

Updating agencies, professionals, and individuals with current life skills information

Help Your Clients Obtain the Earned Income Credit (EIC)

What is the Earned Income Credit?

The EIC is a federal tax credit that can add income of up to \$4,140 to low- or moderate-income workers. Qualifying workers who file federal tax returns may recover part or all of the federal income tax withheld from their pay, and the IRS may even give them cash refunds. Workers who do not earn enough to pay income tax may also be eligible for the EIC. In most cases, people claiming the EIC will still be eligible for welfare cash assistance, Medicaid, food stamps, SSI, or public or subsidized housing.

Who qualifies for the EIC? To obtain the EIC:

- You must have earned income derived from wages, salaries, tips, or self-employment.
- You must file a 2002 income tax return (although you need not calculate the credit yourself, but can have the IRS do it for you).

- If you are married, you must file a joint income tax return.
- You cannot file Form 2555 or 2555EZ, and your investment income must not exceed \$2,550.
- You and any qualifying children must have valid Social Security numbers.

Single or married people who worked full- or part-time in 2002 may claim the EIC if:

- They were not raising children in their home, were between 26 and 64 years old on December 31, 2002, and had an adjusted gross income below \$11,060, if single, or below \$12,060, if married. These workers may qualify for up to \$376 in EIC.
- They were raising one child in their home and had an adjusted gross income of less than \$29,201, if single, or less than \$30,201, if married. The EIC for these workers may be up to \$2,506.

(continued on page 2)

University of California and U.S. Department of Agriculture Cooperating

Inside this issue

VITA Provides Free Tax Preparation for Low-Income Workers 2

Better, Easier EIC Rules for the 2002 Tax Year 3

Commercial Tax Preparation and "Rapid Refund" Loans Siphon Refunds from Low-Income Taxpayers 4

Filing an Amended Return to Claim the EIC from Previous Years 5

Immigrant Workers and the EIC 5

California Rural Latino Families Tend Not to Claim the EIC 6

More Take-Home Pay with the Advance EIC payment Options 7

New Child Tax Credit 7

Editor Anne Cotter

Author/Designer Lorraine Zank

Reviewer Margaret Johns

LifeSkills is published four times a year by Cooperative Extension, University of California, 135 Highlander Hall, Building C, Riverside, CA 92521. Ph: 909.787.5241

(continued from page 1)

- They were raising two or more children in their home and had an adjusted gross income below \$33,178, if single, or below \$34,178, if married. Such workers may obtain up to \$4,140 in EIC.

How to obtain the EIC

Workers must fill out the following tax forms and schedules:

- Workers who raised children in 2002 must file Form 1040 or Form 1040A and they must attach Schedule EIC. If they file Form 1040EZ or do not attach Schedule EIC, they will not obtain the EIC.
- Workers who did not raise children in 2002 may file any tax return, including Form 1040EZ. They do not file Schedule EIC but, on the Earned Income Credit line of the tax form, they must write "EIC" or the dollar amount of their EIC.
- Names and Social Security numbers for each person listed on the tax return and Schedule EIC must be correct.

Once they have filed their tax return, workers who are raising children can obtain the Advance EIC payment option, in which they receive part of their EIC in their paychecks throughout the year and part in a check from the IRS.

Sources:

The Earned Income Credit: Extra Money for People Who Work, A Project of the Center on Budget and Policy Priorities

Earned Income Credit Pays Workers Big Bucks, Ron Wall, Specialist, Cooperative Extension Service, CTAHR, University of Hawaii

VITA Provides Free Tax Preparation for Low-Income Workers

You can help your clients avoid high-cost commercial tax preparation fees and expensive "refund anticipation loans" by telling them about the free, IRS-sponsored Volunteer Income Tax Assistance (VITA) program for low-income taxpayers and anyone eligible for the EIC.

The IRS trains VITA volunteers to complete tax forms and answer questions.

Where do I find VITA sites?

Although most communities have several VITA sites, rural regions tend to have fewer sites. You can find VITA sites in community action agencies, churches, libraries, public assistance offices, shopping malls, community colleges, or other public places.

What are their hours? VITA support is available from late January or early February through April 15, usually on a first-come first-served basis. Most are not open every day and some are open only on

Tax Info at Your Fingertips

IRS toll-free line:
1-800-TAX-1040

Tax forms:
1-800-TAX-FORM or
www.irs.gov/formspubs/index.html

certain evenings or during certain weekend hours.

Can I obtain free electronic filing through VITA? Yes, most sites are equipped for e-filing. The VITA volunteers can also prepare your tax return and then arrange for electronic filing at a central location. Electronic filing enables you to obtain your refund faster and avoids delays by ensuring that your forms are not incomplete.

Why don't more people use VITA? Most people do not know about VITA. Many people do not know how to find VITA sites, and some sites are not open at times convenient for certain workers. In some communities the IRS has not found sponsors or volunteers to open and assist at VITA sites. Some people may have trouble reaching the IRS toll-free line, 1-800-TAX-1040.

Source:

VITA! Free Tax Preparation for Low-Income Workers, A Project of the Center on Budget and Policy Priorities

For the 2002 tax year it is easier to claim the EIC, more people are eligible for it, and refunds are larger for many workers. There are five important changes to the EIC rules:

Higher EIC benefits for married workers To offset the "marriage penalty," whereby married people, who have to file a joint return to receive the EIC, sometimes receive smaller benefits than single people because their combined income is higher than a single person's, Congress has increased EIC benefits for most married workers. The income limits for married people have also increased. In addition, married workers raising children and earning above \$13,520 for 2002 will now receive a slightly higher EIC than single workers with the same income. Also, married people who earn above \$6,150, but are not raising children, will receive slightly higher EIC benefits than similar single people.

Foster child residency requirement reduced Now foster children will be required to live with the foster parent claiming the EIC for "more than half of the year," just as other qualifying children, rather than for the entire year.

More choices for custodial parents The EIC rules for working parents who live with higher income relatives are now more flexible. Whereas before, when the parent and grandparent lived together and could both claim the EIC, the benefits went to the worker whose income was higher. Even if a grandparent earning more than a parent chose not to claim the EIC, the parent's claim for the EIC could be denied. If the grandparent's earnings exceeded the EIC limits, the parent became ineligible to receive the EIC. Under the new rules, the parent's claim has priority over the non-parent's but, if the parent does not claim the EIC, another eligible relative who lives with the child may apply for the benefit.

Although married parents must file a joint tax return to claim the EIC, unmarried parents would file separate tax returns. If each parent lived with the child for more than six months of the tax year, the parents may now choose who will claim the EIC. If both parents claim the EIC, the IRS will pay the benefits to the parent who lived longer with the child or, if both lived with the child for the same amount

of time, to the parent with the higher income.

New definition of "earned income" In the past, peoples' earnings from work plus their non-taxable income (such as employer-sponsored retirement plan contributions and dependent care assistance plans) were used to calculate their eligibility for the EIC. Now, non-taxable earned income is not considered. Apart from increasing EIC benefits for certain workers, this change has simplified calculation of the EIC.

No more "modified" Adjusted Gross Income EIC eligibility will now be determined by a worker's Adjusted Gross Income (AGI), which includes earned and other taxable income, less business and other losses. Previously EIC eligibility depended on "modified AGI," in which workers would have to add back to their income 75% of business and other losses, and also other types of tax-exempt income. The old calculations resulted in reduced benefits or ineligibility for the EIC.

Source:

The Earned Income Credit: Extra Money for People Who Work, A Project of the Center on Budget and Policy Priorities

While the EIC is an extremely large and effective anti-poverty measure, many of its recipients are losing large proportions of their benefits through tax preparation services and refund anticipation loans. The Brookings Institution's Progressive Policy Institute has conducted a study to determine the extent of the problem and has proposed several remedies.

According to the study, in the Washington D.C. area, workers who claimed an EIC of \$1,500 and used commercial tax preparers paid over ten percent of their EIC for tax preparation, electronic filing, and refund loans.

Moreover, large commercial tax preparation services and tax refund loan services almost trebled their income from "rapid refund" products from the year 1998 to 2001, from \$138 million to \$357 million. "Rapid refunds" are aimed primarily at low-income taxpayers.

The study determined that there are approximately 50 percent more electronic filing and tax preparation services in areas with high numbers of EIC claimants than in areas with few claimants.

Of the EIC refunds paid out in 1999, approximately \$1.75 billion was lost to tax preparation and electronic filing fees and expensive refund loans.

More than fifty percent of Americans, including 68 percent of EIC claimants, use commercial tax preparation services. Many low-income taxpayers, especially those who do not speak English as a first language, find the tax code too complicated to decipher. Research indicates that, in particular, low-income Hispanic parents are not as likely to be aware of the EIC; hence they may rely more on tax preparers to help them claim the benefits.

The study suggests remedies to prevent the benefits of the EIC from being eroded by unnecessary tax preparation costs and fees:

- The federal government should simplify further the rules governing the EIC and the partially refundable child credit.
- The government can extend the IRS Volunteer Income Tax Assistance (VITA) and other local programs offering free or extremely low-cost tax aid.

- Low-income taxpayers should have easy access to free or very low-cost Internet-based electronic tax filing programs.
- The government and local leaders should help low-income taxpayers who do not have bank accounts to obtain low-cost accounts for direct deposit of their refunds, so that they do not have to rely on expensive refund loans.
- The government should make low-income taxpayers aware of alternative methods to receive their refunds and to avoid "rapid refunds."

Source:

The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC, Alan Berube, Anne Kim, Benjamin Forman, & Megan Burns, The Brookings Institution, Progressive Policy Institute, Survey Series, May 2002

Subscription Information

California residents should contact their local county Cooperative Extension Nutrition, Family and Consumer Science advisor. Their phone number can be found in the county section of the government pages of your local phone directory.

Out of state subscription requests should be sent to Connie Costello, University of California, Riverside, 135 Highlander Hall, Riverside, CA 92521, or connie.costello@ucr.edu. Electronic subscriptions are free.

Filing an Amended Return to Claim the EIC for Previous Years

If your clients were eligible for the EIC, but did not claim it, they may amend their tax returns to claim the EIC for up to three previous years. They will need IRS Form 1040X, *Amended U.S. Individual Income Tax Return*, which is used for all changes taxpayers want to make to their returns. The IRS provides free tax forms and instructions from 1-800-TAX-FORM or www.irs.gov/formspubs/index.html. Clients who need help completing the forms may call the IRS at 1-800-829-1040 or make use of an IRS office with a walk-in service center.

To amend a tax return to claim the EIC:

1. Calculate the EIC amount from the tax return and the IRS instructions for the year(s) in question. Insert this amount on the Earned Income Credit line of Form 1040X. Complete Form 1040X by following the instructions. To claim for a qualifying child, fill out Schedule EIC.
2. Make a copy of the tax return for the year(s) in question. Attach Form 1040X and Schedule EIC (for claims for a qualifying child) to this copy and mail them to the IRS Service Center listed in the 1040X instructions.

There is no charge or penalty for amended returns and they can be filed within three years of the date on which the tax return was originally filed.

Source:

How to Help a Worker Who Filed a Tax Return but Didn't Claim the EIC, A Project of the Center on Budget and Policy Priorities

Immigrant Workers and the EIC

Although legal immigrants may not be eligible for other public benefits, most working legal immigrants can obtain the EIC, provided they, their spouses, and any children listed on Schedule EIC all have valid Social Security numbers that permit them to work legally in the USA. Receiving the EIC is not proof that immigrants cannot support themselves financially. Moreover, since the information on tax returns is confidential, the IRS cannot divulge it to the Bureau of Citizenship and Immigration Services (BCIS).

To claim the EIC, the immigrant worker must be a "resident alien for tax purposes" for the entire tax year, unless he or she

- was married to a U.S. citizen or 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.

Even if legal immigrants do not yet have their "green cards" (I-551 cards), they may still qualify for the EIC if they and their family members have legal work authorization. Such immigrants include:

- amnesty temporary residents and amnesty family member 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.

Legal immigrants who qualify for the EIC may apply for the Advance EIC payment and may claim the EIC for previous tax years (even if they had previously been denied the EIC because they did not yet have valid Social Security numbers).

Source:

How to Help a Worker Who Filed a Tax Return but Didn't Claim the EIC, A Project of the Center on Budget and Policy Priorities

Researchers at the University of California have studied 35 low-income rural families in Kern and Madera Counties to determine why many and perhaps most of the qualified Latinos there do not receive EIC benefits. While, nationwide, 80-86% of eligible households receive the EIC, this is true of fewer than 30% of the families in the California study.

Since the EIC is effective at reducing poverty, promoting employment, reducing income inequality, and helping low-income families build assets, it is particularly important that as many eligible families as possible take advantage of the program. Researchers have found that former welfare recipients, workers lacking English skills, and very low-income families are less likely to receive the EIC. According to the 1999 National Survey of America's Families (NSAF), while 74% of non-Latino participants in the survey had heard of the EIC and about 50% had ever received it, only 32% of Latino families know of it and only 18% had ever received it. The University of California study's findings were similar.

Of the 35 rural California families studied, 33 were eligible for the EIC. The study determined that only 36% of the eligible families filed for and received the EIC for the year 1999. From the interviews, it appeared that most of the families lacked accurate information about the existence of the EIC, their eligibility for the program, and filing procedures for the benefits. Difficulty with language and cultural barriers may exacerbate the problem.

Many low-income workers who do not owe taxes or who do not expect withholding tax refunds do not file tax returns and did not appear to understand that, by filing tax forms and, if necessary, Schedule EIC, they could receive refunds, including money exceeding the taxes withheld. Furthermore, since legal immigrant workers are not eligible for many public benefit programs, they often do not realize that they may nevertheless qualify for the EIC.

The isolation of the rural community, coupled with possible language and cultural barriers may mean that qualified workers in the community are not receiving

sufficient accurate information about the EIC. It is important to disseminate information about the program. After the first year of the Californian interviews, researchers sent IRS information flyers about the EIC to the study participants and, from interviews conducted in the second year, it appears that the number of eligible families receiving the EIC more than doubled.

The University of California study findings indicate the importance of developing informational programs to reach out to the rural Latino communities to provide accurate information about the EIC, its eligibility requirements, and free or low-cost options for filing taxes and receiving refunds. Many of the Expanded Food and Nutrition Education and Food Stamp Nutrition Education programs include EIC information, but do not serve all the rural areas. The University of California Cooperative Extension Spanish Broadcast and Media Services also provide written and oral information about the EIC.

Source:

Rural Latinos in California May Be Missing Earned Income Tax Benefits, Karen P. Varcoe, Nancy B. Lees, & Martha L. Lopez, University of California.

More Take-Home Pay with the Advance EIC Payment Option

Instead of obtaining the EIC in a single check after they file tax returns, workers can receive part of their EIC with every paycheck. These EIC payments are not taxable income and do not affect eligibility for welfare cash assistance, food stamps, or Medicaid.

Who qualifies for Advance EIC Payment? Workers need to have a least one qualifying child and must expect to earn less than \$29,666, if single, or \$30,666, if married, in 2003. Workers who are paid day by day are not eligible; neither are those who do not have Social Security and Medicare taxes withheld from their pay. Self-employed workers are also not eligible.

Why do it? The Advance EIC payment option provides workers with more take-home pay and may please employers by lowering turnover, without adding costs to the business.

What if the IRS overpays me? The Advance EIC payment program has built-in protection against overpayment. It allows workers to obtain only about half of the EIC payment with their paychecks; the rest is a refund after they file their tax returns.

Should everyone choose the Advance EIC payment? No, if your family size or income increase during the year, your EIC benefits will change. The Advance EIC payment is based on what you expect to earn during the year, so if your actual EIC benefits decrease, you may receive more in advance payments than you are permitted. You should not choose this option if you:

- hold more than one job
- have a working spouse, unless both of you take advance payments during the year
- get married during the year and both of you work
- greatly increase your earned income

How do I obtain the Advance EIC payment? You must fill out the W-5 Form, the Earned income Credit advance Payment Certificate and give the bottom portion to your employer. You may obtain this form from your employer (photocopies are fine), or by calling 1-800-TAX-FORM, or by downloading it from www.irs.gov/fomspubs/index.html. If you are eligible and file a W-5 with your employer, your employer must give you advance payments. However, it is your responsibility to ensure that you qualify for the EIC.

Although you may file a W-5 at any time during the year, you must file a new W-5 form at the beginning of each year if you wish to continue obtaining the advance payment.

To avoid overpayment, if you are married, both spouses should give their employers W-5 forms. The appropriate box on the form should be checked "yes" to indicate that your spouse has also filed a W-5.

If you are going to get married to someone who also works or if you anticipate a large increase in income, fill out a new W-5 form to stop the advance payments.

Source:

Boost Take-Home Pay! The Advance EIC Payment Option, A Project of the Center on Budget and Policy Priorities

New Child Tax Credit

In addition to the EIC, many families may now claim the Child Tax Credit, which can give them up to \$600 for each child. However, the rules governing the Child Tax Credit differ from those for the EIC. People claiming this credit will need to file an additional form and may find filing their tax returns more complicated, so they may require additional help. You can direct your clients to VITA to help them take advantage of this benefit.

Give Your Paycheck a Boost!



*Get your Earned Income Credit.
Many working families can now get the Child Tax Credit too!
For information about how you can get these tax credits
and free help filing your taxes, call the IRS at 1-800-829-1040.*

Claim Your Earned Income Credit

Get more from your regular paycheck! The Earned Income Credit (EIC) is a special tax benefit for people who work full- or part-time. If you qualify, you'll owe less in taxes, and you may get cash back. Even if you don't owe income tax you can get the credit. But, you must file a federal tax return.

Who can get the Earned Income Credit?

- Workers who were raising children in their homes and who earned less than \$33,178* in 2002 can receive an EIC up to \$4,140 (or less than \$29,201* if they were raising only one child). File form 1040 or 1040A, and attach Schedule EIC.
- Workers at least age 25 and under age 65, who were not raising children in their homes, and who earned less than \$11,060* in 2002. File any tax form.

The EIC Advance Payment option allows some workers who are raising children to 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. A worker can get up to **\$50 extra in each bi-weekly paycheck**. To get EIC Advance Payments, eligible workers give a Form W-5 to their employer. You can get the W-5 from your employer, or by calling the IRS at 1-800-TAX-FORM.

New! Extra Credit if you earned more than \$10,350! Many families may now qualify for the Child Tax Credit — up to \$600 for each dependent child under age 17! See the instructions for form 1040 or 1040A and attach Form 8812.



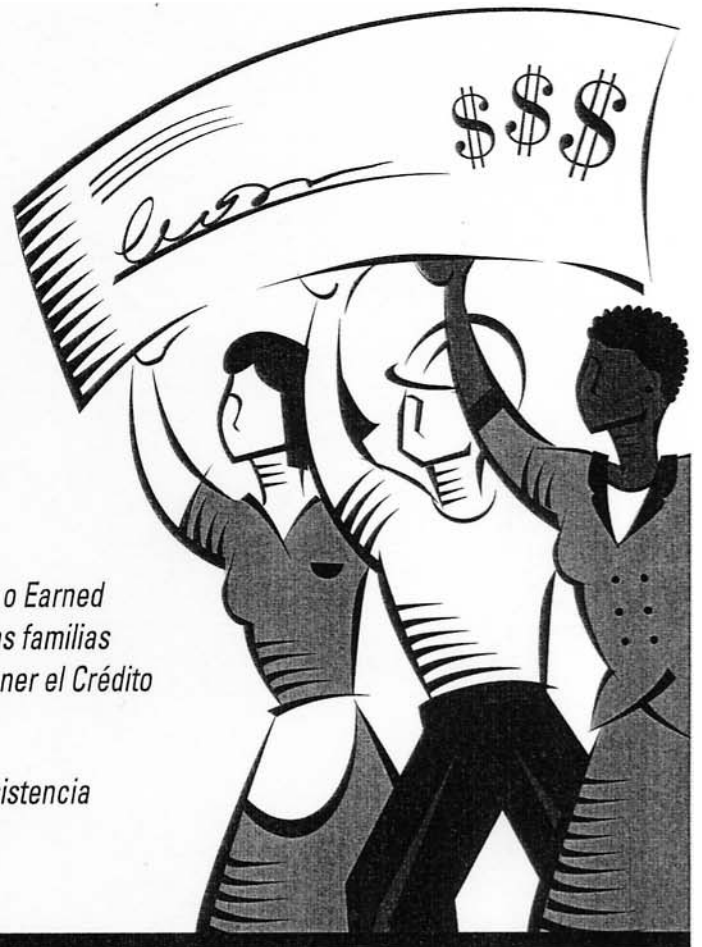
*The new income limit for married workers is \$1,000 higher than this amount. Many married workers will get a larger EIC!

¡Aumente su sueldo!



Obtenga el reembolso de ingresos o *Earned Income Credit (EIC)*. ¡Ahora muchas familias trabajadoras también pueden obtener el *Crédito de Impuestos Infantil!*

Para informes sobre cómo obtener estos créditos fiscales y asistencia sin costo para llenar y mandar su declaración de impuestos, llame al IRS al 1-800-829-1040.



Reclame su reembolso de ingresos o *Earned Income Credit (EIC)*

¡Obtenga más de sus pagos quincenales!

El reembolso de ingresos o *Earned Income Credit (EIC)* es un beneficio de impuestos especial, únicamente para gente que trabaja medio tiempo o tiempo completo. Si usted califica, pagará menos impuestos y hasta podría obtener un reembolso en efectivo. Aunque no deba impuestos sobre su trabajo usted puede obtener el EIC siempre y cuando llene una declaración de impuestos.

¿Quién puede obtener el *Earned Income Credit*?

- Trabajadores solteros o casados que albergaron a niños en sus hogares y que tuvieron un ingreso menor de \$33,178* en el 2002 pueden recibir el EIC por \$4,140 (o menor de \$29,201* si sólo albergaron a un niño). Mande el formulario 1040 o el 1040A y anexe el "Schedule EIC".
- Trabajadores solteros o casados de entre 25 y 65 años, que no albergaron niños en sus hogares y que tuvieron un ingreso menor de \$11,060* en el 2002. Mande cualquier formulario de impuestos.

EIC Advance Payment es una opción que le permite a algunos trabajadores que están criando niños obtener parte de su EIC en los cheques de su sueldo a través del año y otra parte en un cheque del IRS después de haber mandado su declaración de impuestos. Un trabajador puede obtener hasta \$50 extra en cada cheque quincenal. Para obtener los "EIC Advance Payments," aquellos trabajadores elegibles deben darle el formulario W-5 a su jefe o empresa. Usted puede obtener el formulario W-5 de su jefe o empresa, o llamar al IRS al 1-800-829-3676.

¡Lo Nuevo! ¡Reembolso Extra si usted gana más de \$10,350! Ahora muchas familias ya pueden calificar para el *Crédito de Impuestos Infantil* hasta por \$600 por cada niño dependiente menor de 17 años! Vea las instrucciones para el formulario 1040 o el 1040A y anexe el formulario 8812.



*El nuevo salario límite para trabajadores casados es \$1,000 más alto que esta cantidad. ¡Muchos trabajadores casados obtendrán un EIC mayor!

**COOPERATIVE EXTENSION
U.S. DEPARTMENT OF AGRICULTURE
UNIVERSITY OF CALIFORNIA
OAKLAND, CALIFORNIA 94612-3560**

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE \$300

**PRSRT STD
Postage & Fees Paid
USDA
Permit No. G-00268**