

The Earned Income Tax Credit - A Fact Sheet

The Earned Income Tax Credit (EITC), enacted by Congress in the 1975, is a federal tax credit available to assist working families and individuals. The EITC has several important benefits: it reduces the tax burden on workers (especially with respect to Social Security payroll tax), supplements wages, makes work more attractive than welfare, reduces income inequality and helps low-income families build assets.

The EITC is a refundable credit offered through the federal tax system. The credit is available to low and moderate-income workers regardless of their tax liability (meaning that even if they don't have to file or pay taxes, many working poor families can still file for taxes and get some sort of an EITC refund). The amount of the credit that a taxpayer receives depends on their income and the number of qualifying children they have. 23 states and the District of Columbia also offer an EITC, generally as a percentage of the federal credit.

At its inception, the EITC was relatively small in size, but several increases in the late 1980s and early 1990s turned the EITC into largest federal aid program targeted to the working poor. In tax year 2009, the EITC was expanded by Congress as part of measures passed to encourage economic recovery; about 26 million families earned more than \$57 billion in EITC refunds. The EITC in 2009 lifted 6.6 million Americans above the poverty line. Unfortunately, millions of dollars of EITC owed to eligible workers go unclaimed each year. National estimates are that approximately 20 to 25% of eligible families do not claim the EITC they have earned. Those not claiming the credit generally fall into two categories: (1) those that file and do not claim the credit since they were not aware of the credit and (2) those that don't file at all, either because they are afraid to file or because they have no tax liability and are not aware that EITC is refundable even if they have no tax liability.

For the tax year 2010, the potential EITC available for working families and individuals is as follows:

- Workers who are raising one child in their home and have family income of less than \$35,535 (or \$40,545 for married workers) in 2010 can get an EITC of up to \$3,050.
- Workers who are raising two children in their home and have family income of less than \$40,363 (or \$45,373 for married workers) in 2010 can get an EIC of up to \$5,036.
- *New!* Workers who are raising three or more children in their home and have family income of less than \$43,352 (or \$48,362 for married workers) in 2010 can get an EIC of up to \$5,666.
- Workers who are not raising children in their home, are between the ages 25 and 64 on December 31, 2010 and have income below \$13,460 (or \$18,470 for married workers) can get an EIC of up to \$457.

To receive the federal EITC, eligible working families and individuals must file a federal income tax return and must fill out and attach Schedule EIC. Previously, workers with children could choose the "Advance EIC Payment Option," enabling them to get a portion of their EITC through their paychecks throughout the year as well as a partial payment from the IRS after they file their tax return. However, this option has been eliminated by Congress beginning in 2011.

Child Tax Credit

In addition to the EITC, working families may be able to receive the benefits of the federal Child Tax Credit, worth up to \$1,000 per child for families with dependent children under the age of 17. While the Child Tax Credit has been around since 1998, Congress has made changes to the credit that allows part of the credit to be refundable to working families with limited or no tax liability. To be eligible for the Child Tax Credit, a single or married worker must:

- Be able to claim an exemption for a dependent child under age 17 on his or her tax return;
- Have taxable earned income above \$3,000; and
- Have either a Social Security number (SSN) or an Individual Taxpayer Identification Number (ITIN).