Facts: About Tax Credits for Working Families — the Earned Income Credit and Child Tax Credit

Here's what's inside this booklet:

You don't have to be a tax expert to promote tax credits for workers!

Each year, community organizations, human services providers, businesses, employers, labor unions, government agencies and a host of others find effective ways to incorporate tax credit outreach activities into their routine operations. Most Outreach Campaign partners have no specialized tax knowledge — but they successfully alert working families and individuals about these critical tax benefits and direct them to free tax filing assistance. Their efforts mean millions of working families and individuals get a significant boost to their paychecks.

This booklet will help you get started.

This booklet provides the background you need to understand the basics about who is eligible for the Earned Income Credit and how to claim it. In addition, you will find the answers to commonly asked questions and more detailed information pertaining to special groups of eligible workers, such as members of the military or immigrant workers.

Many families can also get *Extra Credit* by claiming the Child Tax Credit.

Many working families can qualify for the Child Tax Credit and get up to $1,000 for each child — in addition to the EIC for which they may qualify. You will want to get familiar with the Child Tax Credit, so you can help families take advantage of the full range of tax benefits. Some rules for claiming the Child Tax Credit are different from the rules for claiming the Earned Income Credit. While this adds some complexity to the picture, the bottom line is that the outreach message to families can remain simple: **Get all the tax credits you earned!**

State and Local EICs Can Boost Workers' Refunds

More Money for Workers in the District of Columbia, Illinois, Indiana, Kansas, Maryland, Massachusetts, Minnesota, Nebraska, New Jersey, New York, Oklahoma, Oregon, Rhode Island, Vermont, and Wisconsin!

In addition to the federal EIC, low-income workers in these states can receive extra money for 2006 from a *refundable* state EIC. If you are in a state with a state EIC, you can revise the materials in this kit to reflect the full amount of the EIC — federal and state — along with instructions for how to claim them. For more information, contact your state department of revenue. *For more information on state and local EICs, see the insert "State Earned Income Credits" on p. 24 of this booklet*.

The Earned Income Credit: A Powerful Benefit for People Who Work

What is the Earned Income Credit?

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

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

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

Single or married people who worked full-time or part-time at some point in 2006 can qualify for the EIC, depending on their income.

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

Workers with *investment income* exceeding $2,800 in 2006 may not claim the EIC.

How does the EIC work?

- **Eligible workers can pay less in taxes and get a check from the IRS.** Mr. and Mrs. Johnson have two children, ages 20 and 21, in college. They earned $29,000 in 2006 and owe the IRS $550 in income tax, none of which was

Who is a "Qualifying Child" for the EIC?

- Sons, daughters, stepchildren, grandchildren and adopted children
- Brothers, sisters, stepbrothers, or stepsisters — as well as descendants of such relatives
- Foster children who are placed with the worker by an authorized government or private placement agency

"Qualifying children" must live with the worker for more than half of the year. They must be under age 19, or under age 24 if they are full-time students. Children of any age who have total and permanent disabilities also may be qualifying children. Valid Social Security numbers are required for qualifying children born before December 31, 2006.

withheld from their pay during the year. Their income makes them eligible for an EIC of $1,936. So, the EIC eliminates their $550 income tax — now they don't owe IRS anything — and gives them a refund of $1,386.

- **Eligible workers can get a check from the IRS.** Marlene Rogers is raising two children and earned $10,000 in 2006. Her Social Security and Medicare payroll tax was $765. She is eligible for an EIC of $4,000, which pays her back her payroll tax and gives her an EIC refund of $3,235.
- **Eligible workers who aren't raising children can get a check.** Joe Smith has no children. He worked part-time in 2006 and earned $5,300. Because of his low earnings he had no income tax taken out of his paycheck and owes nothing to the IRS. His earnings entitle him to an EIC check for $405, offsetting most of the payroll taxes that were withheld from his pay.

How do you get the EIC?

- Workers raising a "qualifying child" in their home in 2006 must file either Form 1040 or 1040A and *must* fill out and attach Schedule EIC. Workers with children cannot get the EIC if they file Form 1040EZ or do not attach Schedule EIC. Married workers must file a joint return to get the EIC.
- Workers who were not raising a "qualifying child" in their home in 2006 can file any tax form — including the 1040EZ. These workers write "EIC" (or the dollar amount of their credit) on the Earned Income Credit line on the tax form. They do **not** file Schedule EIC.
- A correct name and Social Security number must be provided for every person listed on the tax return and Schedule EIC. If this information is incorrect or missing, the IRS will delay the refund.
- Workers don't have to calculate their own EIC; if they choose, the IRS will do it for them!

Workers raising children can get the EIC in their paychecks! Workers who are raising children can get part of their EIC in their paychecks throughout the year and part in a check from the IRS after they file their tax return. This is called the Advance EIC payment option. *For more information, see "Get the EIC in Your Paychecks! The Advance EIC" on p. 9 of this booklet.*

Workers can get FREE help filing their tax forms

Many families that apply for the EIC pay someone to complete their tax forms. This can often cost between $55 and $100, or can be more. Getting a "quick tax refund" that comes back in a few days costs even more. Paying for tax preparation takes away from the value of the EIC. But low-income workers can get free help with tax preparation through a program called VITA (Volunteer Income Tax Assistance). *For more information, see the booklet in this kit, "Free Tax Help and Asset Development."*

Does the EIC affect eligibility for other public benefits?

The EIC does not count as income in determining eligibility for benefits like cash assistance ("welfare"), Medicaid, food stamps, SSI or public housing. Some benefit programs count the EIC as a resource under certain circumstances. *For more information, see "Need Answers? Q&A on the EIC and CTC," on p. 13 of this booklet.*

Can immigrant workers get the EIC?

Many immigrants who are legally authorized to work can qualify for the EIC, as long as they meet the other eligibility requirements.

The materials in this kit should answer many questions about the EIC. *For more information, call the IRS at 1-800-TAX-1040.*

The Child Tax Credit: An Extra Tax Break for Working Families!

What is the Child Tax Credit?

The Child Tax Credit (CTC) is a federal tax credit worth up to $1,000 in 2006 for each qualifying child under age 17 claimed on the worker's tax return. While the CTC has been in effect since 1998, Congress changed the credit in 2001 to make it available to millions more low- and moderate-income working families and provided many families a larger CTC than they could have received in the past. This "Additional CTC" is refundable, meaning some families can get the credit even if they owe no income tax. (This kit refers to the "Additional CTC" as the "CTC refund.") Eligible families can receive the CTC refund in a check from the IRS.

Who Can Claim the Child Tax Credit Refund?

To be eligible for the CTC refund, a single or married worker must:

- have a qualifying child under age 17;
- have taxable earned income above $11,300; and
- have either a Social Security number (SSN) or an Individual Taxpayer Identification Number (ITIN). ITINs are issued by the IRS to individuals who are unable to obtain a Social Security number. *Immigrant workers with either type of number may be able to claim the CTC refund. For more information on ITINs, see p. 28 in the booklet in this kit, "Free Tax Help and Asset Development."*

Can a working family get both the Child Tax Credit refund and the Earned Income Credit?

Yes!! Most low-wage working families that qualify for the CTC refund will also be eligible for the EIC. For many families that qualify for both credits, the EIC will be larger, but the CTC still will provide a significant income boost. Despite the overlap in eligible families, there are important differences in the eligibility rules for the two credits and in the procedures for claiming them. *For a comparison of the two sets of rules, see the table on the inside back cover of this booklet.*

Who is a "Qualifying Child" for the CTC?

- Sons, daughters, stepchildren, grandchildren and adopted children
- Brothers, sisters, stepbrothers, or stepsisters — as well as descendants of such relatives
- Foster children who are placed with the worker by an authorized government or private placement agency

A child claimed for the CTC must be under age 17 at the end of 2006. The child must live with the worker for more than half of the year in the U.S. and must be either a citizen or a resident alien. The child must have either a valid Social Security number or an Individual Taxpayer Identification Number (ITIN).

Note:

- a child may not be claimed for the CTC if the child provides over one-half of his or her own support.
- a non-custodial parent who is allowed to claim his or her child as a dependent by a divorce or separation agreement is the parent entitled to claim the child for the CTC. *For more information, see p. 18 in this booklet.*

How do families get the Child Tax Credit refund?

1. File a federal income tax return — Form 1040 or 1040A, but not 1040EZ. The instructions and worksheet included in the IRS tax form packet will help tax filers figure their income tax and calculate their maximum possible CTC. The CTC is first used to reduce or eliminate any income tax a tax filer owes. If any of the CTC is remaining after the income tax has been eliminated (i.e. if the family's income tax was less than its maximum CTC), the tax filer moves on to the next step in the process — Form 8812.

2. File Form 8812. Form 8812, "Additional Child Tax Credit," is used to find out if the family qualifies for a CTC refund and, if so, the amount of the refund. This form must be attached to the tax return for a family to receive the CTC refund.

How does the CTC work?

- Eligible families can get up to $1,000 for each qualifying child under age 17 claimed on their tax return. (For example, a parent with two such children can claim a CTC of up to $2,000 — 2 children x $1,000.) The CTC first is used to reduce or eliminate a family's income tax liability. Families may be able to get all or part of any remaining CTC as a refund.
- The CTC refund is based on the amount by which the earned income of a worker (and spouse, if married) exceeds $11,300. Families with any CTC remaining after their income tax liability has been eliminated may receive a refund in the lesser of two amounts: (1) the amount of the family's CTC that remains, or (2) 15 percent of the family's earned income over $11,300. (For example, if a family earns $16,000, 15 percent of its income above $11,300 is $705: ($16,000 - $11,300 = $4,700; 15 percent of $4,700 is $705.)

How can a family benefit?

- Maxine is a single parent with a 15-year-old child. She earned $16,000 in 2006 and had $185 in income tax withheld from her pay. Her maximum CTC of $1,000 is first used to eliminate her $185 income tax, leaving $815 of her CTC remaining ($1,000 - $185 = $815). Fifteen percent (15%) of Maxine's earnings over $11,300 is $705. Since the remaining CTC of $815 is more than $705, Maxine is eligible to receive a CTC refund for the lower amount — $705. (She gets back the $185 in income tax she paid, receives an additional CTC refund of $705, and also is eligible for an EIC of $2,557, bringing her total refund to $3,447!)

Does the CTC affect public benefits?

The CTC refund does not count as income in determining eligibility for any federal, state or local program benefits, such as food stamps, SSI, or child care, financed even in part by federal funds. Some benefit programs count the EIC as a resource under certain circumstances. *For more information, see "Need Answers? Q&A on the EIC and CTC," on p. 13 of this booklet.*

Not Living With Children? You May Qualify for the EIC

Very low-income workers who are not raising children in their home are eligible for a small Earned Income Credit. The credit is available to people who worked full- or part-time in 2006 and:

- were at least age 25 and under age 65 on December 31, 2006;
- had earnings of less than $12,120 (or $14,120 for married workers);
- did not have a "qualifying child" for the EIC in 2006 *(See p. 3 of this booklet)*; and
- were *not* the dependent or qualifying child for the EIC of another taxpayer in 2006.

The credit for workers not raising children is worth up to $412 for tax year 2006 — the average is expected to be about $230. This credit works the same way as the EIC for families: it gives back some or all of the federal taxes taken out of a worker's pay during the year. Even workers whose earnings are too small to have paid federal income tax can get the credit.

Why is the EIC important for workers not raising children?

It provides a financial boost to those who work at very low wages or are only able to find part-time work. This includes many day laborers, migrant workers, temporary employees, people who are homeless and general assistance recipients who worked part of the year.

How do you get this credit?

Eligible workers not raising children get the EIC by filing a federal income tax return. They can use Form 1040, 1040A, or 1040EZ. On the "Earned Income Credit" line they simply fill in the amount of their credit or write "EIC" and the IRS will calculate the amount of the credit for them. Married workers must file a joint return to claim this credit.

What do we know about the workers eligible for this credit?

In tax year 2005, more than 4 million such workers received credits worth over $970 million. Population statistics tell us about workers likely to qualify for this credit.

- The average annual earnings for these workers are about $6,050. Half (51 percent) of them work in service industries. About 21 percent work full-time, year round.
- Almost 80 percent of these workers have at least a high school diploma.
- The majority of these workers — approximately 60 percent — are non-Hispanic white. About 17 percent are African American and about 15 percent are Latino.
- About 16 percent are married. About 45 percent are single men and 39 percent are single women.

What are the special outreach challenges?

- For some, the EIC may seem too small to make filing a tax return worthwhile.
- Some may fear entering the tax system either because they haven't filed taxes in a long time or because they owe child support.
- Very low-income workers may be skeptical of information about programs from government agencies such as the IRS. Your outreach materials should contain the name and number of a contact organization that is trusted by low-income workers in your community.

For more ideas on reaching workers not raising children likely to be eligible for the EIC, and those who might be able to claim the CTC, see p. 22 in the booklet, "Outreach Strategies," in this kit.

Extra Credit for Some Non-custodial Parents

Lower-income workers whose children do not live with them may also qualify for the Child Tax Credit (CTC): a non-custodial parent who is permitted by a divorce or separation agreement to claim a child as a dependent on his or her tax return and earned more than $11,300 in 2006 may be eligible for a CTC of up to $1,000 per child under age 17. Outreach messages that target this group of parents and highlight the CTC as an extra opportunity are critical. *For more details on the CTC, see the fact sheet "The Child Tax Credit: An Extra Tax Break for Working Families!" on p. 5 of this booklet.*

Get the EIC in Your Paychecks! The Advance EIC

What is the Advance EIC?

Most workers get the EIC in one large check from the IRS after they file a tax return. But there is another choice: employers can add part of a worker's EIC to every paycheck, and the worker gets the rest of the credit after filing a tax return. This is called "Advance EIC payment." Advance payments are not taxable income.

In 2007, Advance EIC payments will be available to any worker with at least one qualifying child who expects 2007 income of less than $33,000 (or $35,000 for married workers). Advance EIC payments are not available to workers who are not raising a qualifying child in their home.

What are the advantages of Advance EIC payment?

For many workers, getting part of their EIC in each paycheck can help them meet regular expenses such as rent, groceries, and transportation to work. A worker earning between $490 and $1,300 a month, for example, can get about *$50 to $60 extra in each bi-weekly paycheck*. Advance EIC payments are not counted as additional income in determining eligibility for public benefits such as cash assistance, housing assistance, food stamps and Medicaid. Employers also benefit from promoting Advance EIC payments — they can help employees increase their take-home pay through an uncomplicated payroll adjustment.

How do you get the Advance EIC payment?

To get the Advance EIC eligible workers fill out IRS Form W-5, the "Earned Income Credit Advance Payment Certificate," and give it to their employer. The W-5 is available from employers *or by calling **1-800-TAX-FORM**, or by downloading it from the IRS website at: www.irs.gov/formspubs. The Form W-5 may be photocopied and distributed.*

Eligible workers can file a W-5 at any time during the year. To continue getting the EIC in their paycheck at the beginning of each new year, they must file a new W-5 with their employer.

Married workers can choose Advance EIC payments, but if they do, *both spouses should give a W-5 to their employers*. The box on the W-5 indicating the worker's spouse also has a W-5 in effect should be checked "yes." This signals the employer of each spouse to figure the correct amount of the advance payment and avoid an EIC overpayment. If only one spouse chooses advance payment, the amount he or she receives may be too high.

A worker who is already receiving Advance EIC payments, and who expects a large pay increase during the year, should ask his or her employer to stop the advance payments. To do this, workers give their employer a new W-5 form with the box checked "no" to indicate they don't want to receive advance payments any more.

Remember! Workers who get Advance EIC payments during the year must file a tax return after the end of the year and fill in the correct line to show the total amount received in advance payments. They must also complete Schedule EIC and attach it to their tax return.

What is the employer's role?

Advance EIC payments don't cost employers money. Employers simply subtract the advance payments they have added to their workers' paychecks from the total taxes withheld from all employees they would otherwise deposit with the IRS. Most automated payroll systems handle Advance EIC calculations.

Some employers may not be aware of the Advance EIC payment option. But under federal law, any eligible employee who files a W-5 must be given advance payments. Employers are not required to make sure employees are eligible for the EIC — that is the employee's responsibility. *For more information, see the IRS "Employer's Tax Guide, Circular E," available free by calling 1-800-TAX-FORM, or from the IRS website at: www.irs.gov/formspubs.*

Protection against overpayment

Some workers decide against Advance EIC payments because they fear they will receive too much in advance and owe money back to the IRS after the end of the year. However, the advance payment procedure has built-in protections against overpayment. Workers who choose advance payment can get up to about half of the EIC amount to which they're entitled for the year. They get the rest as a refund when they file their tax return. This means workers can get Advance EIC payments and a year-end refund!

Some workers aren't eligible to get Advance EIC payments

Some workers who are eligible for the EIC are not allowed to get Advance EIC payments, including:

- Workers without qualifying children
- Workers who get paid day by day
- Workers with no Social Security and Medicare taxes withheld from their pay
- Self-employed workers, who cannot advance the EIC to themselves

Some workers should not choose Advance EIC payment

Eligibility for Advance EIC payments is based on the total income a worker expects to earn in a year, including the income of a spouse. Major changes in family income or the eligibility of a qualifying child during the year can decrease the EIC for which workers are eligible. If a worker continues to receive Advance EIC payments based on an incorrect estimate of eligibility, these payments may exceed the amount of the EIC. In this case, the worker would have to send the IRS a check at tax time to make up the difference.

The following workers should not use the advance payment option:

- Workers who hold two or more jobs simultaneously
- Workers with a working spouse, unless both spouses take advance payments during the year
- Workers who get married during the year, if both spouses work
- Workers who receive a large increase in their earned income during the year

The EIC Can Help Workers with Disabilities and Families Raising Children With Disabilities

Can a person who receives disability benefits get the EIC and Child Tax Credit (CTC)?

To be eligible for the EIC, individuals must have earned income. Most disability-related benefits are not considered earned income, but a person who receives long-term, employer-paid disability benefits and is under minimum retirement age can qualify for the EIC, even if he or she did not work during the tax year. (Minimum retirement age is the earliest age at which a worker can receive a pension or annuity if not disabled.) Such disability benefits are considered taxable income, are reported as wages on tax returns and are considered earned income in determining eligibility for the EIC and the CTC refund. *For more information on the CTC, see the fact sheet on p. 5 of this booklet.*

Benefits such as Social Security Disability Insurance, SSI, military disability pensions, and payments from individually-purchased disability insurance policies are not counted as earned income. Individuals who receive these types of benefits may qualify for the EIC and the CTC refund if they, or their spouse, also have earned income.

Can children with disabilities be claimed for these tax credits?

The EIC — a worker may claim a person with total and permanent disabilities of any age as a "qualifying child" for the EIC if that person otherwise meets the qualifying child rules for the EIC. *(See p. 3 of this booklet.)*. For example, parents may claim their adult children if they have such disabilities. Also, persons who are caring for relatives with such disabilities who meet the other rules for a "qualifying child" may be able to claim them for the EIC.

Note: If the person with disabilities is claimed under the qualifying child rules for a foster child, an authorized agency must have placed that person in the care of the worker.

The CTC — a child claimed for the CTC, *including a child with disabilities*, must be under age 17 at the end of the year.

Qualifying children with disabilities may themselves receive income from benefits such as SSI. A worker's eligibility to claim such children for the EIC is not affected by the fact that the child receives SSI payments. This also applies to CTC eligibility, unless more than half of the child's support is provided by SSI and other benefits. In that case, the CTC may not be claimed.

A person with total and permanent disabilities who is able to earn income may be eligible to claim the EIC, if the eligibility rules are met. However, if that person lives with parents or other relatives who can claim him or her as a qualifying child, the worker is not eligible to claim the EIC.

Will claiming the EIC or CTC affect eligibility for other benefits upon which people with disabilities rely?

Income. Federal law generally excludes counting either EIC or CTC as additional income in determining eligibility for other federal public benefits, including: Medicaid, SSI, food stamps, Veteran's Benefits, Head Start or federally assisted housing. The rules for welfare cash assistance are set by states, but only Connecticut counts the EIC (and only the amounts received as Advance EIC payments). However, the CTC cannot be counted as income in determining eligibility for any federally funded program, even if program rules are set by the states.

SSI recipients might be concerned that the EIC or CTC refund would affect their eligibility by exceeding the "substantial gainful activity" (SGA) level — the amount of earnings above which recipients no longer qualify for SSI benefits. Tax refunds are not considered earnings from employment and they have no impact on the SGA.

Resource tests. While there is little cause for concern that the EIC or CTC will affect eligibility for benefit programs by being counted as extra income, some government benefit programs also have rules about the value of resources individuals may have and remain eligible. This means that if individuals wish to save some or all of their tax refunds, they should be familiar with the resource rules for other benefits they may receive.

The standard rule for most benefit programs has been that EIC and CTC refunds, if saved, are not counted toward dollar limits on resources during the month the refund is received and the following month. That rule is contained in federal law covering the treatment of CTC refunds for any benefit program receiving federal funding. There are now several exceptions to this rule.

Welfare cash assistance (TANF) — In most states, the standard resource rule described above is followed. No state has implemented a stricter rule. However, some states have removed the resource test for their TANF program and so there is no limit on how long a refund can be saved.

Medicaid — The standard rule above applies to Medicaid resource limits. However, since states have the flexibility to broaden or remove Medicaid resource limits, this rule will not apply in some states. Medicaid recipients who wish to save tax refunds for longer than two months should check with the Medicaid program in their state.

SSI — EIC and CTC refunds are excluded from resources for nine months following the month the refund is received. (The interest paid on EIC and CTC amounts held in savings also does not count as income in determining SSI eligibility.)

Food stamps — The food stamp rules for the EIC are different from the rules for the CTC. EIC refunds are excluded from resources for 12 months for food stamp recipients who remain on the program during that time. However, CTC refunds are excluded from resources only in the month the refund is received and the following month.

Veterans' Benefits — If a veteran receiving a Veteran's Administration (VA) means-tested benefit saved the EIC or CTC refund, the amount would count as a resource. However, because the resource limit for VA pension benefits is very high ($80,000, not counting a home and a motor vehicle), unless a veteran already has substantial resources near this limit it is unlikely that saving the EIC or CTC refund would affect eligibility for VA benefits.

Other tax benefits. Individuals who claim the federal Credit for the Elderly or the Disabled on their tax returns may also claim the EIC and CTC, if eligible. *For more information on this tax credit, see IRS Publication 524.*

State EIC refunds. Eighteen states and DC have state EICs in effect for 2006. See "State Earned Income Credits" on p. 24 of this booklet. Federal and state public benefit program rules for state EIC refunds are not necessarily the same as those for the federal EIC. *For more information, contact the Center on Budget and Policy Priorities at 202-408-1080.*

People often have questions about whether they can qualify for the EIC or CTC. This section provides the answers to many commonly asked questions, including questions about how the credits affect public benefits, college aid, eligibility for non-traditional families, military families and immigrants, as well as how to claim the credits for past tax years.

Tax Credits and Public Benefits

Can people who work and also get cash assistance, still get the EIC or CTC?

Yes. As long as they earn wages and meet the income and other eligibility requirements. These workers may use the Advance EIC payment option, if they wish.

Note: Some welfare recipients are required to participate in "work experience" and "community service programs" (often called "workfare") in exchange for their cash assistance benefits. These benefits are not counted as income to determine eligibility for the EIC or CTC. However, current or former recipients who are employed in private or public sector jobs for which employers are subsidized through state welfare block grants or other government programs do earn wages that count in determining eligibility for the EIC and CTC. *For more information, contact the Center on Budget and Policy Priorities, (202) 408-1080.*

Will getting the EIC or CTC lower other government benefits? Could someone lose benefits altogether?

Generally, no. Under federal rules, the EIC (including Advance EIC payments) and CTC are not counted as income for Medicaid, food stamps, SSI or federally assisted housing programs. However, the EIC and CTC can count as resources in determining eligibility for some benefit programs. Often, if the recipient has few or no other resources, saving part of a tax credit refund is not enough to cause that recipient to exceed the resource limit for a benefit program. For example, if your state has a resource limit for Medicaid, here's how it works: the EIC and/or CTC refund must be spent by the end of the month after the month in which it is received or the amount saved may be counted against the dollar limit on resources. Only Texas and Oregon have a resource limit for the State Children's Health Insurance Program (SCHIP) and they do not count the EIC toward SCHIP resource limits. For SSI, the EIC and CTC do not count toward the resource limits for nine months after the refund is received. The EIC does not count as a resource in food stamps for 12 months after the refund is received, but CTC refunds are excluded only for the month the refund is received and the following month.

Deposits in certain types of Individual Development Accounts (IDAs), which may include a worker's EIC or CTC refund, do not count as a resource in determining eligibility for the above programs or for state cash assistance programs. *For more information on IDAS, see p. 22 of the booklet in this kit, "Free Tax Help and Asset Development."*

Welfare cash assistance programs are administered by states under a block grant called Temporary Assistance for Needy Families (TANF). Each state can set its own rules for how the EIC will be treated in determining eligibility for cash assistance. Under federal law, the CTC may not be counted as income in determining eligibility for cash assistance. Currently no state counts the EIC refund as income in determining eligibility, except that in Connecticut, under some circumstances, Advance EIC payments may affect a worker's TANF eligibility. The rule for most state TANF programs is that the EIC must be spent by the end of the month after the month in which it is received or it can count as a resource. However, some states may have adopted less restrictive policies. *Contact your state welfare agency for the rule in your state.* Rules on how the EIC may affect "General Assistance" benefits are different in each state where a general assistance program is in place. *Contact your state or local welfare agency for information.*

How to Claim Tax Credits for Back Years

What if a worker was eligible for the EIC or CTC in past years but didn't claim it?

Workers can file for tax credit refunds for the last three years (i.e. 2003, 2004, 2005). For example, a worker who was eligible for the EIC and CTC in 2003 but did not claim them can fill out a Form 1040X, "Amended U.S. Individual Income Tax Return," and attach it to a copy of the 2003 tax return he or she filed that year. Workers claiming a child for the EIC also must fill out and attach Schedule EIC for 2003. To claim the CTC refund, Form 8812 is required. For copies of prior-year forms, call 1-800-TAX-FORM. *For more information, see p. 27 of the booklet in this kit, "Free Tax Help and Asset Development."*

What happens if a worker files for a prior year and the IRS finds out that taxes are owed?

The worker must pay whatever is owed. But:

- His or her EIC or CTC may be enough to cover the taxes owed.
- The IRS is usually willing to work out payment plans for back taxes.
- The worker may be able to make an "offer in compromise" that is less than the tax bill.

What about workers who did not file a return and discover they had been eligible for the EIC or CTC?

A worker must file a separate return for each year in which he or she qualified and, if claiming a child for the EIC or CTC, also fill out and attach the Schedule EIC or Form 8812 for that year. A Form 1040X is not required. There is no late filing penalty, unless the worker owed income tax in the prior year. Any tax still owed the IRS will be deducted from the worker's refund. Workers who may owe taxes in excess of their refund amount should seek assistance from a Low Income Taxpayer Clinic, accountant, or attorney and, if necessary, arrange a payment agreement with the IRS. *For more information, see p. 9 of the booklet in this kit, "Free Tax Help and Asset Development."*

Other Filing Questions

Will the IRS require additional information beyond what a worker provides with his or her tax return?

Generally, the IRS will not require any additional information. But, if information provided on the tax return or Schedule EIC seems questionable, the IRS may request additional documentation to verify the EIC or CTC claim. In such cases, the IRS will send the filer a questionnaire that specifies the type of documentation that must be submitted. For example, a filer may be asked to submit a copy of a qualifying child's birth certificate. It is important that the name on the birth certificate match the name on that child's Social Security card. If a child claimed for the EIC is over age 24 and has permanent and total disabilities, proof of disability status could be requested. The IRS also may require documents verifying that a qualifying child actually lived with the filer for the required period of time.

Filers claiming the EIC and CTC should not mail in any additional documentation with their tax returns unless such documentation is specifically requested by IRS. If additional information is requested, filers need submit only the documents specified. **Exception:** Workers whose EIC claim was disallowed in a previous year, but who now claim they are eligible, must attach Form 8862, "Information to Claim Earned Income Credit After Disallowance," to their tax return in order to submit a new claim.

Can self-employed workers get the EIC and the CTC?

Yes. They will need to use Form 1040 to file their tax return and fill out additional forms: Schedule C, "Profit or Loss from Business," (or Schedule C-EZ) and Schedule SE, "Self Employment Tax," if their self-employment income is more than $400. *Call the IRS at 1-800-TAX-FORM to get the necessary forms or download them from the IRS website at: www.irs.gov/formspubs.*

Social Security Number Requirements

Who needs a Social Security number?

To claim the EIC, valid Social Security numbers must be provided for everyone listed on the tax return, *including infants born before December 31, 2006*. Only valid Social Security numbers issued to U.S. citizens or Social Security numbers issued to non-citizens who have permission to work legally in the United States are acceptable. *For more information, see "EIC and CTC: Eligibility Rules for Immigrant Workers" below in this booklet.*

To claim the CTC, workers and qualifying children must have either a valid Social Security number or an Individual Taxpayer Identification Number (ITIN). *For more information on ITINs, see the fact sheet "Individual Taxpayer Identification Numbers" on p. 28 of the booklet in this kit, "Free Tax Help and Asset Development."*

The IRS verifies the Social Security number of every adult claiming the EIC, as well as the Social Security number of every child in families claiming the EIC, before it sends out EIC payments. Similar verification is conducted for CTC claims. The IRS also checks to make sure that no child is claimed more than once.

The processing of a claim for the EIC or CTC and the receipt of any refund will be delayed if the tax return or Schedule EIC is incomplete or contains incorrect information. Workers who file paper returns with missing or mismatched Social Security numbers will be sent a notice by the IRS stating that the return was incomplete and requesting that the missing information be mailed in. This can delay processing several weeks. Electronically filed returns will be rejected by the IRS computer if a Social Security number (or ITIN) is missing or the name and number do not match. A corrected return must then be filed as a paper return.

It also is important to be sure that each name and Social Security number is recorded on the tax return exactly as it appears on the person's Social Security card. For example, if a woman records her married name on the tax return, but her Social Security card bears her maiden name, the discrepancy will need to be resolved before the tax return can be processed. (To avoid such an error, the woman can apply to the Social Security Administration to have her name changed on her Social Security card. Correcting this discrepancy also will help ensure that Social Security taxes are being deposited in the proper account.)

Workers who don't have Social Security numbers for their children by the tax filing deadline can still get the EIC or CTC by:

- Filing their tax return without claiming the credits and then, after receiving the Social Security number, filing an "amended return" (Form 1040X) and attaching Schedule EIC (and Form 8812 if required for the CTC), OR
- Filing Form 4868 to request an extension on their tax filing deadline to August 15. *To have an application for a Social Security number sent to your home, call 1-800-772-1213. Or call the Social Security Administration office in your state to find out how to apply.*

EIC and CTC: Eligibility Rules for Immigrant Workers

Can immigrant workers get the EIC?

Many legal immigrants who are employed can get the EIC. Previous changes in federal law that denied public benefits such as food stamps and SSI to many legal immigrants did not apply to the EIC. But there are rules to claim the EIC that are specific to immigrant workers. *In order to claim the EIC, immigrant workers, their spouses, and children listed on Schedule EIC must each have valid Social Security numbers that permit them to work legally in the United States.* Individual Taxpayer Identification Numbers (ITIN) issued by the IRS to non-citizens and non-work Social Security numbers issued to applicants or recipients of federally funded benefits programs cannot be used to claim the EIC. In addition, an immigrant must be a "resident alien for tax purposes" for the entire tax year to claim the EIC. An immigrant who was a non-resident alien at any time during the year cannot claim the EIC unless he or she:

- was married to a U.S. citizen or a resident alien as of December 31 of the tax year, and
- files a joint tax return with the spouse and chooses to be treated as a resident alien for the entire year. *For more information on how resident alien status is determined, see IRS Publication 519, U.S. Tax Guide for Aliens*.

Immigrants who are "resident aliens for tax purposes" may be legal permanent residents, meaning they have a "green card" (I-551 card). However, many legal immigrants who do not yet have their "green cards" may still be resident aliens for tax purposes. For example, the following immigrants might qualify for the EIC (and the CTC) if they and their family members have legal work authorization and Social Security numbers:

• Amnesty temporary residents and amnesty family members granted "Family Fairness" or "Family Unity" status
• Refugees, asylees and those granted Temporary Protected Status
• Applicants for these and other immigration statuses who have legal work authorization and Social Security numbers.

Can immigrant workers get the CTC?

The rules for immigrant workers to claim the CTC are not as restrictive as for the EIC. Workers and their qualifying children must be either U.S. citizens or resident aliens living in the U.S. and have either a valid Social Security number (including a non-work SSN) *or* an ITIN.

Remember! Immigrant workers' children must have lived with them *in the U.S.* for more than six months of the year to be considered qualifying children for the EIC or for the CTC. Also, the worker's main home must be in the U.S.

Can immigrant workers who obtain legal work status claim the EIC for a previous year?

Workers who otherwise met all the EIC eligibility requirements in previous years, and later obtain legal work status from the U.S. Citizenship and Immigration Services (USCIS), may be able to claim the EIC for up to three previous years. A worker's spouse or qualifying children, if any, must also have legal work status. After receiving legal work status from the USCIS, the worker, spouse and qualifying children must obtain Social Security numbers. Such workers may claim the EIC by amending their tax return for the previous year, even if they had been denied the EIC in that year because they had not yet obtained a valid Social Security number. Or workers can file an original return for the previous year if they had not already done so. *For more information, see IRS National Office Chief Counsel Advice Memorandum, CCA 2000028034, "Claiming Previously Denied Earned Income Credit due to Invalid Social Security Numbers," June 9, 2000. Contact the IRS at (202) 622-6060.*

Does getting the EIC or CTC cause "public charge" problems for immigrant workers?

The EIC and CTC do not create "public charge" problems for immigrant workers. Receiving these credits is not considered an indication that the immigrant is unable to support him- or herself financially. In general, information on a tax return is confidential. The IRS cannot share individual tax return information with other government agencies, including the USCIS. There are exceptions in cases involving federal criminal or terrorism investigations or when the IRS thinks someone is breaking a tax law. *For more information about which immigrant workers qualify for the EIC, how to obtain Social Security numbers and other immigrant tax issues, call the National Immigration Law Center at (213) 639-3900.*

Non-Traditional Families

EIC and CTC eligibility rules give custodial parents priority in claiming the EIC if other family members who live with the child could also claim the credit. A working custodial parent can claim his or her child for the EIC or CTC (and as a dependent) even if the parent and child are living with another relative who earns more than the parent.

What are the rules about filing status?

To get the EIC, workers can file as: "single," "head of household" or "married filing jointly." But the EIC is not available to taxpayers who file as "married filing separately." This requirement that married workers file a joint tax return does not apply to claims for the CTC — they may file separately. However, if one spouse claims a child as a dependent, the other spouse cannot claim the same child for the CTC.

What if married parents are separated but not divorced?

Parents who are separated but not divorced can file as "married filing separately." But if they file this way, neither parent can claim the EIC. (As noted above, a claim for the CTC could be made by one spouse filing separately.) Separated parents have the option of filing as "married filing jointly." If they do so, they can claim the EIC.

In addition, there is *one* situation in which a separated parent can claim the EIC without having to file jointly with the other parent — the parents must have lived apart for the last six months of the year *and* their child must have lived with one of them for more than half of the year. *Also*, the parent now living with the child must have paid more than half the cost of maintaining the household for the year and be able to claim the child as a dependent. Under these circumstances, that parent is considered unmarried for tax purposes and can file as "head of household." That parent may claim the EIC. This option can be important, for example, to workers who are victims of domestic violence or whose separated spouse is not cooperative.

What if the parents in a family are divorced?

If parents are divorced, the parent with whom the child lived for more than half the year is entitled to file for the EIC, regardless of which parent claims the child as a dependent. If both parents lived with the child for more than six months, either parent could claim the EIC, and the parents should decide which one will. However, if each parent separately claims the child for the EIC, the IRS will determine which parent lived the longest with the child and will deny the claim filed by the other parent. If the child lived with both parents for the same amount of time during the year, then the parent with the highest adjusted gross income is entitled to the EIC.

Note: A parent not living with his or her child for more than half the year may be eligible for the smaller EIC for workers without qualifying children. That parent may also claim the CTC if he or she *is permitted to claim the child as a dependent by a divorce or separate maintenance agreement*. (In these cases, the custodial parent must sign IRS Form 8332, "Release of Claim for Child of Divorced or Separated Parents," and the form must be attached to the tax return of the *non-custodial* parent.) Note that even though the non-custodial parent claims the CTC, an eligible parent who lives with the child more than six months of the year remains entitled to claim that child for the EIC.

What if both parents and their child live together, but the parents are not married?

If the parents are not married, and each lived with the child for more than six months, they may choose which parent claims the EIC and CTC, if both are otherwise eligible. Since they are unmarried, they do not file a joint return. However, if each parent separately claims the same child for the EIC and CTC, the IRS will award the claims based on which parent lived with the child the longest and deny the claim of the other parent. If the child lived with both parents for the same amount of time during the year, then the parent with the highest adjusted gross income is entitled to the both the EIC and CTC.

What about a three-generation household: a grandparent, parent and child?

In a three-generation household, only one person can claim the EIC and CTC, even if more than one family member works and is otherwise eligible. For both the EIC and CTC, a working parent living for more than six months of the year with his or her child has the priority to claim the EIC. If the parent chooses not to claim the EIC or CTC, an eligible grandparent may claim these credits. (In a household with no working parent and more than one relative who could claim a child, relatives may decide who will claim the EIC. However, if more than one worker claims the same child, the IRS will award the EIC to the person with the highest adjusted gross income.) The same child cannot be claimed by one relative for the EIC and another relative for the CTC. A child may be claimed as a qualifying child for tax benefits by only one taxpayer (with the exception noted earlier of a non-custodial parent *permitted* to claim the child as a dependent and for the CTC by a divorce or separate maintenance agreement).

What about child support?

Child support payments a parent receives do not count as income when determining eligibility for the EIC or CTC or the amount of either credit.

What about foster families?

For purposes of the EIC and CTC, a foster child must be placed with the worker by an authorized placement agency, such as a licensed foster care agency, state agency or court. Such children must live with the worker for more than half of the tax year and meet the other requirements for a qualifying child.

Foster care payments generally do not count as income when determining eligibility for the EIC or the CTC.

College Financial Aid

College students who work and are raising children may be eligible to claim the EIC and CTC. Parents of full-time students under age 24 (or students of any age who have total and permanent disabilities) may also be able to claim the EIC. Students between ages 25 and 64 who are not raising children and who work may also be eligible for the EIC.

- Non-taxable scholarships and grants are not considered income in determining eligibility for the EIC or CTC; taxable grants and scholarships also are not considered "earned income," but are included in determining "adjusted gross income," which may affect eligibility for the EIC and CTC.
- The EIC is counted as family income in determining financial aid eligibility, but CTC refunds are not counted as family income. However, for many low-income students who work, or their parents, the EIC will have no effect on financial aid amounts or eligibility. Adding the tax credit refund amounts to other income often will not cause income to reach the threshold at which the student or family is required to contribute to the cost of education. *For more information, contact your college's financial aid office.*

For information on which scholarships and grants are taxable or non-taxable, call the IRS at 1-800-829-1040. For ideas on outreach to students, contact the Center on Budget and Policy Priorities at (202) 408-1080 to obtain the fact sheet, "Ten Ways Your College or University Can Promote the EIC."

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Can Military Personnel Claim the EIC and CTC?

Overseas assignments. Members of the military assigned overseas may wonder about their eligibility for the EIC or CTC. Military personnel can claim these credits whether they live in the United States or overseas.

The IRS considers an individual assigned to an overseas tour of duty to be temporarily absent from the U.S. due to a special circumstance. The length of time the person is absent is treated as though he or she was in the U.S., as long as the individual plans to return to his or her main home in the U.S. at the end of the military assignment. Therefore, military personnel who live with qualifying children while stationed on active duty outside the U.S. can be eligible for the EIC and CTC. *Even if their qualifying children remain in the U.S.*, the children may be claimed for the EIC. Military couples living apart due to a military assignment must still file a joint return to receive the EIC.

An individual in the military under age 19 may be claimed as a qualifying child for the EIC. If such an individual is temporarily absent due to an overseas military assignment, he or she still may be considered a qualifying child as long as he or she intends to return home at the end of the military assignment.

Combat pay. Military pay received in a combat zone is non-taxable earned income, but it is treated differently than other forms of non-taxable earned income for EIC and CTC purposes. Military personnel may choose to count combat pay when calculating their eligibility for the EIC *if it is an advantage*. For example, adding combat pay to a family's other earnings might raise the family's total earned income above EIC eligibility levels, or the added income might reduce the amount of the EIC. Under these circumstances a family would not want to count the combat pay. But in families with little or no other income, counting combat pay is likely to result in a larger EIC. Combat pay counted for the EIC (or CTC) remains non-taxable income.

The treatment of combat pay also affects figuring eligibility for the CTC. Combat pay *must* be counted as income for the CTC. For the CTC, counting combat pay will *always* work to the family's advantage, enabling more military families to qualify.

Non-taxable military allowances for housing and subsistence — including meals and lodging furnished in-kind to personnel residing on military bases — are not considered earned income for EIC or CTC purposes. Such pay and allowances are indicated on W-2 forms, but are not added to regular wage income to calculate eligibility for the EIC. Veterans' benefits and military retirement pay are not considered earned income.

For further information on EIC and CTC rules for military personnel, see IRS Publication 3 "Tax Information for Military Personnel (Including Reservists Called to Active Duty).

Paying for Child Care? The Child and Dependent Care Credit Could Help

What is the Child and Dependent Care Credit?

The Child and Dependent Care Credit is a tax benefit that helps families pay for child care they need in order to work or to look for work. The credit also is available to families that must pay for the care of a spouse or an adult dependent who is incapable of caring for himself or herself. The Child and Dependent Care Credit can reduce the amount of federal income tax a family pays in two ways. For families that pay income taxes but do not owe taxes at the end of the year because they have fully paid their taxes for the year through payroll withholding, this credit can give them back some or all of the federal taxes that were taken out of the parents' paychecks during the year. For families that end up owing taxes at the end of the year, the credit can lower the amount they must pay to the IRS. For the year 2006, parents can claim as much as $3,000 in dependent care expenses per child (up to $6,000 for two or more children). Please note, however, that families earning too little to pay federal income tax cannot use this credit. In this way, the Child and Dependent Care Credit differs from the EIC. The EIC can be claimed by families earning too little to pay income tax.

Can families that claim other credits get the Child and Dependent Care Credit?

Yes! The EIC and CTC do not affect a family's eligibility for this credit. Claiming all three credits, when possible, may mean even more money back from the IRS.

28 States Have Child and Dependent Care Tax Benefits!

These 12 states provide a refundable credit: Arkansas, California, Colorado, Hawaii, Iowa, Louisiana, Maine, Minnesota, Nebraska, New Mexico, New York and Oregon. In these states, low-income families that don't owe income tax can still receive a refund in the amount of the state's Child and Dependent Care Tax Credit. For more information, contact your state department of revenue.

Who is eligible for the Child and Dependent Care Credit?

Families can claim this credit if:

- They paid for care in 2006 for a qualifying child under age 13 claimed as a dependent, or a spouse or dependent not able to care for himself or herself, who lived with the family for more than half of the year, **AND**
- They needed the child or dependent care to work or look for work (in a two-parent family, both spouses must have needed the child or dependent care to work or to look for work unless one spouse was a full-time student or unable to care for himself or herself), **AND**
- The amount they paid for dependent care in 2006 was less than their income for the year. If taxpayers are married and filing a joint tax

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return, they must have paid less for care than the income of the spouse with the lowest earnings. There are special rules for calculating the income of a spouse who was a full-time student or disabled.

NOTE: In general, the credit can only be claimed if a child is claimed as a tax dependent, but there are special rules for children of divorced or separated parents. *For information about these rules, call the IRS at 1-800-829-1040 or the National Women's Law Center at (202) 588-5180.*

What type of care qualifies for the credit?

Any kind of child or dependent care can qualify, including care at a center, a family day care home or a church, or care provided by a neighbor or a relative (except if provided by a spouse, a dependent, or a child of the tax filer under 19).

If a family receives free child care, such as from a state-subsidized program, that care cannot be used to qualify for the credit. But if only part of a family's child care is subsidized and the family pays for the rest, the amount the family pays can be counted toward the credit.

How does a family benefit from this credit?

The size of the Child and Dependent Care Credit depends on the number of children or dependents in care, a family's income, and the amount the family paid for care during the year. It can be as much as $1,050 for families with one child or dependent in care and up to $2,100 for families with more than one child or dependent in care.

Families can claim only a limited amount of their child care expenses. Families with one child or dependent can claim up to $3,000 in these expenses and families with more than one child or dependent can claim up to $6,000. Eligible families will receive a credit worth between 20 percent and 35 percent of these expenses, depending on their income.

Example: Ms. Lewis has one child and earned $25,000 in 2006. During the year, she had $1,090 in federal income tax withheld from her pay. But Ms. Lewis spent $3,000 during the year on child care and she is eligible for a Child and Dependent Care Credit up to 30 percent of what she spent on care, or up to $900. Her Child and Dependent Care Credit eliminates $900 of the $1,090 in taxes Ms. Lewis paid, leaving $190. (She also qualifies for other tax benefits: her CTC pays her back the remaining $190 of her withheld taxes. She also qualifies for an additional CTC refund worth $810 and her EIC is worth $1,115.)

How do families claim the Child and Dependent Care credit?

Families must file a federal income tax return — either Form 1040 or 1040A — and attach a separate "schedule" or form with their return. With Form 1040, families must attach Form 2441. With Form 1040A, families use Schedule 2. *Free copies of these forms can be obtained at: www.irs.gov/formspubs or by calling the IRS at 1-800-TAX-FORM.*

Where can families get more information about this credit?

The National Women's Law Center (NWLC) has materials on the Child and Dependent Care Credit as well as state-level child and dependent care tax provisions. Call NWLC at (202) 588-5180, or visit its website at: *www.nwlc.org. Families also can get free information about the Child and Dependent Care Credit and other tax matters by calling the IRS at 1-800-829-1040. Hearing impaired people can call 1-800-829-4059. Or visit the IRS Website at www.irs.gov.*

What Is Earned Income for the Earned Income Credit and Child Tax Credit?

TAX CREDITS FOR EIC AND CHILD TAX CREDIT PEOPLE WHO WORK

Earned Income

Includes:	Does not include:

Includes:

Taxable Earned Income:

- Wages, salaries, and tips
- Union strike benefits
- Long-term disability benefits received prior to minimum retirement age
- Net earnings from self-employment
- Gross income received as a statutory employee
- **Exception:** Military combat pay is non-taxable earned income, up to the highest pay level for enlisted personnel. Combat pay is counted to determine eligibility for the CTC. Military personnel may choose to count their non-taxable combat pay in determining eligibility for the EIC, if it is advantageous to do so.

If investment income exceeds $2,800, the EIC may not be claimed. Investment income includes taxable interest, tax-exempt interest, and capital gain distributions.

For more detail, see IRS Publication 596, "Earned Income Credit."

Does not include:

- Interest and dividends
- Social security and railroad retirement benefits
- Welfare benefits
- Workfare payments
- Pensions or annuities
- Veterans' benefits (including VA rehabilitation payments)
- Workers' compensation benefits
- Alimony and Child Support
- Non-taxable foster care payments
- Unemployment compensation (insurance)
- Earnings for work performed while an inmate at a penal institution
- Taxable scholarship or fellowship grants that are not reported on Form W-2

Nontaxable earned income:

- Salary deferrals (for example: under a 401(k) plan)
- Military basic housing and subsistence allowances
- Meals or lodging provided by an employer for the convenience of the employer
- Housing allowance or rental value of a parsonage for the clergy
- Excludable dependent care benefits
- Salary reductions such as under a cafeteria plan
- Anything else of value you get from an employer for services you performed even if it is not taxable

State Earned Income Credits

They Can Make a Difference — Especially if they are Refundable

State-level EICs can make even more money available to low-income workers and can also demonstrate a state's commitment to reducing poverty among low-income working families. "Refundable" state EICs are available to workers even if they earn too little to owe state income taxes, and can help offset the impact of sales and property taxes that have a disproportionate impact on lower-income families. A refundable state EIC can also provide critical tax relief in states that still impose income taxes on the working poor, as 18 states do. And, since most states with state-level EICs follow federal eligibility rules and simply set their benefit as a percentage of the federal credit, a state-level EIC can be easy to administer. Advocates can educate legislators about the many benefits of enacting a refundable state EIC. They can also help make sure that eligible families get the benefits of the federal EIC by working to make EIC outreach a law. *For more information on state EICs or starting an EIC in your state, see "A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2006" at www.cbpp.org and visit the Hatcher Group's State EIC Online Resource Center at www.stateeitc.com.*

18 states and the District of Columbia Offer EICs for 2006

These states are listed below. The state credit is worth the percentage of the federal credit, as noted. States listed in **bold** have refundable credits.

Delaware (20%)
District of Columbia (35%)
Illinois (5%)
Indiana (6%)
Iowa (6.5%)
Kansas (15%)
Maine (5%)
Maryland (20%)*
Massachusetts (15%)
Minnesota (Varies with earnings; average is 33%)
Nebraska (8%)
New Jersey (20%)
New York (30%)**
Oklahoma (5%)
Oregon (5%)
Rhode Island (25%)***
Vermont (32%)
Virginia (20%)
Wisconsin (4%-43% based on number of children)

*Maryland also offers a non-refundable EIC set at 50 percent of the credit. Taxpayers may claim either the refundable credit or the non-refundable credit, but not both.

**Beginning in 2006, New York also allows certain non-custodial parents who are making child support payments to claim an EIC that is the greater of 20 percent of the federal EIC that they would be eligible for with one qualifying child as a custodial parent or 250 percent of the federal EIC for taxpayers without qualifying children.

***A very small portion of Rhode Island's credit is refundable.

Three local governments — New York City, San Francisco, and Montgomery County, Maryland — offer local EICs.