

# The Earned Income Credit: Extra Money for People Who Work



## What is the Earned Income Credit?

The EIC is a special tax benefit for working people who earn low or moderate incomes. It has several important purposes: to reduce the tax burden on these workers, to supplement wages, and to make work more attractive than welfare.

Workers who qualify for the EIC and file a federal tax return can get back some or all of the federal income tax that was taken out of their pay during the year. They may also get extra cash back from the IRS. Even workers whose earnings are too small to owe income tax can get the EIC. What's more, the EIC offsets any additional taxes workers may owe, such as payroll taxes.

## Who can get the EIC and how much is it worth?

Single or married people who worked full-time or part-time at some point in 2004 can qualify for the EIC, depending on their income.

- Workers who were raising one child in their home and had family income of less than \$30,338 (or \$31,338 for married workers) in 2004 can get an EIC of up to **\$2,604**.
- Workers who were raising more than one child in their home and had family income of less than \$34,458 (or \$35,458 for married workers) in 2004 can get an EIC of up to **\$4,300**.
- Workers who were not raising children in their home, were between ages 25 and 64 on December 31, 2004, and had income below \$11,490 (or \$12,490 for married workers) can get an EIC up to **\$390**.

### Which children qualify for the EIC?

- \* Sons, daughters, stepchildren, grandchildren and adopted children.
- \* Brothers, sisters, stepbrothers, or stepsisters — as well as descendants of such relatives — if they were cared for as members of the family.
- \* Other children may qualify as foster children, but only if they are placed with the worker by an authorized government or private placement agency.

“Qualifying children” must live with the worker for more than half of the year. They must be under age 19, or under age 24 if they are full-time students. Totally and permanently disabled children of any age also may be qualifying children. Valid Social Security numbers are required for qualifying children born before December 31, 2004.

## How does the EIC work?

- **Eligible workers can get a check from the IRS.** Mr. and Mrs. Johnson have two children, ages 20 and 21, in college. They earned \$29,000 in 2004 and owe the IRS \$690 in income tax, \$190 of which was withheld from their pay during the year. Their income makes them eligible for an EIC of \$1,366. So, the EIC eliminates their \$690 income tax (now they don't owe IRS anything) and still gives them a refund of \$676.

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- **Eligible workers who don't owe federal income tax can get a check.** Cindy Williams has two children in college and earned \$19,000 in 2004. Her federal income tax for the year was \$255, which was withheld from her pay. She is eligible for an EIC of \$3,262. The EIC pays her back the \$255 she paid in income tax and gives her an EIC refund worth \$3,007. The IRS will send her a check for \$3,262.
- **Eligible workers can pay less in taxes.** Joe Smith has no children. He worked part-time in 2004 and earned \$5,200. Because of his low earnings he had no income tax taken out of his paycheck and owes nothing to the IRS. His earnings entitle him to an EIC check for \$390 (offsetting most of the payroll taxes that were withheld from his pay).

## How do you get the EIC?

- Workers raising children in 2004 must file either Form 1040 or 1040A and **must** fill out and attach Schedule EIC. Workers with children *cannot* get the EIC if they file Form 1040EZ or fail to attach Schedule EIC. Married workers must file a joint return to get the EIC.
- Workers who were not raising children in 2004 can file any tax form — including the 1040EZ. These workers write “EIC” (or the dollar amount of their credit) on the Earned Income Credit line on the tax form. They do **not** file Schedule EIC.
- A correct name and Social Security number must be provided for every person listed on the tax return and Schedule EIC. If this information is incorrect or missing, the IRS will delay the refund.
- Workers don't have to calculate their own EIC; if they choose, the IRS will do it for them!

## Workers raising children can get the EIC in their paychecks!

Workers who are raising children can get part of their EIC in their paychecks throughout the year and part in a check from the IRS after they file their tax return. This is called the Advance EIC payment option.

## Workers can get FREE help filing their tax forms

Many families that apply for the EIC pay someone to complete their tax forms. This can cost \$55 to \$100, or much more. Getting a “quick tax refund” that comes back in a few days costs even more. Paying for tax preparation takes away from the value of the EIC. But low-income workers can get free help with tax preparation through a program called VITA (Volunteer Income Tax Assistance).

## Does the EIC affect eligibility for other public benefits?

In most cases, the EIC does not affect eligibility for benefits like cash assistance (“welfare”), Medicaid, food stamps, SSI, or public or subsidized housing.

## Can immigrant workers get the EIC?

Many legal immigrants can qualify for the EIC, as long as they meet the eligibility requirements.

The materials in our EIC Campaign kit at [www.cbpp.org/eic2004](http://www.cbpp.org/eic2004), should answer many questions about the EIC. *For more information, call the IRS at 1-800-TAX-1040. The 24-hour line is often busy, so be patient!*