

The National EITC Outreach Partnership

The Earned Income Tax Credit (EITC), enacted by Congress in the 1975, is a federal tax credit available to assist working families and individuals. The EITC has several important benefits: it reduces the tax burden on workers (especially with respect to Social Security payroll tax), supplements wages, makes work more attractive than welfare, reduces income inequality and helps low-income families build assets.

The EITC is a refundable credit offered through the federal tax system. The credit is available to low and moderate-income workers regardless of their tax liability (meaning that even if they don't have to file or pay taxes, many working poor families can still file for taxes and get some sort of an EITC refund). The amount of the credit that a taxpayer receives depends on their income and the number of qualifying children they have. 18 states and the District of Columbia also offer an EITC, generally as a percentage of the federal credit.

At its inception, the EITC was relatively small in size, but several increases in the late 1980s and early 1990s turned the EITC into largest federal aid program targeted to the working poor. In tax year 2005, with a greater number of low-wage workers in the labor force than ever before, over 22 million families earned more than \$41 billion in EITC refunds. The EITC in 2003 lifted nearly five million Americans above the poverty line. Unfortunately, millions of dollars of EITC owed to eligible workers go unclaimed each year. National estimates are that approximately 15 to 25% of eligible families do not claim the EITC they have earned. Those not claiming the credit generally fall into two categories: (1) those that file and do not claim the credit since they were not aware of the credit and (2) those that don't file at all, either because they are afraid to file or because they have no tax liability and are not aware that EITC is refundable even if they have no tax liability.

For the tax year 2006, the potential EITC available for working families and individuals is as follows:

- Workers who are raising one child in their home and have family income of less than \$32,001 (or \$34,001 for married workers) in 2006 can get an EITC of up to \$2,747.
- Workers who are raising more than one child in their home and have family income of less than \$36,348 (or \$38,348 for married workers) in 2006 can get an EIC of up to \$4,536.
- Workers who are not raising children in their home, are between the ages 25 and 64 on December 31, 2006 and have income below \$12,120 (or \$14,120 for married workers) can get an EIC of up to \$412.

To receive the federal EITC, eligible working families and individuals must file a federal income tax return and must fill out and attach Schedule EIC. There are two ways to receive the benefits of the EITC - "lump sum" or "advance payment". Workers with children can choose to get their EITC in a lump sum from the IRS after they file their tax return, or they can apply (through their employer) to get a portion of their EITC in each paycheck throughout the year as well as a partial payment from the IRS after they file their tax return in what is termed the "Advance EIC Payment Option".

Child Tax Credit

In addition to the EITC, working families may be able to receive the benefits of the federal Child Tax Credit, worth up to \$1,000 per child starting in 2003, for families with dependent children under the age of 17. While the Child Tax Credit has been around since 1998, Congress made changes to the credit in 2001 that allowed part of the credit to be refundable to working families with limited or no tax liability. To be eligible for the Child Tax Credit, a single or married worker must:

- Be able to claim an exemption for a dependent child under age 17 on his or her tax return;
- Have taxable earned income above \$11,300; and
- Have either a Social Security number (SSN) or an Individual Taxpayer Identification Number (ITIN).