

Advance payments

If you expect to have a qualifying child and eligible income in the current tax year, you can ask your employer to include a share of your EITC payment in each paycheck instead of waiting for a tax refund. Get Form W-5 from the IRS website or your nearest IRS office, fill it out and give it to your employer. Your advance EITC payments will be added to your pay in each pay period. The advance payments are not subject to any withholding, such as federal or state tax, Medicare or Social Security.

Your employer is required by law to make advance payments to eligible employees who provide Form W-5. This form is valid only for the current tax year—you must give your employer a new form for each year you want to claim the EITC and get advance payments. You can give your employer the form at any time of the year. The maximum advance earned income tax credit an employer is allowed to pay during tax year 2007 is \$1,712.

EITC and welfare

The EITC is not considered income when figuring your eligibility for federal assistance programs such as Medicaid and Supplemental Security Income (SSI), food stamps and low income housing. But in some states Temporary Assistance for Needy Families (TANF) benefits might be smaller because you take the EITC credit. Check with your state benefits office.

Generally, you can put the money from your EITC into your savings account. But assistance recipients should know that EITC money that is not spent might be counted as an asset (or resource), which could cause them to lose benefits.

Take a number

In order to qualify for the EITC, you need Social Security Numbers (SSNs) for yourself and all your children. If your child does not have an SSN, call the Social Security Administration at 800-772-1213 and ask for Form SS-5. After you have filled out and returned the form, it takes at least two weeks to get an SSN.

This is a good thing to do since you also need an SSN to claim your child as a dependent on your taxes and your child will need an SSN for most daycare programs and schools.

For More information

✓ The Internal Revenue Service (IRS) is the federal government agency responsible for collecting income taxes.

Phone: 800-829-1040

Web site: www.irs.gov

To claim the EITC—or EIC as it is sometimes called—you need these forms:

- Schedule EIC (Earned Income Credit). If you have qualifying children, attach this to your federal income taxes when you file them. Taxpayers without children do not need to attach Schedule EIC to their tax returns.
- Forms 1040A or 1040 (U.S. Individual Income Tax Return) and instructions. (Childless taxpayers can use Form 1040EZ to claim the EITC.)
- Form W-5 (Earned Income Credit Advanced Payment Certificate). Fill this out and give it to your employer if you want EITC payments in advance.

✓ Volunteer Income Tax Assistance (VITA) is a free tax preparation program. VITA sites change each year, so check your newspaper for announcements or ask at your library or at local social service agencies.

✓ AARP Tax-Aide is a counseling program for low-to-middle income people, with special attention to people aged 60 and older.

Phone: 888-227-7669

Web site: www.aarp.org/money/taxaide

✓ Taxpayer Advocate Service is an independent organization that helps taxpayers resolve problems with the IRS.

Phone: 877-777-4778

TTY: 800-829-4059

Web site: www.irs.gov/advocate/

Consumer Action

www.consumer-action.org

221 Main Street, Suite 480

San Francisco, CA 94105

415-777-9635

TTY: 415-777-9456

hotline@consumer-action.org

523 W. Sixth Street, Suite 1105

Los Angeles, CA 90014

213-624-8327

Chinese, English and Spanish spoken

This publication has been funded by Consumer Action's Managing Money Project. Consumer Action's Managing Money Project was created with a cy pres award from the Griego v. Rent-A-Center class action settlement.

© 2007 Consumer Action

A Consumer Action Publication

1040

Refund

Get credit for your hard work

Low income working taxpayers may qualify for the Federal Earned Income Tax Credit (EITC)

The Earned Income Tax Credit

The Earned Income Tax Credit (EITC) helps low income, working taxpayers get more money back when they file their federal income tax forms. A tax credit means that you will be eligible for a larger tax refund because it reduces the amount of money you may owe the federal government. If you are an eligible taxpayer with children, you can ask your employer to include advance EITC payments in your paycheck.

You must file a federal income tax return in order to claim the EITC—even if your income is so low that you normally would not file a tax return. You can get a check back even if you don't owe any taxes.

The income guidelines are more generous for people who have dependent children, but very low income singles and married couples without children may also benefit. Foster parents and working grandparents who are raising their grandchildren also qualify. Even parents of babies born on the last day of the tax year can qualify if one or both parents were employed during the year and meet income guidelines.

EITC income guidelines are changed each year to keep pace with inflation and vary widely depending on whether you file as a parent, how many children you claim and whether you're single or married. Eligibility guidelines and projected tax savings for each filing status are outlined in detail in other sections of this brochure.

For the 2007 tax year, EITC credits can be as high as \$428 for childless taxpayers or up to \$4,716 for taxpayers with more than one child. You can spend your credit any way you want or put the money in a savings account.

To qualify for the EITC, you must have income from a job and your income must be at or below the required levels. (Child support does not need to be included when

figuring your income.) Farm owners and small business owners also qualify.

To claim the EITC, you must have a Social Security number (SSN) and be a U.S. citizen. You also are eligible if you are a "permanent resident," but only if you lived in the U.S. for the full tax year. A permanent resident is a person from another country who has a "green card" that gives them the right to live and work in the U.S.

Your eligibility for the EITC depends on your "adjusted gross income" (AGI). If your income is about the same as in previous years, the easiest way to find your AGI is to look at last year's income tax return. The amount shown at the bottom of the first page of your return was your AGI. If you filed Form 1040EZ last year, your AGI can be found on Line 4, under the "Income" section. (For more information on predicting your AGI for the current year, see "Estimate your adjusted gross income.")

Even if your salary last year was too high, you may qualify for the EITC this year if you have been laid off or if you have had your work hours cut back.

Taxpayers with "married filing separately" status or those who claim income from another country ("foreign income") can't claim the EITC.

If you have income from investments (such as stocks, mutual funds, bonds, etc.) of more than \$2,900, you are not eligible for the EITC.

Guidelines for parents

If you are claiming the EITC because you have children, attach Schedule EIC to your tax return to provide SSNs and other information about them.

EITC income guidelines are changed each year to keep pace with inflation. The 2007 adjusted gross income ceilings for parents are:

- Single parent with one qualifying child: \$33,241. Couples with one child filing jointly: \$35,241. You are eligible for a credit of up to \$2,853.
- Single parent with two or more qualifying children: \$37,783. Couples with two or more children filing jointly: \$39,783. You are eligible for a credit of up to \$4,716.

Do your children qualify?

Children being claimed for the EITC must be under 19, or, if they are full-time students, under 24. There is no age limit for permanently disabled dependents. The child must be your:

- ✓ Son, daughter, adopted child, stepchild or a grandchild.
- ✓ Brothers, sisters or eligible foster children, whether or not you care for them as you would your own child.
- ✓ Stepbrother, stepsister, niece or nephew whom you care for as you would your own child.

You and your qualifying children must have lived in the U.S. for more than half of the current tax year. (If you are a resident but not a citizen, you must have lived in the U.S. for the full year to claim the credit.) Qualified children must have lived in your household for more than half of the tax year. Children who were born or who died during the tax year and lived with you for the entire time, even if for less than six months, also qualify.

Low income people without children

Very low income working singles and married couples aged 25 to 65 without children are eligible for an EITC of up to \$428, although they can't get advance payments in their paychecks. For the 2007 tax year, singles must have annual incomes of \$12,590 or less, and married couples filing jointly must have incomes of \$14,590 or less. To be eligible, individuals cannot be

a dependent or a qualifying child of another person.

Estimate your adjusted gross income

In many cases, your adjusted gross income is the same as your income. But some people are entitled to claim certain deductions that reduce—or "adjust"—income, making their adjusted gross income less than their total income. These include deductions for individual retirement accounts (IRAs), student loan interest, tuition and fees, moving expenses, partial self-employment tax, self-employed health insurance and retirement plans, and alimony payments.

In figuring your adjusted gross income, do not subtract your standard or itemized deductions. If your filing status last year was single and you plan to file a joint return this year, add your adjusted gross income and your spouse's adjusted gross income from last year to estimate your joint adjusted gross income for the current tax year.

Filing your taxes

When you file your taxes, you can ask the Internal Revenue Service (IRS) to figure the amount of your EITC, or you can do the calculations yourself. Use the IRS "EITC Worksheet" to figure your credit. If you have qualifying children, attach IRS "Schedule EIC" to your income tax return.

In many communities there are free or very low cost Volunteer Income Tax Assistance (VITA) programs to help you file your taxes. See "For More Information."

If you use a paid tax preparer, avoid high-cost "refund anticipation loans." The cost of the loan can sharply reduce your tax credit. You will get your refund in a few weeks anyway, without the loan.