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## NF98-359 The Earned Income Credit: Extra \$ If You Qualify

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## The Earned Income Credit: Extra \$ If You Qualify

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### What is the Earned Income Credit (EIC)?

The EIC was created to reduce the tax burden on workers who earn low or moderate incomes. The EIC also supplements wages to make work more appealing than welfare.

Workers who qualify for the EIC and have filed a federal tax return can receive some or all of the federal income tax that was taken out of their paychecks during the year. In addition, workers also may get extra cash back from the IRS. Moreover, the EIC may reduce any additional taxes workers may owe. Even workers who earn too little to pay taxes are eligible to receive the EIC.

### Who is Eligible to Receive the EIC?

1. Workers who were raising one child in their home and had a family income of less than \$25,760 in 1997 may receive an EIC of up to \$2,210.
2. Workers who were raising more than one child in their home and had a family income of less than \$29,290 in 1997 can get an EIC of up to \$3,656.
3. Workers who were not raising any children in their home but were between the ages of 25 and 64 on Dec. 31, 1997 and their income was below \$9,770 may receive an EIC of up to \$332.

### Who Are "Qualifying Children"?

"Qualifying children" include: daughters, sons, stepchildren, grandchildren and adopted children. These children must have lived with the taxpayer for more than half the year. Nieces, nephews, children of a friend or foster children may be "qualifying children" if they lived with the taxpayer all year and were cared for as members of the family. Any "qualifying child" must be under the age of 19, or under age 24

if they are full-time students. Finally, totally and permanently disabled children of any age also are considered "qualifying children."

Every "qualifying child" must have a valid Social Security number before Dec. 31, 1997 to be considered for the EIC.

### **How Do You Receive EIC?**

1. Workers raising children in 1997 must file either Form 1040 or 1040A and fill out and attach Schedule EIC. Workers with children cannot receive the EIC if they file Form 1040EZ or fail to attach Schedule EIC. Married workers must file a joint return to get the EIC.
2. Those who worked during 1997 but were not raising children can file any tax form, including the 1040EZ. These workers need to write "EIC" (or the dollar amount of their credit) on the Earned Income Credit line on the tax forms. These individuals do not file Schedule EIC.
3. Every person listed on the tax return and Schedule EIC must provide a correct name and Social Security number. The IRS will delay the refund if this information is incorrect or missing.
4. The IRS will calculate workers' EIC if they choose.

### **Benefits of the EIC**

The EIC is a federal tax benefit designed to assist low-income workers increase their financial stability. Since the EIC is a federally funded, anti-poverty initiative, it helps working people maintain their independence from the welfare system. By late 1997, more than 19 million families and individuals received the credit.

Many groups of people benefit from the EIC. Since children are more likely to be poor than Americans of any other age group, the EIC provides the largest benefits to working families with two or more children. Meeting children's basic needs today is extremely expensive. The EIC can assist with some of the costs of childcare, clothing, and other needs.

People who work at very low wages or are only able to find part-time work also benefit from this financial assistance. About 4.2 million workers received this credit for tax year 1994, the first year the EIC was available to this group.

State and local economies also benefit from the EIC. In the first nine months of 1997, more than \$28 billion in federal EIC funds was allocated to the states. Moreover, the EIC can reduce the demand for some public services and benefit programs provided by state and local governments since it increases the income of low-wage earners.

Finally, businesses also benefit from the EIC. The EIC helps workers support themselves and their families by increasing their take-home pay at no cost to the businesses. Therefore, businesses play a crucial part in promoting the EIC. The EIC is different from receiving welfare in that it rewards people who find and keep a job by adding to their wages. Welfare recipients, on the other hand, either lose or get a reduction in their benefits once they obtain a job. In addition, the EIC does not require a caseworker or a trip to the welfare office.

In most cases, the EIC does not affect eligibility for benefits such as cash assistance ("welfare"),

Medicaid, food stamps, SSI, or public or subsidized housing. Therefore, individuals who receive welfare benefits still can profit from the EIC.

Legal immigrants also can benefit from the EIC. As long as they meet the eligibility requirements for EIC, they can qualify for the income credit.

Workers can receive free assistance filing their tax forms through Volunteer Income Tax Assistance (VITA). For more information call the IRS at 1-800-829-1040.

***File NF359 under: HOME MANAGEMENT***

***B-6, Tax***

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