIC does not make them subject to “public charge” problems and that they may be eligible for the EIC even if their immigration status makes them ineligible for other public benefit programs.

Most current EIC recipients tend to be in the upper-income range of eligibility, since they are most likely to have had income tax withholding during the year, so are more likely to file tax returns than are very low-wage and new or intermittent workers.

WHERE CAN I GET MORE INFORMATION?

All of the following provide some sort of awareness publication such as posters or envelope-size mail-outs that are available for download through their website. They also provide general information about EIC eligibility and how to claim this credit.

Texas Comptroller’s Office: The Window on State Government website lists VITA (Volunteer Income Tax Assistance) sites statewide and offers for reproduction and dissemination posters and bulletins in English and Spanish. This office also offers to employers publications for publicizing the EITC, including an insert for payroll checks and a booklet listing local volunteer tax preparers. The Comptroller’s EIC information line is 1-800-277-8383. <http://www.window.state.tx.us/taxinfo/eitc/>

Center on Budget and Policy Priorities: Their EIC 2002 Outreach Kit may be ordered from eickit@cbpp.org; 202-408-1080. The information available in this kit can also be viewed on the CBPP website. Visit <http://www.cbpp.org/eic2002/index.html> for an in-depth look at the EIC and how it benefits low income tax payers. The site also includes suggestions for spreading awareness about the EIC to those who stand to benefit most from it.

IRS: The IRS website is also helpful in understanding the EIC. <http://www.irs.gov/faqs/display/0..i1%3D54%26genericId%3D13281.00.html> The main contact is Martha Matthews, (t) 210-706-5415. Texas’ four IRS Territory Managers may be available for help in contacting VITA sites: Houston 281-721-7070; Austin 512-499-5477; Dallas 214-767-1489; El Paso 972-308-7416.

DHS: For an overview of the EIC, visit the Texas Department of Human Services website at <http://www.dhs.state.tx.us/programs/eic/>. The main contact is Cindy Fortress, 512-438-3806, cindy.fortress@dhs.state.tx.us. DHS has included EIC information in a Medicaid mailing sent out Feb 1.