



Department of the Treasury  
Internal Revenue Service

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# Earned Income Credit (EIC)

For use in preparing **2005** Returns








**ARE YOU  
ELIGIBLE**

Look inside for...

- Detailed Examples
- Eligibility Requirements
- Advance EIC in Your Paycheck
- Worksheet 1 To Figure Investment Income

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# Introduction – Begin Here

## What is the EIC?

The earned income credit (EIC) is a tax credit for certain people who work and have earned income under \$37,263. A tax credit usually means more money in your pocket. It reduces the amount of tax you owe. The EIC may also give you a refund.

## Can I Claim the EIC?

To claim the EIC, you must meet certain rules. These rules are summarized in Table 1.

Table 1. **Earned Income Credit in a Nutshell**

| First, you must meet all the rules in this column.   |   | Second, you must meet all the rules in <i>one</i> of these columns, whichever applies.   |   | Third, you must meet the rule in this column.  |
|--|---|--|---|--|
| Chapter 1.<br>Rules for Everyone   |   | Chapter 2.<br>Rules If You<br>Have a<br>Qualifying Child   | Chapter 3.<br>Rules If You Do<br>Not Have a<br>Qualifying Child   | Chapter 4.<br>Figuring and<br>Claiming the<br>EIC  |
| <p><b>1.</b> Your adjusted gross income (AGI) must be less than:</p> <ul style="list-style-type: none"> <li>•\$35,263 (\$37,263 for married filing jointly) if you have more than one qualifying child,</li> <li>•\$31,030 (\$33,030 for married filing jointly) if you have one qualifying child, or</li> <li>•\$11,750 (\$13,750 for married filing jointly) if you do not have a qualifying child. (See page 6.)</li> </ul> | <p><b>2.</b> You must have a valid social security number. (See page 6.)</p> <p><b>3.</b> Your filing status cannot be “Married filing separately.” (See page 7.)</p> <p><b>4.</b> You must be a U.S. citizen or resident alien all year. (See page 7.)</p> <p><b>5.</b> You cannot file Form 2555 or Form 2555-EZ (relating to foreign earned income). (See page 8.)</p> <p><b>6.</b> Your investment income must be \$2,700 or less. (See page 8.)</p> <p><b>7.</b> You must have earned income. (See page 10.)</p> | <p><b>8.</b> Your child must meet the relationship, age, and residency tests. (See page 13.)</p> <p><b>9.</b> Your qualifying child cannot be used by more than one person to claim the EIC. (See page 16.)</p> <p><b>10.</b> You cannot be a qualifying child of another person. (See page 20.)</p> | <p><b>11.</b> You must be at least age 25 but under age 65. (See page 21.)</p> <p><b>12.</b> You cannot be the dependent of another person. (See page 21.)</p> <p><b>13.</b> You cannot be a qualifying child of another person. (See page 22.)</p> <p><b>14.</b> You must have lived in the United States more than half of the year. (See page 22.)</p> | <p><b>15.</b> Your earned income must be less than:</p> <ul style="list-style-type: none"> <li>•\$35,263 (\$37,263 for married filing jointly) if you have more than one qualifying child,</li> <li>•\$31,030 (\$33,030 for married filing jointly) if you have one qualifying child, or</li> <li>•\$11,750 (\$13,750 for married filing jointly) if you do not have a qualifying child. (See page 23.)</li> </ul> |

## Do I Need This Publication?

Certain people who file Form 1040 must use Worksheet 1 in this publication, instead of *Step 2* in their Form 1040 instructions, when they are checking whether they can take the EIC. You are one of those people if any of the following statements are true for 2005.

- You are filing Schedule E (Form 1040).
- You are reporting income or a loss from the rental of personal property not used in a trade or business.
- You are reporting income on Form 1040, line 21, from Form 8814 (relating to election to report child's interest and dividends).
- You are reporting an amount on Form 1040, line 13, that includes an amount from Form 4797.

If none of the statements above apply to you, your tax form instructions have all the information you need to find out if you can claim the EIC and to figure the amount of your EIC. You do not need this publication. But you can read it to find out whether you can take the EIC and to learn more about the EIC.

## How Do I Figure the Amount of EIC?

If you can claim the EIC, you can either have the IRS figure the amount of your credit, or you can figure it yourself. To figure it yourself, you can complete a worksheet in the instructions for the form you file. To find out how to have the IRS figure it for you, see chapter 4.

## How Can I Quickly Locate Specific Information?

You can use the index to look up specific information. In most cases, index entries will point you to headings, tables, or a worksheet.

## Is There Help Online?

Yes. You can use the EITC Assistant at [www.irs.gov/eitc](http://www.irs.gov/eitc) to find out if you are eligible for the credit. The EITC Assistant is available in English and Spanish.

## How Can I Get EIC in My Paycheck in 2006?

You may prefer to get some of next year's EIC throughout the year, rather than wait and get EIC after you file your tax return. Chapter 6 explains advance payment of EIC and tells how, if you have a qualifying child, you may be able to get some of the EIC in your paycheck in 2006.

## What's New

**Earned income amount is more.** The maximum amount of income you can earn and still get the credit has increased. You may be able to take the credit if:

- You have more than one qualifying child and you earned less than \$35,263 (\$37,263 if married filing jointly),
- You have one qualifying child and you earned less than \$31,030 (\$33,030 if married filing jointly), or
- You do not have a qualifying child and you earned less than \$11,750 (\$13,750 if married filing jointly).

Your adjusted gross income also must be less than the amount in the above list that applies to you. For details, see *Rules 1* and *15*.

**Investment income amount is more.** The maximum amount of investment income you can have and still get the credit has increased to \$2,700. See *Rule 6*.

**Hurricane Katrina victims.** If you lived in the Hurricane Katrina core disaster area on August 25, 2005, and your earned income for 2005 is less than your earned income for 2004, you can choose to figure your 2005 EIC using your 2004 earned income. This also applies if you lived in the Hurricane Katrina disaster area, but outside the core disaster area, and you were displaced from your main home because of the hurricane. For more information, see Publication 4492.

**Qualifying child.** There are some changes to the definition of qualifying child. A qualifying child can include your eligible foster child, your brother, or your sister, whether or not you care for them as you would your own child. See *Rule 8*.

If you and someone else have the same qualifying child, only one of you can use that child to claim the following tax benefits: the child's exemption, the child tax credit, head of household filing status, the credit for child and dependent care expenses, and the EIC. The other person cannot take any of these five tax benefits unless he or she has a different qualifying child. For details, see *Rule 9*.

**Form 8836.** If you received Form 8836, Qualifying Children Residency Statement, you have been selected to participate in the EIC certification pilot program. File the form with the IRS, following the form instructions, to show that your child met the residency test described in *Rule 8*. If you did not receive the form, you do not need to get it or file it. You have to file Form 8836 only if it was mailed to you.

## Reminders

**Increased EIC on certain joint returns.** A married person filing a joint return may get more EIC than someone with the same income but a different filing status. As a result, the EIC table has different columns for married persons filing jointly than for everyone else. When you look up your EIC in the EIC Table, be sure to use the correct column for your filing status and the number of children you have.

**Earned income credit has no effect on certain welfare benefits.** Any refund you receive because of the EIC and any advance EIC payments you receive will not be considered income when determining whether you are eligible for the following benefit programs, or how much you can receive from these programs. However, if the amounts you receive are not spent within a certain period of time, they may count as an asset (or resource) and affect your eligibility.

- Medicaid and supplemental security income (SSI).
- Food stamps.
- Low-income housing.

Temporary assistance for needy families (TANF) benefits may be affected. Please check with your state.

**Disallowed EIC.** If you claim the EIC and it is later disallowed, you may have to complete an additional form if you want to claim the credit in a later year. See chapter 5 for more information.

**EIC questioned by IRS.** The IRS may ask you to provide documents to prove you are entitled to claim the EIC. We will tell you what documents to send us. These may include: birth certificates, school records, medical records, etc. We will also send you a letter with the name, address, and telephone number of the IRS employee assigned to your case. The process of establishing your eligibility will delay your refund.

**Reporting advance payments of EIC received in 2005.** If you received advance payments of EIC in 2005, you must file Form 1040 or Form 1040A to report the payments. Your Form W-2, box 9, (as shown in Figure 1) will show the amount you received. Report the amount on line 61 (Form 1040) or line 37 (Form 1040A).

**Figure 1. Reporting Advance EIC**

|   |  |                   |  |   |                                 |
|---|--|-------------------|--|---|---------------------------------|
| a Control number                              |  | OMB No. 1545-0008 |  | Visit the IRS website at <a href="http://www.irs.gov/efile">www.irs.gov/efile</a> . |                                 |
| b Employer identification number (EIN)        |  |                   | 2 Federal income tax withheld                              |   |                                 |
| c Employer's name, address, and ZIP code      |  |                   | 4 Social security tax withheld                             |   | 5 Medicare tips                 |
|   |  |                   | 6 Medicare tax withheld                                    |   |                                 |
|   |  |                   | 8 Allocated tips   |   |                                 |
| d Employee's social security number           |  |                   | 9 Advance EIC payment                                      |   | 10 Dependent care benefits      |
| e Employee's first name and initial Last name |  |                   | 11 Nonqualified plans                                      |   | 12a See instructions for box 12 |
|   |  |                   | 13 Statutory employee Retirement plan Third-party sick pay |   | 12b                             |
|   |  |                   | 14 Other   |   | 12c                             |
|   |  |                   |  |   | 12d                             |
| f Employee's address and ZIP code             |  |                   | 15 State Employer's state ID number                        | 16 State wages, tips, etc.  | 17 State income tax             |
|   |  |                   | 18 Local wages, tips, etc.                                 | 19 Local income tax   | 20 Locality name                |

Form **W-2 Wage and Tax Statement** 2005 Department of the Treasury—Internal Revenue Service  
 Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
 This information is being furnished to the Internal Revenue Service.

**Spanish version of Publication 596.** You can order Publicación 596SP, Crédito por Ingreso del Trabajo, from the IRS. It is a Spanish translation of Publication 596. See *How To Get Tax Help* in the *Appendix* to find out how to order this and other IRS forms and publications.

**Photographs of missing children.** The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

**Comments and suggestions.** We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:  
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You can email us at [\\*taxforms@irs.gov](mailto:*taxforms@irs.gov). (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

**Tax questions.** If you have a tax question, visit [www.irs.gov](http://www.irs.gov) or call 1-800-829-1040. We cannot answer tax questions at either of the addresses listed above.

**Ordering forms and publications.** Visit [www.irs.gov/formspubs](http://www.irs.gov/formspubs) to download forms and publications, call 1-800-829-3676, or write to the National Distribution Center at the address shown under *How To Get Tax Help* in the back of this publication.

# Chapter 1. Rules for Everyone



This chapter discusses Rules 1 through 7. You must meet all seven rules to qualify for the earned income credit. If you do not meet all seven rules, you cannot get the credit and you do not need to read the rest of the publication.

If you meet all seven rules in this chapter, then read either chapter 2 or chapter 3 (whichever applies) for more rules you must meet.

## **Rule 1.** AGI limits

### **Rule 1** Your Adjusted Gross Income (AGI) Must Be Less Than:

- \$35,263 (\$37,263 for married filing jointly) if you have more than one qualifying child,
- \$31,030 (\$33,030 for married filing jointly) if you have one qualifying child, or
- \$11,750 (\$13,750 for married filing jointly) if you do not have a qualifying child.

**Adjusted gross income (AGI).** AGI is the amount on line 4 of Form 1040EZ, line 22 of Form 1040A, or line 38 of Form 1040.

If your AGI is equal to or more than the applicable limit listed above, you cannot claim the EIC. You do not need to read the rest of this publication.

## **Example:** AGI exceeds limit

**Example.** Your AGI is \$32,500, you are single, and you have one qualifying child. You cannot claim the EIC because your AGI is not less than \$31,030. However, if your filing status was married filing jointly, you might be able to claim the EIC because your AGI is less than \$33,030.

**Community property.** If you are married, but qualify to file as head of household under special rules for married taxpayers living apart (see *Rule 3*), and live in a state that has community property laws, your AGI includes that portion of both your and your spouse's wages that you are required to include in gross income. This is different from the community property rules that apply under *Rule 7*.

## **Rule 2.** Social security number (SSN)

### **Rule 2** You Must Have a Valid Social Security Number (SSN)

**Valid SSN.** To claim the EIC, you (and your spouse, if filing a joint return) must have a valid SSN issued by the Social Security Administration (SSA). Any qualifying child listed on Schedule EIC also must have a valid SSN. (See *Rule 8* if you have a qualifying child.)

If your social security card (or your spouse's, if filing a joint return) says "Not valid for employment" and your SSN was issued so that you (or your spouse) could get a federally funded benefit, you cannot get the EIC. An example of a federally funded benefit is Medicaid. If you have a card with the legend "Not valid for employment" and your immigration status has changed so that you are now a U.S. citizen or permanent resident, ask the SSA for a new social security card without the legend. If you get the new card after you have already filed your return, you can file an amended return on Form 1040X, Amended U. S. Individual Income Tax Return, to claim the EIC.



**U.S. citizen.** If you were a U.S. citizen when you received your SSN, you have a valid SSN.

**Valid for work only with INS authorization or DHS authorization.** If your social security card reads “Valid for work only with INS authorization” or “Valid for work only with DHS authorization,” you have a valid SSN.

**SSN missing or incorrect.** If an SSN for you or your spouse is missing from your tax return or is incorrect, you may not get the EIC.

**Other taxpayer identification number.** You cannot get the EIC if, instead of an SSN, you (or your spouse, if filing a joint return) have an individual taxpayer identification number (ITIN). ITINs are issued by the Internal Revenue Service to noncitizens who cannot get an SSN.

**No SSN.** If you do not have a valid SSN, put “No” next to line 66a (Form 1040), line 41a (Form 1040A), or line 8a (Form 1040EZ). You cannot claim the EIC.

**Getting an SSN.** If you (or your spouse, if filing a joint return) do not have an SSN, you can apply for one by filing Form SS-5 with the Social Security Administration.

**Filing deadline approaching and still no SSN.** If the filing deadline is approaching and you still do not have an SSN, you have two choices.

1. Request an automatic 6-month extension of time to file your return. You can get this extension by filing Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. For more information, see the instructions for Form 4868.
2. File the return on time without claiming the EIC. After receiving the SSN, file an amended return, Form 1040X, claiming the EIC. Attach a filled-in Schedule EIC, Earned Income Credit, if you have a qualifying child.

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**Rule 3.**  
*Married person's filing status*

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**Rule 3** Your Filing Status Cannot Be “Married Filing Separately”

If you are married, you usually must file a joint return to claim the EIC. Your filing status cannot be “Married filing separately.”

**Spouse did not live with you.** If you are married and your spouse did not live in your home at any time during the last 6 months of the year, you may be able to file as head of household, instead of married filing separately. In that case, you may be able to claim the EIC. For detailed information about filing as head of household, see Publication 501, Exemptions, Standard Deduction, and Filing Information.

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**Rule 4.**  
*Nonresident alien*

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**Rule 4** You Must Be a U.S. Citizen or Resident Alien All Year

You cannot claim the earned income credit if you are a nonresident alien for any part of the year, unless:

1. You are married to a U.S. citizen or a resident alien, and
2. You choose to be treated as a resident for all of 2005 by filing a joint return. If you need more information on making this choice, get Publication 519, U.S. Tax Guide for Aliens.

**Note.** If you make the choice in (2) above, you and your spouse are taxed on your worldwide income. You cannot claim any tax treaty benefits as a resident of a foreign country during a tax year in which the choice is in effect.

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**Rule 5.**  
*Foreign earned income*

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**Rule 5** You Cannot File Form 2555 or Form 2555-EZ

You cannot claim the earned income credit if you file Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion. You file these forms to exclude income earned in foreign countries from your gross income, or to deduct or exclude a foreign housing amount. U.S. possessions are not foreign countries. See Publication 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad, for more detailed information.

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**Rule 6.**  
*Investment income*

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**Rule 6** Your Investment Income Must Be \$2,700 or Less

You cannot claim the earned income credit unless your investment income is \$2,700 or less. If your investment income is more than \$2,700, you cannot claim the credit.

**Form 1040EZ.** If you file Form 1040EZ, your investment income is the total of the amount on line 2 and the amount of any tax-exempt interest you wrote to the right of the words "Form 1040EZ" on line 2.

**Form 1040A.** If you file Form 1040A, your investment income is the total of the amounts on lines 8a (taxable interest), 8b (tax-exempt interest), 9a (ordinary dividends), and 10 (capital gain distributions) on that form.

**Form 1040.** If you file Form 1040, use Worksheet 1, on the next page, to figure your investment income.



## Worksheet 1: Investment Income If You Are Filing Form 1040

**Interest and Dividends**

- |    |  |    |       |
|----|--|----|-------|
| 1. | Enter any amount from Form 1040, line 8a.  | 1. | _____ |
| 2. | Enter any amount from Form 1040, line 8b, plus any amount on Form 8814, line 1b.   | 2. | _____ |
| 3. | Enter any amount from Form 1040, line 9a.  | 3. | _____ |
| 4. | Enter the amount from Form 1040, line 21, that is from Form 8814 if you are filing that form to report your child's interest and dividend income on your return. (See instructions below for line 4 if your child received an Alaska Permanent Fund dividend.) | 4. | _____ |

**Capital Gain Net Income**

- |    |   |    |       |
|----|---|----|-------|
| 5. | Enter the amount from Form 1040, line 13. If the amount on that line is a loss, enter -0-.  | 5. | _____ |
| 6. | Enter any gain from Form 4797, Sales of Business Property, line 7. If the amount on that line is a loss, enter -0-. (But, if you completed lines 8 and 9 of Form 4797, enter the amount from line 9 instead.) | 6. | _____ |
| 7. | Subtract line 6 of this worksheet from line 5 of this worksheet. (If the result is less than zero, enter -0-.)  | 7. | _____ |

**Royalties and Rental Income from Personal Property**

- |     |  |     |       |
|-----|--|-----|-------|
| 8.  | Enter any royalty income from Schedule E, line 4, plus any income from the rental of personal property shown on Form 1040, line 21.                            | 8.  | _____ |
| 9.  | Enter any expenses from Schedule E, line 21, related to royalty income, plus any expenses from the rental of personal property deducted on Form 1040, line 36. | 9.  | _____ |
| 10. | Subtract the amount on line 9 of this worksheet from the amount on line 8. (If the result is less than zero, enter -0-.)                                       | 10. | _____ |

**Passive Activities**

- |     |   |     |       |
|-----|---|-----|-------|
| 11. | Enter the total of any net income from passive activities (included on Schedule E, lines 26, 29a (col. (g)), 34a (col. (d)), and 40). (See instructions below for lines 11 and 12.)   | 11. | _____ |
| 12. | Enter the total of any losses from passive activities (included on Schedule E, lines 26, 29b (col. (f)), 34b (col. (c)), and 40). (See instructions below for lines 11 and 12.)   | 12. | _____ |
| 13. | Combine the amounts on lines 11 and 12 of this worksheet. (If the result is less than zero, enter -0-.)   | 13. | _____ |
| 14. | Add the amounts on lines 1, 2, 3, 4, 7, 10, and 13. Enter the total. <b>This is your Investment Income.</b>   | 14. | _____ |
| 15. | Is the amount on line 14 more than \$2,700?<br><input type="checkbox"/> <b>Yes.</b> You cannot take the credit.<br><input type="checkbox"/> <b>No.</b> Go to Question 5 in Step 2 of your Form 1040 instructions to find out if you can take the credit (unless you are using this publication to find out if you can take the credit; in that case, go to <i>Rule 7</i> , next). |     |       |

**Instructions for line 4 if your child received Alaska Permanent Fund dividends.** To figure the amount to enter on line 4, start with the amount on line 6 of Form 8814. Multiply that amount by a percentage that is equal to any Alaska Permanent Fund dividends divided by the total amount of interest and dividend income on lines 1a and 2 of Form 8814. Subtract the result from the amount on line 6 of Form 8814.

**Example.** Your 10-year-old child has taxable interest income of \$1,500 and an Alaska Permanent Fund dividend of \$1,100. You choose to report this income on your return. You enter \$1,500 on line 1a of Form 8814, \$1,100 on line 2, and \$2,600 on line 4. You enter \$1,000 on line 6 of Form 8814 and line 21 of Form 1040. You figure the amount to enter on line 4 of this worksheet as follows:  
 $\$1,000 - (\$1,000 \times (\$1,100 \div \$2,600)) = \$577$ .

**Instructions for lines 11 and 12.** In figuring the amount to enter on lines 11 and 12, do not take into account any royalty income (or loss) included on line 26 of Schedule E or any amount included in your earned income. To find out if the income on line 26 or line 40 of Schedule E is from a passive activity, see the Schedule E instructions. If any of the rental real estate income (or loss) included on Schedule E, line 26, is not from a passive activity, print "NPA" and the amount of that income (or loss) on the dotted line next to line 26.

**Rule 7.**  
Earned income**Rule 7 You Must Have Earned Income**

This credit is called the “earned income” credit because, to qualify, you must work and have earned income. If you are married and file a joint return, you meet this rule if at least one spouse works and has earned income. If you are an employee, earned income includes all the taxable income you get from your employer.

*Rule 15* has information that will help you figure the amount of your earned income. If you are self-employed or a statutory employee, you will figure your earned income on EIC Worksheet B in the Form 1040 instructions.

**Earned Income**

Earned income includes all of the following types of income.

1. Wages, salaries, tips, and other taxable employee pay. Employee pay is earned income only if it is taxable. Nontaxable employee pay, such as certain dependent care benefits and adoption benefits, is not earned income. But there is an exception for nontaxable combat pay, which you can choose to include in earned income, as explained below.
2. Net earnings from self-employment.
3. Gross income received as a statutory employee.

**Wages, salaries, and tips.** Wages, salaries, and tips you receive for working are reported to you on Form W-2, box 1. You should report these on line 1 (Form 1040EZ) or line 7 (Forms 1040A and 1040).

**Nontaxable combat pay election.** You can elect to have your nontaxable combat pay included in earned income for the earned income credit. The amount of your nontaxable combat pay should be shown on your Form W-2, in box 12, with code Q. Electing to include nontaxable combat pay in earned income may increase or decrease your EIC. For details, see *Nontaxable combat pay* in chapter 4.

**Net earnings from self-employment.** You may have net earnings from self-employment if:

- You own your business, or
- You are a minister or member of a religious order.

**Minister’s housing.** The rental value of a home or a housing allowance provided to a minister as part of the minister’s pay generally is not subject to income tax but is included in net earnings from self-employment. For that reason, it is included in earned income for the EIC (except in certain cases described in *Approved Form 4361 or Form 4029*, below). See *Example 4* in chapter 7.

**Statutory employee.** You are a statutory employee if you receive a Form W-2 on which the “Statutory employee” box (box 13) is checked. You report your income and expenses as a statutory employee on Schedule C or C-EZ (Form 1040).

**Strike benefits.** Strike benefits paid by a union to its members are earned income.

**Approved Form 4361 or Form 4029**

This section is for persons who have an approved:

- Form 4361, Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners, or

- Form 4029, Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits.

Each approved form exempts certain income from social security taxes. Each form is discussed in this section in terms of what is or is not earned income for purposes of the EIC.

**Form 4361.** Even if you have an approved Form 4361, amounts you received for performing ministerial duties as an employee count as earned income. This includes wages, salaries, tips, and other taxable employee compensation. Amounts you received for performing ministerial duties, but not as an employee, do not count as earned income. Examples include fees for performing marriages and honoraria for delivering speeches.

**Form 4029.** Even if you have an approved Form 4029, all wages, salaries, tips, and other taxable employee compensation count as earned income. However, amounts you received as a self-employed individual do not count as earned income. Also, in figuring earned income, do not subtract losses on Schedule C, C-EZ, or F from wages on line 7 of Form 1040.

## Disability Benefits

If you retired on disability, benefits you receive under your employer's disability retirement plan are considered earned income until you reach minimum retirement age. Minimum retirement age generally is the earliest age at which you could have received a pension or annuity if you were not disabled. You must report your taxable disability payments on line 7 of either Form 1040 or Form 1040A until you reach minimum retirement age.

Beginning on the day after you reach minimum retirement age, payments you receive are taxable as a pension and are not considered earned income. Report taxable pension payments on Form 1040, lines 16a and 16b, or Form 1040A, lines 12a and 12b.

**Disability insurance payments.** Payments you received from a disability insurance policy that you paid the premiums for are not earned income. It does not matter whether you have reached minimum retirement age. If this policy is through your employer, the amount may be shown in box 12 of your Form W-2 with code "J."

## Income That Is Not Earned Income

Examples of items that are **not** earned income include interest and dividends, pensions and annuities, social security and railroad retirement benefits (including disability benefits), alimony and child support, welfare benefits, workers' compensation benefits, unemployment compensation (insurance), nontaxable foster care payments, and veterans' benefits, including VA rehabilitation payments. Do **not** include any of these items in your earned income.

**Earnings while an inmate.** Amounts received for work performed while an inmate in a penal institution are not earned income when figuring the earned income credit. This includes amounts for work performed while in a work release program or while in a halfway house.

**Workfare payments.** Nontaxable workfare payments are not earned income for the EIC. These are cash payments certain people receive from a state or local agency that administers public assistance programs funded under the federal Temporary Assistance for Needy Families (TANF) program in return for certain work activities such as (1) work experience activities (including remodeling or repairing public housing) if sufficient private sector employment is not available, or (2) community service program activities.

**Community property.** If you are married, but qualify to file as head of household under special rules for married taxpayers living apart (see *Rule 3*), and live in a state that has community property laws, your earned income for the EIC does not include any amount earned by your spouse that is treated as belonging to you under those laws. That amount

is not earned income for the EIC, even though you must include it in your gross income on your income tax return. Your earned income includes the entire amount you earned, even if part of it is treated as belonging to your spouse under your state's community property laws.

**Nontaxable military pay.** Nontaxable pay for members of the Armed Forces is not considered earned income for the EIC. Examples of nontaxable military pay are combat pay, the Basic Allowance for Housing (BAH), and the Basic Allowance for Subsistence (BAS). See Publication 3, Armed Forces' Tax Guide, for more information.



**Combat pay.** *You can elect to have your nontaxable combat pay considered earned income for the EIC. See Nontaxable combat pay election, earlier.*

## Chapter 2. Rules If You Have a Qualifying Child



If you have met all the rules in chapter 1, use this chapter to see if you have a qualifying child. This chapter discusses Rules 8 through 10. You must meet all three of those rules, in addition to the rules in chapters 1 and 4, to qualify for the earned income credit with a qualifying child.

You must file Form 1040 or Form 1040A to claim the EIC with a qualifying child. (You cannot file Form 1040EZ.) You also must complete Schedule EIC and attach it to your return. If you meet all the rules in chapter 1 and this chapter, read chapter 4 to find out what to do next.

**No qualifying child.** If you do not meet *Rule 8*, you do not have a qualifying child. Read chapter 3 to find out if you can get the earned income credit without a qualifying child.

### Rule 8. Qualifying child

### Rule 8 Your Child Must Meet the Relationship, Age, and Residency Tests

Your child is a qualifying child if your child meets three tests. The three tests are:

1. Relationship,
2. Age, and
3. Residency.

The three tests are illustrated in Figure 2 on page 14. The paragraphs that follow contain more information about each test.

Relationship



#### Relationship Test

To be your qualifying child, a child must be your:

- Son, daughter, stepchild, eligible foster child, or a descendant of any of them (for example, your grandchild), or
- Brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew).

The following definitions clarify the relationship test.

**Adopted child.** An adopted child is always treated as your own child. The term “adopted child” includes a child who was lawfully placed with you for legal adoption.

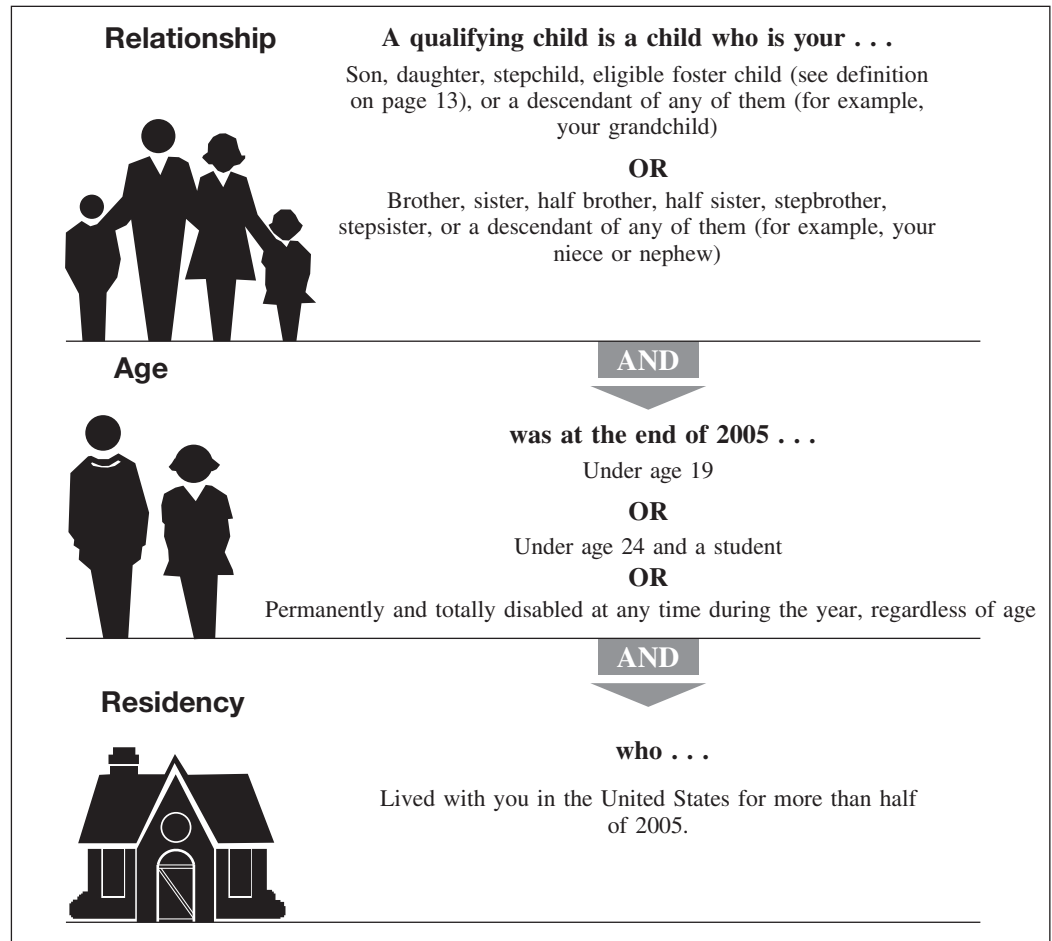
**Eligible foster child.** For the EIC, a person is your eligible foster child if the child is placed with you by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction. (An authorized placement agency includes a state or local government agency. It also includes a tax-exempt organization licensed by a state. In addition, it includes an Indian tribal government or an organization authorized by an Indian tribal government to place Indian children.)

### Example: Eligible foster child

**Example.** Debbie, who is 12 years old, was placed in your care 2 years ago by an authorized agency responsible for placing children in foster homes. Debbie is your eligible foster child.



**Figure 2. Tests for Qualifying Child**



**Married child.** If your child was married at the end of the year, he or she does not meet the relationship test unless either of these two situations applies to you:

1. You can claim the child's exemption, or
2. The reason you cannot claim the child's exemption is that you gave that right to your child's other parent under the *Special rule for divorced or separated parents*, described later.



**Age Test**

Your child must be:

1. Under age 19 at the end of 2005,
2. A full-time student under age 24 at the end of 2005, or
3. Permanently and totally disabled at any time during 2005, regardless of age.

The following example and definitions clarify the age test.

**Example.** Your son turned 19 on December 10. Unless he was disabled or a full-time student, he is not a qualifying child because, at the end of the year, he was not **under** age 19.

**Example:**  
 Child not under age 19





**Full-time student.** A full-time student is a student who is enrolled for the number of hours or courses the school considers to be full-time attendance.

**Student defined.** To qualify as a student, your child must be, during some part of each of any 5 calendar months during the calendar year:

1. A full-time student at a school that has a regular teaching staff, course of study, and regular student body at the school, or
2. A student taking a full-time, on-farm training course given by a school described in (1), or a state, county, or local government.

The 5 calendar months need not be consecutive.

**Hurricane Katrina.** If your child enrolled in school before August 25, 2005, the child is treated as a student for any month of the enrollment period he or she was unable to attend classes because of Hurricane Katrina.

**School defined.** A school can be an elementary school, junior or senior high school, college, university, or technical, trade, or mechanical school. However, on-the-job training courses, correspondence schools, and Internet schools do not count as schools for the EIC.

**Vocational high school students.** Students who work in co-op jobs in private industry as a part of a school's regular course of classroom and practical training are considered full-time students.

**Permanently and totally disabled.** Your child is permanently and totally disabled if both of the following apply.

1. He or she cannot engage in any substantial gainful activity because of a physical or mental condition.
2. A doctor determines the condition has lasted or can be expected to last continuously for at least a year or can lead to death.

Residency



## Residency Test

Your child must have lived with you in the United States for more than half of 2005. The following definitions clarify the residency test.

**United States.** This means the 50 states and the District of Columbia. It does not include Puerto Rico or U.S. possessions such as Guam.

**Homeless shelter.** Your home can be any location where you regularly live. You do not need a traditional home. For example, if your child lived with you for more than half the year in one or more homeless shelters, your child meets the residency test.

**Military personnel stationed outside the United States.** U.S. military personnel stationed outside the United States on extended active duty are considered to live in the United States during that duty period for purposes of the EIC.

**Extended active duty.** Extended active duty means you are called or ordered to duty for an indefinite period or for a period of more than 90 days. Once you begin serving your extended active duty, you are still considered to have been on extended active duty even if you do not serve more than 90 days.

**Birth or death of child.** A child who was born or died in 2005 is treated as having lived with you for all of 2005 if your home was the child's home the entire time he or she was alive in 2005.

**Temporary absences.** Count time that you or your child is away from home on a temporary absence due to a special circumstance as time lived with you. Examples of a special circumstance include:

- Illness,
- School attendance,
- Detention in a juvenile facility,
- Business,
- Vacation, and
- Military service.

**Kidnapped child.** A kidnapped child is treated as living with you for more than half of the year if the child lived with you for more than half the part of the year before the date of the kidnapping. The child must be presumed by law enforcement authorities to have been kidnapped by someone who is not a member of your family or the child's family. This treatment applies for all years until the child is returned. However, the last year this treatment can apply is the earlier of:

1. The year there is a determination that the child is dead, or
2. The year the child would have reached age 18.

If your qualifying child has been kidnapped and meets these requirements, enter "KC," instead of a number, on line 6 of Schedule EIC.



**Social security number.** *Your qualifying child must have a valid social security number (SSN), unless the child was born and died in 2005. You cannot claim the EIC on the basis of a qualifying child if:*

1. Your qualifying child's SSN is missing from your tax return or is incorrect,
2. Your qualifying child's social security card says "Not valid for employment" and was issued for use in getting a federally funded benefit, or
3. Instead of an SSN, your qualifying child has:
  - a. An individual taxpayer identification number (ITIN), which is issued to a noncitizen who cannot get an SSN, or
  - b. An adoption taxpayer identification number (ATIN), issued to adopting parents who cannot get an SSN for the child being adopted until the adoption is final.

If you have two qualifying children and only one has a valid SSN, you can claim the EIC only on the basis of that child. For more information about SSNs, see *Rule 2*.

**Rule 9.**  
Qualifying child of more than one person

## **Rule 9** Your Qualifying Child Cannot Be Used By More Than One Person To Claim the EIC

Sometimes a child meets the rules to be a qualifying child of more than one person. However, only one person can treat that child as a qualifying child and claim the EIC using that child. The paragraphs that follow will help you decide who, if anyone, can claim the EIC when more than one person has the same qualifying child.

**You can choose which person will claim the EIC.** If you and someone else have the same qualifying child, you and the other person(s) can decide which of you, if otherwise eligible, will take all of the following tax benefits based on the qualifying child.

- The child's exemption.
- The child tax credit.
- Head of household filing status.
- The credit for child and dependent care expenses.
- The EIC.

The other person cannot take any of these five tax benefits unless he or she has a different qualifying child.

If you and the other person(s) cannot agree and more than one person claims the EIC or the other tax benefits just listed using the same child, the tie-breaker rule (explained in Table 2) applies. However, the tie-breaker rule does not apply if the other person is your spouse and you file a joint return.

**Table 2. When More Than One Person Claims EIC Using Same Child (Tie-Breaker Rule)**

**Caution:** If a child is treated as the qualifying child of the noncustodial parent under the rules for divorced or separated parents, described later, see *Applying Rule 9 to divorced or separated parents*, later.

| <b>IF more than one person claims the same child as a qualifying child and ....</b>  | <b>THEN ....</b>   |
|--|--|
| Only one of the persons is the child's parent  | Only the parent can treat the child as a qualifying child.   |
| Two of the persons are parents of the child, and they do not file a joint return together  | Only the parent with whom the child lived the longest during the year can treat the child as a qualifying child. |
| Two of the persons are parents of the child, the child lived with each parent the same amount of time during the year, and the parents do not file a joint return together | Only the parent with the highest adjusted gross income (AGI) can treat the child as a qualifying child.          |
| None of the persons are the child's parent   | Only the person with the highest AGI can treat the child as a qualifying child.                                  |

**If another person claims the EIC using this child.** If your EIC is denied because your qualifying child is treated under this rule as the qualifying child of another person for 2005, you may be able to take the EIC using a different qualifying child, but you cannot take the EIC using the rules in chapter 3 for people who do not have a qualifying child.

**If the other person cannot claim the EIC.** If you and someone else have the same qualifying child but the other person cannot claim the EIC because he or she is not eligible or his or her earned income or AGI is too high, you may be able to treat the child as a qualifying child. See *Example 5*. But also see *You can choose which person will claim the EIC*, earlier.

**Examples.** The following examples may help you in determining whether you can claim the EIC when you and someone else have the same qualifying child.

**Examples:**  
Child lived with parent and grandparent

**Example 1.** You and your 2-year-old son lived with your mother all year. You are 25 years old. Your only income was \$9,000 from a part-time job. Your mother's only income was \$20,000 from her job. Your son is a qualifying child of both you and your mother because he meets the relationship, age, and residency tests for both you and your mother. However, only one of you can treat him as a qualifying child to claim the EIC (and, if that person qualifies, the other tax benefits listed on page 16). You agree to let your mother claim him. This means, if you do not claim your son as a qualifying child for the EIC or any of the other tax benefits listed on page 16, your mother can treat your son as a qualifying child to claim the EIC (and any other tax benefit listed on page 16 for which she qualifies).

**Example 2.** The facts are the same as in *Example 1* except that you and your mother both claim your son as a qualifying child. In this case, you as the child's parent will be the only one allowed to claim your son as a qualifying child for the EIC and the other tax

benefits listed on page 16. The IRS will disallow your mother's claim to the EIC and any other tax benefits listed on page 16 unless she has another qualifying child.

**Example 3.** The facts are the same as in *Example 1* except that you also have two other young children who are qualifying children of both you and your mother. Only one of you can claim each child as a qualifying child. However, you and your mother can split the three qualifying children between you. For example, you can use one child and your mother can use the other two.

**Example 4.** The facts are the same as in *Example 1* except that you are only 18 years old. This means you are a qualifying child of your mother. Because of *Rule 10*, discussed next, you cannot claim the EIC. Only your mother may be able to treat your son as a qualifying child to claim the EIC. If your mother meets all the other requirements for claiming the EIC, she can treat both you and your son as qualifying children for the EIC.

**Example 5.** The facts are the same as in *Example 1* except that your mother earned \$50,000 from her job. Because your mother's earned income is too high for her to claim the EIC, only you can claim the EIC using your son.

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**Examples:**  
Separated parents

**Example 6.** You, your husband, and your 10-year-old son lived together until August 1, 2005, when your husband moved out of the household. In August and September, your son lived with you. For the rest of the year, your son lived with your husband. Your son is a qualifying child of both you and your husband because your son lived with each of you for more than half the year and because he met the relationship and age tests for both of you. You and your husband are not divorced, legally separated, or separated under a written separation agreement, so the special rule for divorced or separated parents does not apply.

You and your husband will file separate returns. Your husband agrees to let you treat your son as a qualifying child. This means, if your husband does not claim your son as a qualifying child for any of the tax benefits listed on page 16, you can claim him as a qualifying child for any tax benefit listed on page 16 for which you qualify. However, you cannot claim head of household filing status because you and your husband did not live apart the last 6 months of the year. As a result, your filing status is married filing separately, so you cannot claim the EIC or the credit for child and dependent care expenses. See, *Rule 3*.

**Example 7.** The facts are the same as in *Example 6* except that you and your husband both claim your son as a qualifying child. In this case, only your husband will be allowed to treat your son as a qualifying child. This is because, during 2005, the boy lived with him longer than with you. You cannot claim the EIC for persons either with or without a qualifying child. However, because you and your husband did not live apart the last 6 months of the year, your husband cannot claim head of household filing status. As a result his filing status is married filing separately, so he cannot claim the EIC or the credit for child and dependent care expenses. See *Rule 3*.

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**Examples:**  
Unmarried parents

**Example 8.** You, your 5-year-old son, and your son's father lived together all year. You and your son's father are not married. Your son is a qualifying child of both you and his father because he meets the relationship, age, and residency tests for both you and his father. You earned \$8,000 and your son's father earned \$18,000. Neither of you had any other income. Your son's father agrees to let you treat the child as a qualifying child. This means, if your son's father does not claim your son as a qualifying child for the EIC or any of the other tax benefits listed on page 16, you can claim him as a qualifying child for the EIC and any other tax benefit listed on page 16 for which you qualify.

**Example 9.** The facts are the same as in *Example 8* except that you and your son's father both claim your son as a qualifying child. In this case, only your son's father will be allowed to treat your son as a qualifying child. This is because his AGI, \$18,000, is more

than your AGI, \$8,000. You cannot claim the EIC for persons either with or without a qualifying child.

**Examples:**

*Child did not live with a parent*

**Example 10.** You and your 7-year-old niece, your sister's child, lived with your mother all year. You are 25 years old, and your only income was \$9,300 from a part-time job. Your mother's only income was \$15,000 from her job. Your niece is a qualifying child of both you and your mother because she meets the relationship, age, and residency tests for both you and your mother. However, only one of you can treat her as a qualifying child. Your mother agrees to let you treat the child as a qualifying child. This means, if your mother does not claim her as a qualifying child for the EIC or any of the other tax benefits listed on page 16, you can claim your niece as a qualifying child for the EIC and any other tax benefit listed on page 16 for which you qualify.

**Example 11.** The facts are the same as in *Example 10* except that you and your mother both claim your niece as a qualifying child. In this case, only your mother will be allowed to treat your niece as a qualifying child. This is because your mother's AGI, \$15,000, is more than your AGI, \$9,300.

**Special rule for divorced or separated parents.** A child will be treated as the qualifying child of his or her noncustodial parent (for purposes of claiming an exemption, but not for the EIC) if all of the following apply.

1. The parents:
  - a. Are divorced or legally separated under a decree of divorce or separate maintenance,
  - b. Are separated under a written separation agreement, or
  - c. Lived apart at all times during the last 6 months of the year.
2. The child received over half of his or her support for the year from the parents.
3. The child is in the custody of one or both parents for more than half of the year.
4. A decree of divorce or separate maintenance or written separation agreement that applies to 2005 provides that the noncustodial parent can claim the child as a dependent (and, in the case of a pre-1985 agreement, the noncustodial parent provides at least \$600 for the support of the child during the year) **or** the custodial parent signs a written declaration that he or she will not claim the child as a dependent for the year.

For details, see Publication 501. Also see *Applying Rule 9 to divorced or separated parents*, next.

**Applying Rule 9 to divorced or separated parents.** If a child is treated as the qualifying child of the noncustodial parent under the special rule for children of divorced or separated parents described earlier, the noncustodial parent can claim an exemption and the child tax credit for the child but cannot claim the child as a qualifying child for head of household filing status, the credit for child and dependent care expenses, or the EIC. If the child is the qualifying child of more than one other person, only one of those persons can claim the child as a qualifying child for head of household filing status, the credit for child and dependent care expenses, and the EIC. No other person can claim any of these three tax benefits unless he or she has a different qualifying child. If you and any other person file a return claiming the child as a qualifying child for any of these three tax benefits, the IRS will disallow all but one of the claims using the tie-breaker rule in Table 2.

**Example:**  
Child lived with divorced parent and grandparent

**Example 1.** You and your 5-year-old son lived with your mother all year. Under the rules for children of divorced or separated parents, your son is the qualifying child of your ex-husband, who can claim an exemption and the child tax credit for the child if he meets all the requirements to do so. Because of this, you cannot claim an exemption or the child tax credit for your son. However, your ex-husband cannot claim the boy as a qualifying child for head of household filing status, the credit for child and dependent care expenses, or the EIC. You and your mother did not have any child care expenses, but the boy is a qualifying child of both you and your mother for the EIC and head of household filing status because he meets the relationship, age, residency, and support tests for both you and your mother. (Note: The support test does not apply for the EIC.) However, you agree to let your mother claim your son. This means, if you do not claim your son as a qualifying child for the EIC or head of household filing status, your mother can claim him as a qualifying child for each of those tax benefits for which she qualifies.

**Example:**  
Divorced parent and grandparent claim same qualifying child

**Example 2.** The facts are the same as in *Example 1* except that you and your mother both claim your son as a qualifying child for the EIC and head of household filing status. You as the child's parent will be the only one allowed to claim your son as a qualifying child for these tax benefits. The IRS will disallow your mother's claim to these tax benefits unless she has another qualifying child.

**Rule 10.**  
Qualifying child of another person

## **Rule 10** You Cannot Be a Qualifying Child of Another Person

You are a qualifying child of another person (your parent, guardian, foster parent, etc.) if all of the following statements are true.

1. You are that person's son, daughter, stepchild, grandchild, or eligible foster child. Or, you are that person's brother, sister, half brother, half sister, stepbrother, or stepsister (or the child or grandchild of that person's brother, sister, half brother, half sister, stepbrother, or stepsister).
2. At the end of the year you were under age 19, or under age 24 and a full-time student, or any age if you were permanently and totally disabled at any time during the year.
3. You lived with that person in the United States for more than half of the year.

For more details about the tests to be a qualifying child, see *Rule 8*.

If you (or your spouse, if filing a joint return) are a qualifying child of another person, you cannot claim the EIC. This is true even if the person for whom you are a qualifying child does not claim the EIC or meet all of the rules to claim the EIC. Put "No" beside line 66a (Form 1040) or line 41a (Form 1040A).

**Example:**  
Qualifying child of another person

**Example.** You and your daughter lived with your mother all year. You are 22 years old and attended a trade school full time. You had a part-time job and earned \$5,700. You had no other income. Because you meet the relationship, age, and residency tests, you are a qualifying child of your mother. She can claim the EIC if she meets all the other requirements. Because you are your mother's qualifying child, you cannot claim the EIC. This is so even if your mother cannot or does not claim the EIC.



## Chapter 3. Rules If You Do Not Have a Qualifying Child

A

B

C's

Use this chapter if you do not have a qualifying child and have met all the rules in chapter 1. This chapter discusses Rules 11 through 14. You must meet all four of those rules, in addition to the rules in chapters 1 and 4, to qualify for the earned income credit without a qualifying child.

You can file Form 1040, Form 1040A, or Form 1040EZ to claim the EIC without a qualifying child. If you meet all the rules in chapter 1 and this chapter, read chapter 4 to find out what to do next.

### Rule 11. Age

### Rule 11 You Must Be at Least Age 25 but Under Age 65

You must be at least age 25 but under age 65 at the end of 2005. If you are married filing a joint return, either you or your spouse must be at least age 25 but under age 65 at the end of 2005. It does not matter which spouse meets the age test, as long as one of the spouses does.

If neither you nor your spouse meets the age test, you cannot claim the EIC. Put "No" next to line 66a (Form 1040), line 41a (Form 1040A), or line 8a (Form 1040EZ).

### Examples: Age

**Example 1.** You are age 28 and unmarried. You meet the age test.

**Example 2.** You are married and filing a joint return. You are age 23 and your spouse is age 27. You meet the age test because your spouse is at least age 25 but under age 65.

### Rule 12. Dependent of another person

### Rule 12 You Cannot Be the Dependent of Another Person

If you are **not** filing a joint return, you meet this rule if:

- You checked box 6a on Form 1040 or 1040A, or
- You did not check the "You" box on line 5 of Form 1040EZ, and you entered \$8,200 on that line.

If you are filing a joint return, you meet this rule if:

- You checked both box 6a and box 6b on Form 1040 or 1040A, or
- You and your spouse did not check either the "You" box or the "Spouse" box on line 5 of Form 1040EZ, and you entered \$16,400 on that line.

If you are not sure whether someone else can claim you (or your spouse if filing a joint return) as a dependent, get Publication 501 and read the rules for claiming a dependent.

If someone else can claim you (or your spouse if filing a joint return) as a dependent on his or her return, but does not, you still cannot claim the credit.

### Examples: Dependent of another person

**Example 1.** In 2005, you were age 25, single, and living at home with your parents. You worked and were not a student. You earned \$7,500. Your parents cannot claim you as a dependent. When you file your return, you claim an exemption for yourself by not checking the "You" box on line 5 of your Form 1040EZ and by entering \$8,200 on that line. You meet this rule.

**Example 2.** The facts are the same as in *Example 1*, except that you earned \$2,000. Your parents can claim you as a dependent but decide not to. You do not meet this rule. You cannot claim the credit because your parents could have claimed you as a dependent.

**Rule 13.**  
Qualifying child of another person

### **Rule 13** You Cannot Be a Qualifying Child of Another Person

You are a qualifying child of another person (your parent, guardian, foster parent, etc.) if all of the following statements are true.

1. You are that person's son, daughter, stepchild, grandchild, or eligible foster child. Or, you are that person's brother, sister, half brother, half sister, stepbrother, or stepsister (or the child or grandchild of that person's brother, sister, half brother, half sister, stepbrother, or stepsister).
2. At the end of the year you were under age 19, or under age 24 and a full-time student, or any age if you were permanently and totally disabled at any time during the year.
3. You lived with that person in the United States for more than half of the year.

For more details about the tests to be a qualifying child, see *Rule 8*.

If you (or your spouse if filing a joint return) are a qualifying child of another person, you cannot claim the EIC. This is true even if the person for whom you are a qualifying child does not claim the EIC or meet all of the rules to claim the EIC. Put "No" next to line 66a (Form 1040), line 41a (Form 1040A), or line 8a (Form 1040EZ).

**Example:**  
Qualifying child of another person

**Example.** You lived with your mother all year. You are age 26 and permanently and totally disabled. Your only income was from a community center where you went three days a week to answer telephones. You earned \$3,400 for the year and provided more than half of your own support. Because you meet the relationship, age, and residency tests, you are a qualifying child of your mother for the EIC. She can claim the EIC if she meets all the other requirements. Because you are a qualifying child of your mother, you cannot claim the EIC. This is so even if your mother cannot or does not claim the EIC.

**Rule 14.**  
Main home in United States

### **Rule 14** You Must Have Lived in the United States More Than Half of the Year

Your home (and your spouse's, if filing a joint return) must have been in the United States for more than half the year.

If it was not, put "No" next to line 66a (Form 1040), line 41a (Form 1040A), or line 8a (Form 1040EZ).

**United States.** This means the 50 states and the District of Columbia. It does not include Puerto Rico or U.S. possessions such as Guam.

**Homeless shelter.** Your home can be any location where you regularly live. You do not need a traditional home. If you lived in one or more homeless shelters in the United States for more than half the year, you meet this rule.

**Military personnel stationed outside the United States.** U.S. military personnel stationed outside the United States on extended active duty (defined on page 15) are considered to live in the United States during that duty period for purposes of the EIC.



## Chapter 4. Figuring and Claiming the EIC



You must meet one more rule to be eligible to claim the EIC.

You need to know the amount of your earned income to see if you meet the rule in this chapter. You also need to know that amount to figure your EIC.

### Rule 15. Earned income limits

#### Rule 15 Your Earned Income Must Be Less Than:

- \$35,263 (\$37,263 for married filing jointly) if you have more than one qualifying child,
- \$31,030 (\$33,030 for married filing jointly) if you have one qualifying child, or
- \$11,750 (\$13,750 for married filing jointly) if you do not have a qualifying child.

### Earned Income

Earned income generally means wages, salaries, tips, other taxable employee pay, and net earnings from self-employment. Employee pay is earned income only if it is taxable. Nontaxable employee pay, such as certain dependent care benefits and adoption benefits, is not earned income. But there is an exception for nontaxable combat pay, which you can choose to include in earned income. Earned income is explained in detail in *Rule 7* in chapter 1.

**Figuring earned income.** If you are self-employed, a statutory employee, or a member of the clergy or a church employee who files Schedule SE (Form 1040), you will figure your earned income when you fill out Part 4 of EIC Worksheet B in the Form 1040 instructions.

Otherwise, figure your earned income by using the worksheet in *Step 5* of the Form 1040 instructions for lines 66a and 66b or the Form 1040A instructions for lines 41a and 41b, or the worksheet in *Step 2* of the Form 1040EZ instructions for lines 8a and 8b.

When using one of those worksheets to figure your earned income, you will start with the amount on line 7 (Form 1040 or Form 1040A) or line 1 (Form 1040EZ). You will then reduce that amount by any amount included on that line and described in the following list.

- **Scholarship or fellowship grants not reported on a Form W-2.** A scholarship or fellowship grant that was not reported to you on a Form W-2 is not considered earned income for the earned income credit.
- **Inmates.** Amounts received for work performed while an inmate in a penal institution are not earned income for the earned income credit. This includes amounts received for work performed while in a work release program or while in a halfway house. If you received any amount for work done while an inmate in a penal institution and that amount is included in the total on line 7 (Form 1040 or Form 1040A) or line 1 (Form 1040EZ), put "PRI" and the amount on the dotted line next to line 7 (Form 1040), in the space to the left of the entry space for line 7 (Form 1040A), or in the space to the left of line 1 (Form 1040EZ).
- **Deferred compensation plans.** A pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan is not considered earned income for the earned income credit. If you received such an amount and it was



included in the total on line 7 (Form 1040 or Form 1040A) or line 1 (Form 1040EZ), put “DFC” and the amount on the dotted line next to line 7 (Form 1040), in the space to the left of the entry space for line 7 (Form 1040A), or in the space to the left of line 1 (Form 1040EZ). This amount may be reported in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or an annuity.

**Clergy.** If you are a member of the clergy who files Schedule SE and the amount on line 2 of that schedule includes an amount that was also reported on line 7 (Form 1040), subtract that amount from the amount on line 7 (Form 1040) and enter the result in the first space of the worksheet in *Step 5* of the Form 1040 instructions for lines 66a and 66b. Put “Clergy” on the dotted line next to line 66a (Form 1040).

**Church employees.** A church employee means an employee (other than a minister or member of a religious order) of a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes. If you received wages as a church employee and included any amount on both line 5a of Schedule SE and line 7 (Form 1040), subtract that amount from the amount on line 7 (Form 1040) and enter the result in the first space of the worksheet in *Step 5* of the Form 1040 instructions for lines 66a and 66b.

**Nontaxable combat pay.** You can elect to have your nontaxable combat pay included in earned income for the earned income credit. If you make the election, you must include in earned income all nontaxable combat pay you received. If you are filing a joint return and both you and your spouse received nontaxable combat pay, you can each make your own election. The amount of your nontaxable combat pay should be shown on your Form W-2 in box 12 with code Q.

Electing to include nontaxable combat pay in earned income may increase or decrease your EIC. Figure the credit with and without your nontaxable combat pay before making the election. Whether the election increases or decreases your EIC depends on your total earned income, filing status, and number of qualifying children. If your earned income without your combat pay is less than the amount shown below for your number of children, you may benefit from electing to include your nontaxable combat pay in earned income and you should figure the credit both ways. If your earned income without your combat pay is equal to or more than these amounts, you will not benefit from including your combat pay in your earned income.

- \$5,200 if you have no children.
- \$7,800 if you have one child.
- \$11,000 if you have two children.

The following examples illustrate the effect of including nontaxable combat pay in earned income for the EIC.

**Example 1 – election increases the EIC.** George and Janice are married and will file a joint return. They have one qualifying child. George was in the military and earned \$15,000 (\$5,000 taxable wages + \$10,000 nontaxable combat pay). Janice worked part of the year and earned \$2,000. Their taxable earned income and AGI are \$7,000. George and Janice qualify for the earned income credit and fill out the EIC Worksheet and Schedule EIC.

When they complete the EIC worksheet without adding the nontaxable combat pay to their earned income, they find their credit to be \$2,389. When they complete the EIC worksheet with the nontaxable combat pay added to their earned income, they find their credit to be \$2,558. Because making the election will increase their EIC, they elect to add the nontaxable combat pay to their earned income for the EIC. They enter \$2,558 on line



41a of their Form 1040A and enter the amount of their nontaxable combat pay on line 41b.

**Example 2— election does not increase the EIC.** The facts are the same as *Example 1* except George had nontaxable combat pay of \$22,000. When George and Janice add their nontaxable combat pay to their earned income, they find their credit to be \$640. Because the credit they can get if they do not add the nontaxable combat pay to their earned income is \$2,389, they decide not to make the election. They enter \$2,389 on line 41a of their Form 1040A.

**Hurricane Katrina victims.** If you lived in the Hurricane Katrina core disaster area on August 25, 2005, and your earned income for 2005 is less than your earned income for 2004, you can choose to figure your 2005 EIC using your 2004 earned income. This also applies if you lived in the Hurricane Katrina disaster area, but outside the core disaster area, and you were displaced from your main home because of the hurricane. For details, see Publication 4492.

**Tip:**

If you want the IRS to figure your income tax, see Publication 967, *The IRS Will Figure Your Tax*.

## IRS Will Figure the EIC for You

The IRS will figure your EIC for you if you follow the instructions in Figure 3 on the next page.



*Please do not ask the IRS to figure your EIC unless you are eligible for it. To be eligible, you must meet Rule 15 in this chapter as well as the rules in chapter 1 and either chapter 2 or chapter 3, whichever applies to you. If your credit was reduced or disallowed for any year after 1996, the rules in chapter 5 may apply as well.*



**Figure 3. Steps To Follow To Have the IRS Figure Your EIC**

|                                   |  |          |
|-----------------------------------|--|----------|
| <b>Payments, credits, and tax</b> | Advance earned income credit   | <b>2</b> |
|                                   | <b>Earned income credit (EIC)</b>  | <b>1</b> |
|                                   | Nontaxable combat pay election ► <input style="width: 50px;" type="text"/> |          |
|                                   | Add lines . . . . . your <b>total payments</b>                             | <b>3</b> |
| <b>Refund</b>                     |  | <b>3</b> |

- 1** Put “EIC” on the dotted line next to line 66a (Form 1040), to the left of the entry space for line 41a (Form 1040A), or in the space to the left of line 8a (Form 1040EZ). Then, if you have any of the types of income described earlier under *Inmates*, *Deferred compensation plans*, or *Clergy*, follow the instructions given there.
- 2** If you received nontaxable combat pay and are electing to include it in your earned income for the EIC, enter the amount on line 66b (Form 1040), line 41b (Form 1040A), or line 8b (Form 1040EZ). For details, see *Nontaxable combat pay* in this chapter.
- 3** Complete all other parts of your return that apply to you (including line 61 (Form 1040) or line 37 (Form 1040A) to report advance payments of the EIC).
- 4** Do not fill in lines that relate to your total payments, overpayment, refund, or amount you owe (lines 71, 72, 73a, and 75 (Form 1040), lines 43, 44, 45a, and 47 (Form 1040A), or lines 9, 11a, and 12 (Form 1040EZ)).
- 5** If you have a qualifying child, complete Schedule EIC and attach it to your tax return.

## How To Figure the EIC Yourself

To figure the EIC yourself, use the EIC worksheet in the instructions for the form you are using (Form 1040, Form 1040A, or Form 1040EZ). If you have a qualifying child, complete Schedule EIC (discussed on page 27) and attach it to your tax return.

If you want the IRS to figure your EIC for you, see *IRS Will Figure the EIC for You*, earlier.

## Special Instructions for Form 1040 Filers

If you file Form 1040, you will need to decide whether to use EIC Worksheet A or EIC Worksheet B to figure the amount of your EIC. This section explains how to use these worksheets and how to report the EIC on your return.

**EIC Worksheet A.** Use EIC Worksheet A if you are not self-employed, a member of the clergy or a church employee who files Schedule SE, or a statutory employee filing Schedule C or C-EZ.

**EIC Worksheet B.** Use EIC Worksheet B if you are self-employed, a member of the clergy or a church employee who files Schedule SE, or a statutory employee filing Schedule C or C-EZ. If any of the following situations apply to you, read the paragraph and then complete EIC Worksheet B.



**Net earnings from self-employment \$400 or more.** If your net earnings from self-employment are \$400 or more, be sure to correctly fill out Schedule SE (Form 1040) and pay the proper amount of self-employment tax. If you do not, you may not get all the EIC you are entitled to.



*When figuring your net earnings from self-employment, you must claim all your allowable business expenses.*

**When to use the optional methods of figuring net earnings.** Using the optional methods on Schedule SE to figure your net earnings from self-employment may qualify you for the EIC or give you a larger credit. If your net earnings (without using the optional methods) are less than \$1,600, see the instructions for Schedule SE for details about the optional methods.

**When both spouses have self-employment income.** You must complete both Parts 1 and 2 of EIC Worksheet B if all of the following conditions apply to you.

1. You are married filing a joint return.
2. Both you and your spouse have income from self-employment.
3. You or your spouse files a Schedule SE and the other spouse does not file Schedule SE.

**Statutory employees.** Statutory employees report wages and expenses on Schedule C or C-EZ. They do not file Schedule SE. If you are a statutory employee, enter the amount from line 1 of Schedule C or C-EZ in Part 3 when you complete EIC Worksheet B.

## Schedule EIC

You must complete Schedule EIC and attach it to your tax return if you have a qualifying child and are claiming the EIC. Schedule EIC provides IRS with information about your qualifying children, including their names, ages, SSNs, relationship to you, and the amount of time they lived with you during the year. An example of a filled-in Schedule EIC is shown on page 35.



*If you are required to complete and attach Schedule EIC but do not, it will take longer to process your return and issue your refund.*



## Chapter 5. Disallowance of the EIC



*If your earned income credit (EIC) for any year after 1996 was denied (disallowed) or reduced by the IRS, you may need to complete an additional form to claim the credit for 2005.*

This chapter is for people whose earned income credit (EIC) for any year after 1996 was denied or reduced by the IRS. If this applies to you, you may need to complete Form 8862, Information To Claim Earned Income Credit After Disallowance, and attach it to your 2005 return to claim the credit for 2005. This chapter explains when you need to attach Form 8862. For more information, see Form 8862 and its instructions.

This chapter also explains the rules for certain people who cannot claim the EIC for a period of years after their EIC was denied or reduced.

### Form 8862

If your EIC for any year after 1996 was denied or reduced for any reason other than a math or clerical error, you must attach a completed Form 8862 to your next tax return to claim the EIC. You must also qualify to claim the EIC by meeting all the rules described in this publication.

However, do not file Form 8862 if either (1) or (2) below is true.

1. After your EIC was reduced or disallowed in the earlier year:
  - a. You filed Form 8862 in a later year and your EIC for that later year was allowed, and
  - b. Your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
2. You are taking the EIC without a qualifying child for 2005 and the only reason your EIC was reduced or disallowed in the earlier year was because the IRS determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the EIC for:

- 2 years after there was a final determination that your EIC claim was due to reckless or intentional disregard of the EIC rules, or
- 10 years after there was a final determination that your EIC claim was due to fraud.

For details, see *Are You Prohibited From Claiming the EIC for a Period of Years?* in this chapter.

The date on which your EIC was denied and the date on which you file your 2005 return affect whether you need to attach Form 8862 to your 2005 return or to a later return. The following examples demonstrate whether Form 8862 is required for 2005 or 2006.

**Example:**  
Form 8862 required for  
2005

**Example 1.** You filed your 2004 tax return in March 2005 and claimed the EIC with a qualifying child. The IRS questioned the EIC, and you were unable to prove the child was a qualifying child. In September 2005, you received a statutory notice of deficiency telling you that an adjustment would be made and tax assessed unless you filed a petition with the Tax Court within 90 days. You did not act on this notice within 90 days. Therefore, your EIC was denied in December 2005. To claim the EIC with a qualifying child on your 2005 return, you must complete and attach Form 8862 to that return. However, to claim the EIC without a qualifying child on your 2005 return, you do not need to file Form 8862.

**Example:**  
Form 8862 required for  
2006

**Example 2.** The facts are the same as in *Example 1*, except that you received the statutory notice of deficiency in February 2006. Because the 90-day period referred to in the statutory notice is not over when you are ready to file your return for 2005, you should not attach Form 8862 to your 2005 return. However, to claim the EIC with a qualifying child for 2006, you must complete and attach Form 8862 to your return for that year. To claim the EIC without a qualifying child for 2006, you do not need to file Form 8862.

**Exception for math or clerical errors.** If your EIC was denied or reduced as a result of a math or clerical error, do not attach Form 8862 to your next tax return. For example, if your arithmetic is incorrect, the IRS can correct it. If you do not provide a correct social security number, the IRS can deny the EIC. These kinds of errors are called math or clerical errors.

**Omission of Form 8862.** If you are required to attach Form 8862 to your 2005 tax return, and you claim the EIC without attaching a completed Form 8862, your claim will be automatically denied. This is considered a math or clerical error. You will not be permitted to claim the EIC without a completed Form 8862.

**Additional documents may be required.** You may have to provide the IRS with additional documents or information before a refund relating to the EIC you claim is released to you, even if you attach a properly completed Form 8862 to your return.

## Are You Prohibited From Claiming the EIC for a Period of Years?

If your EIC for any year after 1996 was denied and it was determined that your error was due to reckless or intentional disregard of the EIC rules, then you cannot claim the EIC for the next 2 years. If your error was due to fraud, then you cannot claim the EIC for the next 10 years. The date on which your EIC was denied and the date on which you file your 2005 return affect the years for which you are prohibited from claiming the EIC. The following examples demonstrate which years you are prohibited from claiming the EIC.

**Examples:**  
Cannot claim EIC for 2  
years

**Example 3.** You claimed the EIC on your 2004 tax return, which you filed in March 2005. The IRS determined you were not entitled to the EIC and that your error was due to reckless or intentional disregard of the EIC rules. In September 2005, you received a statutory notice of deficiency telling you an adjustment would be made and tax assessed unless you filed a petition with the Tax Court within 90 days. You did not act on this notice within 90 days. Therefore, your EIC was denied in December 2005. You cannot claim the EIC for tax year 2005 or 2006. To claim the EIC on your return for 2007, you must complete and attach Form 8862 to your return for that year.

**Example 4.** The facts are the same as in *Example 3*, except that your 2004 EIC was not denied until after you filed your 2005 return. You cannot claim the EIC for tax year 2006 or 2007. To claim the EIC on your return for 2008, you must complete and attach Form 8862 to your return for that year.

**Example:**  
Cannot claim EIC for 10  
years

**Example 5.** You claimed the EIC on your 2004 tax return, which you filed in February 2005. The IRS determined you were not entitled to the EIC and that your error was due to fraud. In September 2005, you received a statutory notice of deficiency telling you an adjustment would be made and tax assessed unless you filed a petition with the Tax Court within 90 days. You did not act on this notice within 90 days. Therefore, your EIC was denied in December 2005. You cannot claim the EIC for tax years 2005 through 2014. To claim the EIC on your return for 2015, you must complete and attach Form 8862 to your return for that year.

# Chapter 6. Advance Payment of EIC in 2006



You can receive part of your 2006 EIC in your paycheck by completing a form and giving it to your employer.

Do you expect to be eligible for the EIC this year (2006) and to have a qualifying child? If so, you can choose to get payments of the EIC in your paycheck now instead of waiting to get your EIC all at once in 2007 when you file your tax return for the year 2006. These payments are called advance EIC payments. This chapter explains how you may be able to get them this year and how to report them on your tax return.

**Example:**  
How advance payment of EIC works

**Example.** In March of 2006, John and Tom worked together. Tom told John that he gets \$40 added to his paycheck each month because of the earned income credit. John would like to get an extra amount every month too. John needs to find out if he can claim the EIC in 2006. He should answer the questions in *Step 1* below and then, if he is eligible for advance EIC payments, go to *Step 2*.

**Note.** Chapters 1 through 5 of this publication are about the EIC you claim on your 2005 tax return. This chapter is about the EIC you **expect** to claim on your 2006 tax return.

## Step 1 Find Out If You Are Eligible for Advance Payments of the EIC

Answer the following three questions to see if you are eligible for advance payments of the EIC.

**Note.** When the question says “expect,” you do not have to know that you will be able to answer “Yes” when you file your tax return. You can only make a best guess that you will be able to answer “Yes.”

Question 1. \_\_\_\_\_

**Do you expect to have a qualifying child? (See the definition of qualifying child beginning on page 13.)**

- Yes.**  
Go to Question 2.
- No.**   
You cannot get advance payments of the EIC.

Question 2. \_\_\_\_\_

**Do you expect that your adjusted gross income (AGI) and earned income will each be less than \$32,001 (\$34,001 if you expect to file a joint return for 2006)?**

- Yes.**  
Go to Question 3.
- No.**   
You cannot get advance payments of the EIC.


**Tip:**  
AGI and earned income are explained on pages 6, 10, and 23.



**Tip:**  
 If you are a farm worker paid on a daily basis, your employer is not required to pay you advance EIC. Also, you generally cannot get advance EIC unless your wages are subject to federal income tax, social security tax, or Medicare tax withholding.

Question 3. \_\_\_\_\_

**Do you expect to be eligible for the EIC in 2006 as explained in chapters 1, 2, 3, and 4?**


- Yes.**  
Go to *Step 2*.
- No.**   
You cannot get advance payments of the EIC.
- Not Sure.**  
Read the rules in chapters 1, 2, 3, and 4 and/or the instructions for Form W-5. Then answer "Yes" or "No."

**Note.** The rules in chapters 1, 2, 3, and 4 are expected to be basically the same for 2006, except that you will be allowed to have more earned income and adjusted gross income and up to \$2,800 of investment income.

**Step 2 Complete Form W-5 and Give It to Your Employer**

If you answered "Yes" to all the questions in *Step 1*, and you wish to get part of your EIC now, you must give your employer a Form W-5 for 2006.

After you have read the instructions and completed Form W-5, give the lower part of the form to your employer. Keep the top part for your records. A part of a blank Form W-5 is shown here.

|   |  |   |
|---|--|---|
| 2006 Form W-5   |  |  Department of the Treasury<br>Internal Revenue Service                                  |
| Instructions  |  |   |
| Purpose   |  | 1. You expect to have at least one qualifying child. If you do not expect to have a qualifying child, you may still be eligible for the EIC, but you cannot receive advance |
| Give the bottom part to your employer; keep the top part for your records.  |  |   |
| ----- Detach here -----   |  |   |
| Form<br><b>W-5</b>  | <b>Earned Income Credit Advance Payment Certificate</b><br>▶ Use the current year's certificate only.<br>▶ Give this certificate to your employer.<br>▶ This certificate expires on December 31, 2006. | OMB No. 1545-1342<br><br><b>2006</b>  |
| Department of the Treasury<br>Internal Revenue Service  |  | Your social security number   |
| Print or type your full name  |  | : : :   |
| <b>Note:</b> If you get advance payments of the earned income credit for 2006, you <b>must</b> file a 2006 federal income tax return. To get advance payments, you <b>must</b> have a qualifying child and your filing status must be any status <b>except</b> married filing a separate return.          |  |   |
| <b>1</b> I expect to have a qualifying child and be able to claim the earned income credit for 2006 using that child. I do not have another Form W-5 in effect with any other current employer, and I choose to get advance EIC payments . . . . <input type="checkbox"/> Yes <input type="checkbox"/> No |  |   |
| <b>2</b> Check the box that shows your expected filing status for 2006:<br><input type="checkbox"/> Single, head of household, or qualifying widow(er) <input type="checkbox"/> Married filing jointly  |  |   |
| <b>3</b> If you are married, does your spouse have a Form W-5 in effect for 2006 with any employer? . . . . <input type="checkbox"/> Yes <input type="checkbox"/> No  |  |   |
| Under penalties of perjury, I declare that the information I have furnished above is, to the best of my knowledge, true, correct, and complete.   |  |   |
| Signature ▶   |  | Date ▶  |
| Cat. No. 10227P   |  |   |

You may get only part of your EIC during the year in advance payments. You will get the rest of the EIC you are entitled to when you file your tax return in 2007 and claim the EIC.

## Frequently Asked Questions About Form W-5

- 1. How do I get Form W-5?** Ask your employer for the form. Or, see *How To Get Tax Help* on page 51.
- 2. What should I do if I have more than one employer?** Give a Form W-5 to only one employer.
- 3. Can I give my employer a Form W-5 if my spouse has given her employer a Form W-5?** Yes.
- 4. How often do I have to file Form W-5?** The 2006 Form W-5 you give to your employer is valid until December 31, 2006. If you expect to be eligible for EIC in 2007 and you want to receive advance payments, you must give your employer a new Form W-5 in 2007. Do this each year you expect to be eligible for the EIC.
- 5. What should I do if my situation changes after I give Form W-5 to my employer?** Give your employer a new Form W-5 if any situation shown in the following table applies to you for 2006.

Table 3. **Changes to Advance EIC Status**

| IF...   | THEN you must give your employer a new Form W-5. To indicate your change, check... |
|---|--|
| You no longer expect to have a qualifying child     | “No” on line 1.  |
| You no longer expect to be eligible for the EIC     | “No” on line 1.  |
| You no longer want advance payments                 | “No” on line 1.  |
| Your spouse files Form W-5 with his or her employer | “Yes” on line 3.   |

### Step 3 How To Report Advance Payments of EIC

If you received advance payments of EIC in 2005, see *Reporting advance payments of EIC received in 2005* on page 4 for information on reporting these payments.

If you receive advance payments of EIC in 2006, you must file a 2006 tax return (even if you would not otherwise have to file) to report the payments and claim any additional EIC. Box 9 of your Form W-2 will show the amount you received. See the instructions for Form 1040 or Form 1040A for the line number on which you report advance payments of EIC.

If you receive advance payments of EIC in 2006, and you later find out that you are not eligible for some or all of them, you still must report them on your tax return.



*You cannot use Form 1040EZ to report your advance payments. You must file Form 1040 or Form 1040A.*



## Chapter 7. Detailed Examples



The next few pages contain four detailed examples (with a filled-in Schedule EIC and EIC Worksheets) that may be helpful if you have questions about claiming the EIC.

### Example:

Cynthia and Jerry Grey have two children and are both employed.

### Example 1. Cynthia and Jerry Grey

Cynthia and Jerry Grey have two children, Kirk, age 8, and Susanne, age 6. The children lived with Cynthia and Jerry for all of 2005. Cynthia earned wages of \$15,000 and Jerry had wages of \$10,000. The Greys received \$525 in interest on their savings account. They had no other income in 2005.

Cynthia and Jerry have the 2005 Form 1040A and instructions. They want to see if they qualify for the EIC, so they follow the steps in the instructions for lines 41a and 41b.

**Step 1.** The amount Cynthia and Jerry entered on Form 1040A, line 22, was \$25,525. They both have valid social security numbers (SSNs). They will file a joint return. Neither Cynthia nor Jerry is a nonresident alien. Therefore, the answers they give to the questions in *Step 1* allow them to proceed to *Step 2*.

**Step 2.** The only investment income the Greys have is their \$525 interest income. That amount is not more than \$2,700, so they answer “No” to the second question in *Step 2*. Their two children lived with them in 2005, so they go to *Step 3*.

**Step 3.** Cynthia and Jerry are not qualifying children of anyone else, so they answer “No” to the first question in *Step 3*. Their children, Kirk and Susanne, meet the relationship, residency, and age tests to be Cynthia and Jerry’s qualifying children, so Cynthia and Jerry answer “Yes” to the second question in *Step 3*. Kirk and Susanne are not qualifying children of anyone else, so Cynthia and Jerry answer “No” to the third question in this step. Both children have valid SSNs. Since Cynthia and Jerry do have qualifying children, they skip *Step 4* and go to *Step 5*.

**Step 5.** Cynthia and Jerry figure their earned income to be \$25,000, the amount of their combined wages. This is less than \$37,263, so they go to *Step 6* to figure their credit.

**Step 6.** Cynthia and Jerry want to figure their EIC themselves, so they complete the EIC Worksheet in the Form 1040A instructions (shown on page 35).

**Completing the EIC Worksheet.** Cynthia and Jerry complete their worksheet as follows.

1. Cynthia and Jerry enter their total earned income (\$25,000) on line 1.
2. To find their credit, they go to the EIC Table (in the *Appendix* of this publication). The part of the EIC Table used in this example is on the next page. They find their earned income of \$25,000 in the range of \$25,000 to \$25,050. They follow this line across to the column *Two children* under *Married filing jointly* and find \$2,577. They enter \$2,577 on line 2.
3. They enter on line 3 their AGI (\$25,525) and see that it is different from the amount on line 1.
4. They look up \$25,525 in the EIC Table and enter the amount of \$2,472 on line 5.
5. They enter \$2,472 on line 6. This is the smaller of the line 2 amount (\$2,577) and the line 5 amount (\$2,472).



6. The Greys enter \$2,472 on line 41a of their Form 1040A. They will now complete Schedule EIC (shown on page 36) and attach it to their return. They will keep the EIC Worksheet for their records.

| If the amount you are looking up from the worksheet is— |               | And your filing status is—                                       |           |              |                                      |           |              |
|---|---------------|--|-----------|--------------|--------------------------------------|-----------|--------------|
|   |               | Single, head of household, or qualifying widow(er) and you have— |           |              | Married filing jointly and you have— |           |              |
|   |               | No children  | One child | Two children | No children                          | One child | Two children |
| At least  | But less than | Your credit is—  |           |              | Your credit is—                      |           |              |
| 24,850  | 24,900        | 0  | 984       | 2,188        | 0                                    | 1,303     | 2,609        |
| 24,900  | 24,950        | 0  | 976       | 2,177        | 0                                    | 1,295     | 2,598        |
| 24,950  | 25,000        | 0  | 968       | 2,167        | 0                                    | 1,287     | 2,588        |
| 25,000  | 25,050        | 0  | 960       | 2,156        | 0                                    | 1,279     | 2,577        |
| 25,050  | 25,100        | 0  | 952       | 2,146        | 0                                    | 1,271     | 2,567        |
| 25,100  | 25,150        | 0  | 944       | 2,135        | 0                                    | 1,263     | 2,556        |
| 25,150  | 25,200        | 0  | 936       | 2,124        | 0                                    | 1,255     | 2,546        |
| 25,200  | 25,250        | 0  | 928       | 2,114        | 0                                    | 1,247     | 2,535        |
| 25,250  | 25,300        | 0  | 920       | 2,103        | 0                                    | 1,239     | 2,525        |
| 25,300  | 25,350        | 0  | 912       | 2,093        | 0                                    | 1,231     | 2,514        |
| 25,350  | 25,400        | 0  | 904       | 2,082        | 0                                    | 1,223     | 2,504        |
| 25,400  | 25,450        | 0  | 896       | 2,072        | 0                                    | 1,215     | 2,493        |
| 25,450  | 25,500        | 0  | 888       | 2,061        | 0                                    | 1,207     | 2,482        |
| 25,500  | 25,550        | 0  | 880       | 2,051        | 0                                    | 1,199     | 2,472        |
| 25,550  | 25,600        | 0  | 872       | 2,040        | 0                                    | 1,191     | 2,461        |

**Example:**  
Sharon Rose does not have a qualifying child and her AGI is too high for her to claim the EIC.

## Example 2. Sharon Rose

Sharon Rose is age 63 and retired. She received \$7,000 in social security benefits during the year and \$7,300 from a part-time job. She also received a taxable pension of \$5,400. Sharon had no other income. Her AGI on line 22 of Form 1040A is \$12,700 (\$7,300 + \$5,400).

Sharon is not married and lived alone in the United States for the entire year. She cannot be claimed as a dependent on anyone else's return. She does not have any investment income and does not have a qualifying child.

Sharon reads the steps for eligibility in her Form 1040A instructions. In *Step 1* she discovers that, because her AGI (\$12,700) is not less than \$11,750, she cannot take the EIC. She completes the rest of her Form 1040A and files it with the IRS.



## Filled-in EIC Worksheet—Cynthia and Jerry Grey (Page references are to the Form 1040A Instructions)

## Earned Income Credit (EIC) Worksheet—Lines 41a and 41b

Keep for Your Records



## Part 1


## All Filers

1. Enter your earned income from Step 5 on page 43. But if you elect to use your 2004 earned income (see page 43), enter that amount instead.

|   |        |
|---|--------|
| 1 | 25,000 |
|---|--------|

2. Look up the amount on line 1 above in the EIC Table on pages 46–52 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

|   |       |
|---|-------|
| 2 | 2,577 |
|---|-------|

If line 2 is zero,  You cannot take the credit. Put “No” to the left of the entry space for line 41a.

3. Enter the amount from Form 1040A, line 22.

|   |        |
|---|--------|
| 3 | 25,525 |
|---|--------|

4. Are the amounts on lines 3 and 1 the same?

- Yes.** Skip line 5; enter the amount from line 2 on line 6.
- No.** Go to line 5.

## Part 2

## Filers Who Answered “No” on Line 4

5. If you have:

- No qualifying children, is the amount on line 3 less than \$6,550 (\$8,550 if married filing jointly)?
  - 1 or more qualifying children, is the amount on line 3 less than \$14,400 (\$16,400 if married filing jointly)?
- Yes.** Leave line 5 blank; enter the amount from line 2 on line 6.
- No.** Look up the amount on line 3 in the EIC Table on pages 46–52 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

|   |       |
|---|-------|
| 5 | 2,472 |
|---|-------|

Look at the amounts on lines 5 and 2. Then, enter the **smaller** amount on line 6.

## Part 3

## Your Earned Income Credit

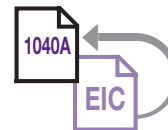
6. **This is your earned income credit.** If you elect to use your 2004 earned income (see page 43), enter “PYEI” and the amount of your earned income on the line next to line 41a.

|   |       |
|---|-------|
| 6 | 2,472 |
|---|-------|

Enter this amount on Form 1040A, line 41a.

**Reminder—**

- If you have a qualifying child, complete and attach Schedule EIC.



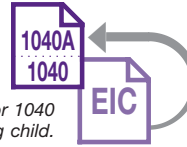
If your EIC for a year after 1996 was reduced or disallowed, see page 44 to find out if you must file Form 8862 to take the credit for 2005.



**Filled-in Schedule EIC—Cynthia and Jerry Grey**

**SCHEDULE EIC**  
(Form 1040A or 1040)

**Earned Income Credit**  
Qualifying Child Information



OMB No. 1545-0074

**2005**

Attachment  
Sequence No. **43**

Department of the Treasury  
Internal Revenue Service (99)

Complete and attach to Form 1040A or 1040  
only if you have a qualifying child.

Name(s) shown on return

Cynthia and Jerry Grey

Your social security number

333 | 00 | 5555

**Before you begin:** See the instructions for Form 1040A, lines 41a and 41b, or Form 1040, lines 66a and 66b, to make sure that **(a)** you can take the EIC and **(b)** you have a qualifying child.



- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

**Qualifying Child Information**

|   | Child 1  |  | Child 2  |  |
|---|--|--|--|--|
|   | First name   | Last name  | First name   | Last name  |
| <b>1 Child's name</b><br>If you have more than two qualifying children, you only have to list two to get the maximum credit.  | Kirk Grey  |  | Susanne Grey   |  |
| <b>2 Child's SSN</b><br>The child must have an SSN as defined on page 44 of the Form 1040A instructions or page 48 of the Form 1040 instructions unless the child was born and died in 2005. If your child was born and died in 2005 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate. | 123   00   5678  |  | 987   00   4321  |  |
| <b>3 Child's year of birth</b>  | Year 1   9   9   7<br><i>If born after 1986, skip lines 4a and 4b; go to line 5.</i> |  | Year 1   9   9   9<br><i>If born after 1986, skip lines 4a and 4b; go to line 5.</i> |  |
| <b>4 If the child was born before 1987—</b>   |  |  |  |  |
| <b>a</b> Was the child under age 24 at the end of 2005 and a student?   | <input type="checkbox"/> Yes.<br><i>Go to line 5.</i>                                | <input type="checkbox"/> No.<br><i>Continue</i>                      | <input type="checkbox"/> Yes.<br><i>Go to line 5.</i>                                | <input type="checkbox"/> No.<br><i>Continue</i>                      |
| <b>b</b> Was the child permanently and totally disabled during any part of 2005?  | <input type="checkbox"/> Yes.<br><i>Continue</i>                                     | <input type="checkbox"/> No.<br>The child is not a qualifying child. | <input type="checkbox"/> Yes.<br><i>Continue</i>                                     | <input type="checkbox"/> No.<br>The child is not a qualifying child. |
| <b>5 Child's relationship to you</b><br>(for example, son, daughter, grandchild, niece, nephew, foster child, etc.)   | son  |  | daughter   |  |
| <b>6 Number of months child lived with you in the United States during 2005</b><br>• If the child lived with you for more than half of 2005 but less than 7 months, enter "7."<br>• If the child was born or died in 2005 and your home was the child's home for the entire time he or she was alive during 2005, enter "12."               | 12 months<br><i>Do not enter more than 12 months.</i>                                |  | 12 months<br><i>Do not enter more than 12 months.</i>                                |  |



You may also be able to take the additional child tax credit if your child **(a)** was under age 17 at the end of 2005, **and** **(b)** is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 68 of Form 1040.



**Example:**

Steve and Linda Green have two children, a loss from a dairy farm, and a net capital gain from selling cows.

### Example 3. Steve and Linda Green

Steve and Linda Green have two children, Amy, age 8, and Carol, age 10, who lived with them all year.

Steve owns and operates a dairy farm that had a loss of \$2,200 in 2005. Steve reports this loss on Schedule F and on Form 1040, line 18. Steve qualifies and chooses to use the optional method to figure net earnings, so he uses Section B of Schedule SE. He enters \$1,600 on Schedule SE, Section B, lines 15 and 4b. Steve figures self-employment tax of \$244. He deducts one-half of it (\$122) on Form 1040, line 27.

Linda had wages of \$15,000, which she reports on Form 1040, line 7. She also received advance EIC payments of \$1,140, which she reports on Form 1040, line 61. In addition, she and Steve received \$200 in interest from a savings account.

Steve and Linda had a \$1,000 gain from the sale of stock and a \$3,000 gain from the sale of raised dairy cows they had held for 3 years. They report the \$3,000 gain on Form 4797, Sales of Business Property. They do not have any other sales to report on Form 4797, so they enter \$3,000 on line 7, Form 4797 and on line 11, Schedule D. (They have no prior year section 1231 losses.) They report their net capital gain of \$4,000 (\$1,000 + \$3,000) from Schedule D on Form 1040, line 13.

The Greens read the instructions for Form 1040, lines 66a and 66b. In *Step 2* they figure their investment income to be \$4,200 (\$200 interest income from Form 1040, line 8a, plus a \$4,000 capital gain from Form 1040, line 13). But when they read the second and third questions in *Step 2* they find that, because they have figured their investment income to be more than \$2,700 and they are filing Form 4797, they must use Worksheet 1 in Publication 596 to see if they can take the EIC.

The Greens fill out Worksheet 1 (shown on page 38) in Publication 596. They find their correct investment income for EIC purposes to be \$1,200, not \$4,200. This is less than \$2,700, so they meet *Rule 6*. They read the rest of Publication 596 and find that they meet all the rules to claim the EIC. For example, they will file a joint return (*Rule 3*). Both of their children are qualifying children (*Rule 8*). Also, their AGI of \$16,878 (\$15,000 + \$4,000 + \$200 - \$2,200 - \$122) is less than \$37,263 (*Rule 1*).

They use EIC Worksheet B (shown on pages 39 and 40) to figure their EIC of \$4,294. They also complete Schedule EIC (not shown) and attach it to their Form 1040.



## Filled-in Worksheet 1 for Steve and Linda Green

### Worksheet 1: Investment Income If You Are Filing Form 1040



#### Interest and Dividends

- |    |  |    |                   |
|----|--|----|-------------------|
| 1. | Enter any amount from Form 1040, line 8a.  | 1. | <u>200</u>        |
| 2. | Enter any amount from Form 1040, line 8b, plus any amount on Form 8814, line 1b.   | 2. | <u>          </u> |
| 3. | Enter any amount from Form 1040, line 9a.  | 3. | <u>          </u> |
| 4. | Enter the amount from Form 1040, line 21, that is from Form 8814 if you are filing that form to report your child's interest and dividend income on your return. (See instructions below for line 4 if your child received an Alaska Permanent Fund dividend.) | 4. | <u>          </u> |

#### Capital Gain Net Income

- |    |   |    |              |
|----|---|----|--------------|
| 5. | Enter the amount from Form 1040, line 13. If the amount on that line is a loss, enter -0-.  | 5. | <u>4,000</u> |
| 6. | Enter any gain from Form 4797, Sales of Business Property, line 7. If the amount on that line is a loss, enter -0-. (But, if you completed lines 8 and 9 of Form 4797, enter the amount from line 9 instead.) | 6. | <u>3,000</u> |
| 7. | Subtract line 6 of this worksheet from line 5 of this worksheet. (If the result is less than zero, enter -0-.)  | 7. | <u>1,000</u> |

#### Royalties and Rental Income from Personal Property

- |     |  |     |                   |
|-----|--|-----|-------------------|
| 8.  | Enter any royalty income from Schedule E, line 4, plus any income from the rental of personal property shown on Form 1040, line 21.                            | 8.  | <u>          </u> |
| 9.  | Enter any expenses from Schedule E, line 21, related to royalty income, plus any expenses from the rental of personal property deducted on Form 1040, line 36. | 9.  | <u>          </u> |
| 10. | Subtract the amount on line 9 of this worksheet from the amount on line 8. (If the result is less than zero, enter -0-.)                                       | 10. | <u>          </u> |

#### Passive Activities

- |     |   |     |                   |
|-----|---|-----|-------------------|
| 11. | Enter the total of any net income from passive activities (included on Schedule E, lines 26, 29a (col. (g)), 34a (col. (d)), and 40). (See instructions below for lines 11 and 12.)   | 11. | <u>          </u> |
| 12. | Enter the total of any losses from passive activities (included on Schedule E, lines 26, 29b (col. (f)), 34b (col. (c)), and 40). (See instructions below for lines 11 and 12.)   | 12. | <u>          </u> |
| 13. | Combine the amounts on lines 11 and 12 of this worksheet. (If the result is less than zero, enter -0-.)   | 13. | <u>          </u> |
| 14. | Add the amounts on lines 1, 2, 3, 4, 7, 10, and 13. Enter the total. <b>This is your Investment Income.</b>   | 14. | <u>1,200</u>      |
| 15. | Is the amount on line 14 more than \$2,700?<br><input type="checkbox"/> <b>Yes.</b> You cannot take the credit.<br><input checked="" type="checkbox"/> <b>No.</b> Go to Question 5 in <i>Step 2</i> of your Form 1040 instructions to find out if you can take the credit (unless you are using this publication to find out if you can take the credit; in that case, go to <i>Rule 7</i> , next). |     |                   |

**Instructions for line 4 if your child received Alaska Permanent Fund dividends.** To figure the amount to enter on line 4, start with the amount on line 6 of Form 8814. Multiply that amount by a percentage that is equal to any Alaska Permanent Fund dividends divided by the total amount of interest and dividend income on lines 1a and 2 of Form 8814. Subtract the result from the amount on line 6 of Form 8814.


**Example.** Your 10-year-old child has taxable interest income of \$1,500 and an Alaska Permanent Fund dividend of \$1,100. You choose to report this income on your return. You enter \$1,500 on line 1a of Form 8814, \$1,100 on line 2, and \$2,600 on line 4. You enter \$1,000 on line 6 of Form 8814 and line 21 of Form 1040. You figure the amount to enter on line 4 of this worksheet as follows:  
 $\$1,000 - (\$1,000 \times (\$1,100 \div \$2,600)) = \$577$ .

**Instructions for lines 11 and 12.** In figuring the amount to enter on lines 11 and 12, do not take into account any royalty income (or loss) included on line 26 of Schedule E or any amount included in your earned income. To find out if the income on line 26 or line 40 of Schedule E is from a passive activity, see the Schedule E instructions. If any of the rental real estate income (or loss) included on Schedule E, line 26, is not from a passive activity, print "NPA" and the amount of that income (or loss) on the dotted line next to line 26.





Filled-in EIC Worksheet B—Steve and Linda Green (Page references are to the Form 1040 Instructions)

Worksheet **B**—Earned Income Credit (EIC)—Lines 66a and 66b *Keep for Your Records* 

Use this worksheet if you answered “Yes” to Step 5, question 3, on page 47, and you do not elect to use your 2004 earned income to figure your EIC (see page 47).

- ✓ Complete the parts below (Parts 1 through 3) that apply to you. Then, continue to Part 4.
- ✓ If you are married filing a joint return, include your spouse’s amounts, if any, with yours to figure the amounts to enter in Parts 1 through 3.


|  |  |      |       |
|--|--|------|-------|
| <p><b>Part 1</b></p> <p><b>Self-Employed, Members of the Clergy, and People With Church Employee Income Filing Schedule SE</b></p> | 1a. Enter the amount from Schedule SE, Section A, line 3, or Section B, line 3, whichever applies. | 1a   |       |
|  | b. Enter any amount from Schedule SE, Section B, line 4b, and line 5a.                             | + 1b | 1,600 |
|  | c. Combine lines 1a and 1b.  | = 1c | 1,600 |
|  | d. Enter the amount from Schedule SE, Section A, line 6, or Section B, line 13, whichever applies. | - 1d | 122   |
|  | e. Subtract line 1d from 1c.   | = 1e | 1,478 |

|  |   |      |
|--|---|------|
| <p><b>Part 2</b></p> <p><b>Self-Employed NOT Required To File Schedule SE</b></p> <p>For example, your net earnings from self-employment were less than \$400.</p> | 2. Do not include on these lines any statutory employee income or any amount exempt from self-employment tax as the result of the filing and approval of Form 4029 or Form 4361.          |      |
|  | a. Enter any net farm profit or (loss) from Schedule F, line 36, and from farm partnerships, Schedule K-1 (Form 1065), box 14, code A*.   | 2a   |
|  | b. Enter any net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9*. | + 2b |
| c. Combine lines 2a and 2b.  | = 2c  |      |

\*Reduce any Schedule K-1 amounts by any partnership section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties. If you have any Schedule K-1 amounts, complete the appropriate line(s) of Schedule SE, Section A. Put your name and social security number on Schedule SE and attach it to your return.

|  |   |   |  |
|--|---|---|--|
| <p><b>Part 3</b></p> <p><b>Statutory Employees Filing Schedule C or C-EZ</b></p> | 3. Enter the amount from Schedule C, line 1, or Schedule C-EZ, line 1, that you are filing as a statutory employee. | 3 |  |
|--|---|---|--|


|  |  |    |        |
|--|--|----|--------|
| <p><b>Part 4</b></p> <p><b>All Filers Using Worksheet B</b></p> <p><b>Note.</b> If line 4b includes income on which you should have paid self-employment tax but did not, we may reduce your credit by the amount of self-employment tax not paid.</p> | 4a. Enter your earned income from Step 5 on page 47.                         | 4a | 15,000 |
|  | b. Combine lines 1e, 2c, 3, and 4a. <b>This is your total earned income.</b> | 4b | 16,478 |

If line 4b is zero or less,  You cannot take the credit. Put “No” on the dotted line next to line 66a.

5. If you have:

- 2 or more qualifying children, is line 4b less than \$35,263 (\$37,263 if married filing jointly)?
- 1 qualifying child, is line 4b less than \$31,030 (\$33,030 if married filing jointly)?
- No qualifying children, is line 4b less than \$11,750 (\$13,750 if married filing jointly)?

**Yes.** If you want the IRS to figure your credit, see page 48. If you want to figure the credit yourself, enter the amount from line 4b on line 6 (page 51).

**No.**  You cannot take the credit. Put “No” on the dotted line next to line 66a.



Filled-in EIC Worksheet B—Steve and Linda Green (Page references are to the Form 1040 Instructions)

Worksheet **B**—Continued from page 50

Keep for Your Records 

**Part 5**

**All Filers Using Worksheet B**

6. Enter your total earned income from Part 4, line 4b, on page 50. 

|          |        |
|----------|--------|
| <b>6</b> | 16,478 |
|----------|--------|

7. Look up the amount on line 6 above in the EIC Table on pages 52–58 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. 

|          |       |
|----------|-------|
| <b>7</b> | 4,378 |
|----------|-------|

If line 7 is zero,  You cannot take the credit. Put “No” on the dotted line next to line 66a.

8. Enter the amount from Form 1040, line 38. 

|          |        |
|----------|--------|
| <b>8</b> | 16,878 |
|----------|--------|

9. Are the amounts on lines 8 and 6 the same?
- Yes.** Skip line 10; enter the amount from line 7 on line 11.
- No.** Go to line 10.

**Part 6**

**Filers Who Answered “No” on Line 9**

10. If you have:

- No qualifying children, is the amount on line 8 less than \$6,550 (\$8,550 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 8 less than \$14,400 (\$16,400 if married filing jointly)?

**Yes.** Leave line 10 blank; enter the amount from line 7 on line 11.

**No.** Look up the amount on line 8 in the EIC Table on pages 52–58 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. 

|           |       |
|-----------|-------|
| <b>10</b> | 4,294 |
|-----------|-------|

  
Look at the amounts on lines 10 and 7. Then, enter the **smaller** amount on line 11.

**Part 7**

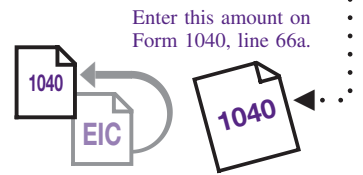
**Your Earned Income Credit**

11. **This is your earned income credit.**

|           |       |
|-----------|-------|
| <b>11</b> | 4,294 |
|-----------|-------|

**Reminder—**

✓ If you have a qualifying child, complete and attach Schedule EIC.



If your EIC for a year after 1996 was reduced or disallowed, see page 48 to find out if you must file Form 8862 to take the credit for 2005.



**Example:**

Victor and Ida Brown have two children. Victor is a minister.

## Example 4. Victor and Ida Brown

Victor and Ida Brown have two children, Kevin, age 15, and Ashley, age 14. The children lived with Victor and Ida for all of 2005. Ida earned wages of \$10,000 and Victor, a member of the clergy, received a salary of \$17,000. Victor also receives a housing allowance of \$500 a month (\$6,000 a year) from the church. The Browns received \$200 in interest on their savings account. They had no other income in 2005.

Victor does not have to pay income tax on his housing allowance but he does have to include it in net earnings from self-employment and pay self-employment tax on it. To figure his self-employment tax, he must complete Schedule SE (Form 1040). He completes Schedule SE and figures self-employment tax of \$3,250. He puts this figure on Form 1040, line 58, and deducts \$1,625, one-half of his self-employment tax, on Form 1040, line 27.

Victor and Ida read the Form 1040 instructions for lines 66a and 66b, and find that they meet all the rules to claim the EIC. For example, their AGI of \$25,575 (\$17,000 + \$10,000 + \$200 - \$1,625) is less than \$37,263 (*Step 1, question 1*). Their investment income (\$200 interest income from a savings account) is less than \$2,700 (*Step 2*). Both of their children are qualifying children (*Step 3, question 2*).

**Completing EIC Worksheet B.** Because Victor is a member of the clergy, the Browns use EIC Worksheet B in the Form 1040 instructions (shown on pages 42 and 43) to figure their earned income credit.

**Part 1.** Victor and Ida enter \$23,000 on line 1a. This amount, from Section B, line 3, of Victor's Schedule SE, consists of his \$17,000 salary plus his \$6,000 housing allowance. After completing lines 1a–1d, they enter \$21,375 on line 1e.


**Parts 2 and 3.** They skip parts 2 and 3.

**Part 4.** On line 4a, they enter \$10,000. They figured this amount in *Step 5* of the Form 1040 instructions for lines 66a and 66b. They started with the amount on line 7 (Form 1040), \$27,000 (\$17,000 + \$10,000), and subtracted the amount on that line that was also reported on line 2 of Schedule SE, Victor's \$17,000 salary. On line 4b, they enter \$31,375 (\$21,375 + \$10,000). This is their total earned income. Since it is less than \$37,263, they go to *Part 5* and enter \$31,375 on line 6.

**Parts 5–7.** They complete *Parts 5* through *7* and figure their earned income credit of \$1,240. They enter this amount on line 66a of Form 1040 and put "Clergy" on the dotted line next to line 66a.



Filled-in EIC Worksheet B—Victor and Ida Brown (Page references are to the Form 1040 Instructions)

Worksheet **B**—Earned Income Credit (EIC)—Lines 66a and 66b *Keep for Your Records* 

Use this worksheet if you answered “Yes” to Step 5, question 3, on page 47, and you do not elect to use your 2004 earned income to figure your EIC (see page 47).

- ✓ Complete the parts below (Parts 1 through 3) that apply to you. Then, continue to Part 4.
- ✓ If you are married filing a joint return, include your spouse’s amounts, if any, with yours to figure the amounts to enter in Parts 1 through 3.


|   |  |      |        |
|---|--|------|--------|
| <b>Part 1</b><br><br><b>Self-Employed, Members of the Clergy, and People With Church Employee Income Filing Schedule SE</b> | 1a. Enter the amount from Schedule SE, Section A, line 3, or Section B, line 3, whichever applies. | 1a   | 23,000 |
|   | b. Enter any amount from Schedule SE, Section B, line 4b, and line 5a.                             | + 1b |        |
|   | c. Combine lines 1a and 1b.  | = 1c | 23,000 |
|   | d. Enter the amount from Schedule SE, Section A, line 6, or Section B, line 13, whichever applies. | - 1d | 1,625  |
|   | e. Subtract line 1d from 1c.   | = 1e | 21,375 |

|  |   |      |  |
|--|---|------|--|
| <b>Part 2</b><br><br><b>Self-Employed NOT Required To File Schedule SE</b><br><small>For example, your net earnings from self-employment were less than \$400.</small> | 2. Do not include on these lines any statutory employee income or any amount exempt from self-employment tax as the result of the filing and approval of Form 4029 or Form 4361.          |      |  |
|  | a. Enter any net farm profit or (loss) from Schedule F, line 36, and from farm partnerships, Schedule K-1 (Form 1065), box 14, code A*.   | 2a   |  |
|  | b. Enter any net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9*. | + 2b |  |
| c. Combine lines 2a and 2b.  | = 2c  |      |  |

\*Reduce any Schedule K-1 amounts by any partnership section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties. If you have any Schedule K-1 amounts, complete the appropriate line(s) of Schedule SE, Section A. Put your name and social security number on Schedule SE and attach it to your return.

|   |   |   |  |
|---|---|---|--|
| <b>Part 3</b><br><br><b>Statutory Employees Filing Schedule C or C-EZ</b> | 3. Enter the amount from Schedule C, line 1, or Schedule C-EZ, line 1, that you are filing as a statutory employee. | 3 |  |
|---|---|---|--|


|   |  |    |        |
|---|--|----|--------|
| <b>Part 4</b><br><br><b>All Filers Using Worksheet B</b><br><br><small>Note. If line 4b includes income on which you should have paid self-employment tax but did not, we may reduce your credit by the amount of self-employment tax not paid.</small> | 4a. Enter your earned income from Step 5 on page 47.                         | 4a | 10,000 |
|   | b. Combine lines 1e, 2c, 3, and 4a. <b>This is your total earned income.</b> | 4b | 31,375 |

If line 4b is zero or less,  You cannot take the credit. Put “No” on the dotted line next to line 66a.

5. If you have:

- 2 or more qualifying children, is line 4b less than \$35,263 (\$37,263 if married filing jointly)?
- 1 qualifying child, is line 4b less than \$31,030 (\$33,030 if married filing jointly)?
- No qualifying children, is line 4b less than \$11,750 (\$13,750 if married filing jointly)?

**Yes.** If you want the IRS to figure your credit, see page 48. If you want to figure the credit yourself, enter the amount from line 4b on line 6 (page 51).

**No.**  You cannot take the credit. Put “No” on the dotted line next to line 66a.

## Filled-in EIC Worksheet B—Victor and Ida Brown (Page references are to the Form 1040 Instructions)

Worksheet **B**—Continued from page 50

Keep for Your Records

**Part 5****All Filers Using Worksheet B**

6. Enter your total earned income from Part 4, line 4b, on page 50.

|          |        |
|----------|--------|
| <b>6</b> | 31,375 |
|----------|--------|

7. Look up the amount on line 6 above in the EIC Table on pages 52–58 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

|          |       |
|----------|-------|
| <b>7</b> | 1,240 |
|----------|-------|

If line 7 is zero,  You cannot take the credit. Put “No” on the dotted line next to line 66a.

8. Enter the amount from Form 1040, line 38.

|          |        |
|----------|--------|
| <b>8</b> | 25,575 |
|----------|--------|

9. Are the amounts on lines 8 and 6 the same?

- Yes.** Skip line 10; enter the amount from line 7 on line 11.
- No.** Go to line 10.

**Part 6****Filers Who Answered “No” on Line 9**

10. If you have:

- No qualifying children, is the amount on line 8 less than \$6,550 (\$8,550 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 8 less than \$14,400 (\$16,400 if married filing jointly)?

**Yes.** Leave line 10 blank; enter the amount from line 7 on line 11.

- No.** Look up the amount on line 8 in the EIC Table on pages 52–58 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. Look at the amounts on lines 10 and 7. Then, enter the **smaller** amount on line 11.

|           |       |
|-----------|-------|
| <b>10</b> | 2,461 |
|-----------|-------|

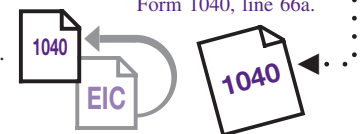
**Part 7****Your Earned Income Credit**

11. **This is your earned income credit.**

|           |       |
|-----------|-------|
| <b>11</b> | 1,240 |
|-----------|-------|

**Reminder—**

- ✓ If you have a qualifying child, complete and attach Schedule EIC.



If your EIC for a year after 1996 was reduced or disallowed, see page 48 to find out if you must file Form 8862 to take the credit for 2005.

















**2005 Earned Income Credit (EIC) Table—Continued** (Caution. This is not a tax table.)

| If the amount you are looking up from the worksheet is— |               | And your filing status is—                                       |           |              |                                      |           |              | If the amount you are looking up from the worksheet is— |               | And your filing status is—                                       |           |              |                                      |           |              |
|---|---------------|--|-----------|--------------|--------------------------------------|-----------|--------------|---|---------------|--|-----------|--------------|--------------------------------------|-----------|--------------|
|   |               | Single, head of household, or qualifying widow(er) and you have— |           |              | Married filing jointly and you have— |           |              |   |               | Single, head of household, or qualifying widow(er) and you have— |           |              | Married filing jointly and you have— |           |              |
|   |               | No children  | One child | Two children | No children                          | One child | Two children |   |               | No children  | One child | Two children | No children                          | One child | Two children |
| At least  | But less than | Your credit is—  |           |              | Your credit is—                      |           |              | At least  | But less than | Your credit is—  |           |              | Your credit is—                      |           |              |
| <b>36,100</b>   | <b>36,150</b> | 0  | 0         | 0            | 0                                    | 0         | 240          | <b>36,850</b>   | <b>36,900</b> | 0  | 0         | 0            | 0                                    | 0         | 82           |
| <b>36,150</b>   | <b>36,200</b> | 0  | 0         | 0            | 0                                    | 0         | 229          | <b>36,900</b>   | <b>36,950</b> | 0  | 0         | 0            | 0                                    | 0         | 71           |
| <b>36,200</b>   | <b>36,250</b> | 0  | 0         | 0            | 0                                    | 0         | 219          | <b>36,950</b>   | <b>37,000</b> | 0  | 0         | 0            | 0                                    | 0         | 61           |
| <b>36,250</b>   | <b>36,300</b> | 0  | 0         | 0            | 0                                    | 0         | 208          | <b>37,000</b>   | <b>37,050</b> | 0  | 0         | 0            | 0                                    | 0         | 50           |
| <b>36,300</b>   | <b>36,350</b> | 0  | 0         | 0            | 0                                    | 0         | 197          | <b>37,050</b>   | <b>37,100</b> | 0  | 0         | 0            | 0                                    | 0         | 40           |
| <b>36,350</b>   | <b>36,400</b> | 0  | 0         | 0            | 0                                    | 0         | 187          | <b>37,100</b>   | <b>37,150</b> | 0  | 0         | 0            | 0                                    | 0         | 29           |
| <b>36,400</b>   | <b>36,450</b> | 0  | 0         | 0            | 0                                    | 0         | 176          | <b>37,150</b>   | <b>37,200</b> | 0  | 0         | 0            | 0                                    | 0         | 18           |
| <b>36,450</b>   | <b>36,500</b> | 0  | 0         | 0            | 0                                    | 0         | 166          | <b>37,200</b>   | <b>37,250</b> | 0  | 0         | 0            | 0                                    | 0         | 8            |
| <b>36,500</b>   | <b>36,550</b> | 0  | 0         | 0            | 0                                    | 0         | 155          | <b>37,250</b>   | <b>37,263</b> | 0  | 0         | 0            | 0                                    | 0         | 1            |
| <b>36,550</b>   | <b>36,600</b> | 0  | 0         | 0            | 0                                    | 0         | 145          | <b>37,263 or more</b>                                   |               | 0  | 0         | 0            | 0                                    | 0         | 0            |
| <b>36,600</b>   | <b>36,650</b> | 0  | 0         | 0            | 0                                    | 0         | 134          |   |               |  |           |              |                                      |           |              |
| <b>36,650</b>   | <b>36,700</b> | 0  | 0         | 0            | 0                                    | 0         | 124          |   |               |  |           |              |                                      |           |              |
| <b>36,700</b>   | <b>36,750</b> | 0  | 0         | 0            | 0                                    | 0         | 113          |   |               |  |           |              |                                      |           |              |
| <b>36,750</b>   | <b>36,800</b> | 0  | 0         | 0            | 0                                    | 0         | 103          |   |               |  |           |              |                                      |           |              |
| <b>36,800</b>   | <b>36,850</b> | 0  | 0         | 0            | 0                                    | 0         | 92           |   |               |  |           |              |                                      |           |              |

## How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

**Contacting your Taxpayer Advocate.** If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at 1-877-777-4778.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call 1-800-829-4059 if you are a TTY/TDD user.
- Visit [www.irs.gov/advocate](http://www.irs.gov/advocate).

For more information, see Publication 1546, How To Get Help With Unresolved Tax Problems (now available in Chinese, Korean, Russian, and Vietnamese, in addition to English and Spanish).

**Free tax services.** To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



**Internet.** You can access the IRS website 24 hours a day, 7 days a week, at [www.irs.gov](http://www.irs.gov) to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2005 refund. Click on *Where's My Refund*. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our Form W-4 calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



**Phone.** *Many services are available by phone.*

- **Ordering forms, instructions, and publications.** Call 1-800-829-3676 to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- **Asking tax questions.** Call the IRS with your tax questions at 1-800-829-1040.
- **Solving problems.** You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to [www.irs.gov/localcontacts](http://www.irs.gov/localcontacts) or look in the phone book under *United States Government, Internal Revenue Service*.
- **TTY/TDD equipment.** If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- **TeleTax topics.** Call 1-800-829-4477 and press 2 to listen to pre-recorded messages covering various tax topics.
- **Refund information.** If you would like to check the status of your 2005 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

**Evaluating the quality of our telephone services.** To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



**Walk-in.** *Many products and services are available on a walk-in basis.*

- **Products.** You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- **Services.** You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you're more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary, but if you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to [www.irs.gov/localcontacts](http://www.irs.gov/localcontacts) or look in the phone book under *United States Government, Internal Revenue Service*.



**Mail.** You can send your order for forms, instructions, and publications to the address below and receive a response within 10 business days after your request is received.

National Distribution Center  
P.O. Box 8903  
Bloomington, IL 61702-8903



**CD-ROM for tax products.** You can order Publication 1796, *IRS Tax Products CD-ROM*, and obtain:

- A CD that is released twice so you have the latest products. The first release ships in late December and the final release ships in late February.
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- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions (FAQs).
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
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Buy the CD-ROM from National Technical Information Service (NTIS) at [www.irs.gov/cdorders](http://www.irs.gov/cdorders) for \$25 (no handling fee) or call 1-877-233-6767 toll free to buy the CD-ROM for \$25 (plus a \$5 handling fee).



**CD-ROM for small businesses.** Publication 3207, *The Small Business Resource Guide CD-ROM for 2005*, has a new look and enhanced navigation features. This year's CD includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.
- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2005.
- IRS Tax Map to help you find forms, instructions, and publications by searching on a keyword or topic.
- Web links to various government agencies, business associations, and IRS organizations.
- "Rate the Product" survey—your opportunity to suggest changes for future editions.

An updated version of this CD is available each year in early April. You can get a free copy by calling 1-800-829-3676 or by visiting [www.irs.gov/smallbiz](http://www.irs.gov/smallbiz).

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# EIC Eligibility Checklist

| <i>You may claim the EIC if you answer “Yes” to all the following questions.*</i>   |                          |                          |
|---|--------------------------|--------------------------|
|   | Yes                      | No                       |
| <p><b>1.</b> Is your AGI less than:</p> <ul style="list-style-type: none"> <li>• \$11,750 (\$13,750 for married filing jointly) if you do not have a qualifying child,</li> <li>• \$31,030 (\$33,030 for married filing jointly) if you have one qualifying child, or</li> <li>• \$35,263 (\$37,263 for married filing jointly) if you have more than one qualifying child? (See <i>Rule 1.</i>)</li> </ul>   | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>2.</b> Do you, your spouse, and your qualifying child each have a valid SSN? (See <i>Rule 2.</i> )   | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>3.</b> Is your filing status married filing jointly, head of household, qualifying widow(er), or single? (See <i>Rule 3.</i>)</p> <p><b>Caution:</b> If you are a nonresident alien, answer “Yes” only if your filing status is married filing jointly and you are married to a U.S. citizen or resident alien. (See <i>Rule 4.</i>)</p>  | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>4.</b> Answer “Yes” if you are not filing Form 2555 or Form 2555-EZ. Otherwise, answer “No.” (See <i>Rule 5.</i> )   | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>5.</b> Is your investment income \$2,700 or less? (See <i>Rule 6.</i> )  | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>6.</b> Is your total earned income at least \$1 but less than:</p> <ul style="list-style-type: none"> <li>• \$11,750 (\$13,750 for married filing jointly) if you do not have a qualifying child,</li> <li>• \$31,030 (\$33,030 for married filing jointly) if you have one qualifying child, or</li> <li>• \$35,263 (\$37,263 for married filing jointly) if you have more than one qualifying child? (See <i>Rules 7 and 15.</i>)</li> </ul>  | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>7.</b> Answer “Yes” if you (and your spouse if filing a joint return) are not a qualifying child of another person. Otherwise, answer “No.” (See <i>Rules 10 and 13.</i>)</p> <p><b>STOP: If you have a qualifying child, answer questions 8 and 9 and skip 10–12. If you do not have a qualifying child, skip questions 8 and 9 and answer 10–12.*</b></p>   | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>8.</b> Does your child meet the age, residency, and relationship tests for a qualifying child? (See <i>Rule 8.</i> )   | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>9.</b> Is your child a qualifying child only for you? Answer “Yes” if your qualifying child also meets the tests to be a qualifying child of another person, but the other person is not claiming any child-related tax benefits using that child. Answer “No” if you do not know whether the other person is claiming any child-related tax benefits using that child.  | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>10.</b> Were you (or your spouse if filing a joint return) at least age 25 but under age 65 at the end of 2005? (See <i>Rule 11.</i> )   | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>11.</b> Answer “Yes” if you (and your spouse if filing a joint return) cannot be claimed as a dependent on anyone else’s return. Answer “No” if you (or your spouse if filing a joint return) can be claimed as a dependent on someone else’s return. (See <i>Rule 12.</i> )   | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>12.</b> Was your main home (and your spouse’s if filing a joint return) in the United States for more than half the year? (See <i>Rule 14.</i> )   | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>*PERSONS WITH A QUALIFYING CHILD:</b> If you answered “Yes” to questions 1 through 9, you can claim the EIC. Remember to fill out Schedule EIC and attach it to your Form 1040 or Form 1040A. You cannot use Form 1040EZ. If you answered “Yes” to questions 1 through 8 and “No” to question 9, see <i>Rule 9</i> to help you determine whether you can claim the EIC. If you answered “Yes” to questions 1 through 7 and “No” to question 8, answer questions 10 through 12 to see if you can claim the EIC without a qualifying child.</p> <p><b>PERSONS WITHOUT A QUALIFYING CHILD:</b> If you answered “Yes” to questions 1 through 7, and 10 through 12, you can claim the EIC.</p> <p><b>If you answered “No” to any question that applies to you:</b> You cannot claim the EIC.</p> |                          |                          |