

# IRS



## Fact Sheet

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### IRS REMINDS TAXPAYERS OF EARNED INCOME TAX CREDIT ELIGIBILITY

Low-income taxpayers may qualify for the Earned Income Tax Credit, a federal tax credit for individuals and families who meet certain income and eligibility guidelines. The EITC reduces the amount of taxes owed and may result in a refund check. The credit, created in 1975, is intended to offset the cost of Social Security taxes and to provide an incentive to work. Many taxpayers who qualify for EITC may also be eligible for free tax preparation and electronic filing by participating tax professionals and volunteers.

#### DO YOU QUALIFY FOR EITC?

To qualify, a taxpayer must work and have earned income. Earned income can be income from wages, salaries and tips, strike benefits paid by a union or net self-employment earnings. Earned income also can be disability payments paid by an employer's plan if you retired on disability prior to retirement age.

In addition, you must have a Social Security Number for yourself, your spouse (if filing jointly) and your qualifying child. Neither you nor your spouse (if filing jointly) can be the qualifying child of another taxpayer. You must be a U.S. citizen or resident alien all tax year. You can use the filing status of single, head of household, qualifying widow(er) or married filing jointly. You cannot use the filing status of married filing separately. You cannot have investment income of more than \$2,550. You also cannot be filing Form 2555 or Form 2555-EZ, relating to foreign earned income.

If you do not have a qualifying child, you must meet three additional tests. You must be at least age 25 and less than age 65 at the end of 2002. You cannot be the dependent of another person. You must live in the United States for more than half of the tax year.

To claim the credit using a child, the child must be your "qualifying child" by meeting all relationship, age and residency tests.

- **The relationship test:** The qualifying child can be a son, daughter, adopted child, grandchild, stepchild or foster child. A qualifying child also can be a sister, brother, stepsister and stepbrother if you care for them as you would your own child.
- **The age test:** The qualifying child must have been, at the end of 2002, under age 19, a full-time student under age 24 or any age if permanently and totally disabled.

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- **The residency test:** The qualifying child must have lived with his parent or guardian for more than half of the tax year.

### **INCOME/CREDIT LIMITS FOR 2002 TAX YEAR**

Income and family size (qualifying children) determine the amount of the EITC. Each year, the limits on income and credit amount changes with the cost of living. The credit begins to phase out at certain income levels. An Earned Income Credit Table, which shows the credit amounts, is in the instruction booklet for Form 1040 and in Publication 596, Earned Income Credit. The maximum amounts are:

Qualifying child:	Maximum credit
Two or more children	\$4,140
One child	\$2,506
No children	\$376

To be eligible for a full or partial credit, a taxpayer must have an adjusted gross income of less than:

- \$33,178 (\$34,178 married filing jointly) and two or more children;
- \$29,202 (\$30,202 MFJ) and one child;
- \$11,060 (\$12,060 MFJ) with no children.

### **SIGNIFICANT CHANGES FOR 2002 TAX YEAR**

Congress made several changes to EITC laws effective for the 2002 tax year:

- Earned income no longer includes nontaxable income such as supplement military payments for housing or combat pay. The change will expand the list of those eligible for the credit.
- Income calculations will be based on adjusted gross income.
- Eligible foster children must live with a guardian more than half a year, reduced from a one-year rule.
- For taxpayers who are “married filing jointly,” the maximum adjusted gross income limit is \$1,000 more than other filing statuses.
- New “tie-breaker” rules for taxpayer with the same qualifying child are in effect.
- EITC is no longer reduced by the amount of any alternative minimum tax.

Under the new “tie-breaker” rule, if you and someone else have the same qualifying child, you can choose which person will use the child to claim EITC. However, if you both claim the credit using the same child, the child will be treated as the qualifying child of only one person:

- The parent, if one person is the child’s parent,
- The person with the highest adjusted gross income, if neither person is the child’s parent,

- If both persons are parents of the child and they do not file a joint return together, the parent with whom the child lived the longest during the tax year,
  - If both persons are parents of the child they do not file a joint return together, and the child lived with each for the same length of time during the tax year, the parent with the highest adjusted gross income.

Only one person can claim the child for EITC purposes. If you and your spouse are the parents and file jointly, these rules do not apply.

### **ADVANCE EARNED INCOME CREDIT**

If you received advance EITC payments in 2002, you must file a tax return to report the payments. Report the amount on line 59 (Form 1040) or line 37 (Form 1040A). Your W-2 form will report your advance EITC amount in box 9. You cannot use a Form 1040-EZ to report advance payments.

The advance EITC payment program allows you to receive part of the credit through your employer. If you would like to participate for 2003, you must work and receive taxable wages. If you qualify for EITC and you have at least one qualifying child for 2003, give your employer a Form W-5, Earned Income Credit Advance Payment Certificate, and your employer will include part of the credit regularly in your pay. Farm workers also are excluded.

### **AVOID COMMON ERRORS**

Unintentional math and clerical errors can delay your refund. You are responsible for the accuracy of your tax return. The rules for residency, relationship and age of a qualifying child can be complicated.

Some of the most common reasons for disallowance are:

- Claiming a child who is not your qualifying child.
- Married taxpayers who should file as “married filing separately,” file as single or head of household instead.
- Income reported inaccurately.
- Missing or incorrect social security numbers.

A deliberate error can have lasting impact on your eligibility to claim EITC. Beware of scams that claim to increase your EITC refund. Scams that create fictitious qualifying children or inflate income levels to get the maximum EITC could leave you with a penalty. If your EITC claim was reduced or denied after tax year 1996 for any reason other than a mathematical or clerical error, you must file Form 8862, Information To Claim Earned Income Credit After Disallowance, with your next return if you wish to claim the credit.

## HOW TO CLAIM EITC

Publication 596, Earned Income Credit, explains the process. The publication is available at [www.irs.gov](http://www.irs.gov) or by calling 1-800-TAX-FORM. Publication 596 also is available in Spanish. The Instructions for Form 1040 can help you determine your eligibility. The instructions contain a worksheet and the earned income credit table to help you determine the amount of your credit. If you claim a qualified child, you must attach a Schedule EIC to your Form 1040 or Form 1040A.

Assistance also is available from many sources. An Internet-based tax preparation and electronic filing program will be provided free to certain eligible taxpayers. Eligibility is determined by tax software companies who are participating with the IRS in the Free File initiative. See the IRS Web site for Free File options on the Internet.

Many e-file software providers and tax professionals also provide free services for low-income taxpayers. IRS-trained Volunteer Income Tax Assistance (VITA) sites are in many communities. And, the IRS has more than 400 Taxpayer Assistance Centers throughout the nation. The IRS also will compute your credit for you. Just write EIC on the appropriate earned income credit line on your tax form and attach Schedule EIC if you have a qualifying child.

EITC recipients should remember they can get faster access to their refund by using direct deposit. If you use IRS e-file and direct deposit, you could have your refund within 10 days.

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