

The Earned Income Tax Credit (EITC) & Child Tax Credit (CTC)

FREQUENTLY ASKED QUESTIONS

What is the Earned Income Tax Credit (EITC)? The EITC is a refundable federal, New York State and New York City tax credit for people who work full- or part-time, but don't earn a lot of money. New York State EITC adds 30 percent of the federal EITC, and New York City adds 5 percent of the federal EITC. People can get back some or all of the money they paid in income taxes during the year, and sometimes even get money back in a refund. Remember, workers who don't earn enough to owe taxes may still qualify for the EITC.

- Workers raising two or more children who earned less than \$36,348 (\$38,348 if married) in 2006 can get up to \$6,124.
- Workers raising one child who earned less than \$32,001 (\$34,001 if married) in 2006 can get up to \$3,708.
- Workers between the ages of 25 and 64 who are not raising children and earned less than \$12,120 (\$14,120 if married) in 2006 can get up to \$556.

Which children qualify to be claimed for the Earned Income Tax Credit (EITC)? To claim the EITC, a qualifying child must be 18 years of age or younger, or 23 years of age or younger if they are a full-time student. Children of any age qualify if they are totally and permanently disabled. Children must have lived with the worker in the U.S. for more than half the year. Children who qualify include: sons, daughters, stepchildren, grandchildren and adopted children; brothers, sisters, step-brothers, stepsisters and their descendants such as nieces and nephews; and foster children placed by an authorized government or private agency.

What is the Advance Earned Income Tax Credit (AEITC)? The AEITC is a way for some workers raising children to take advantage of the EITC without having to wait to file their taxes. Workers who qualify can get part

of their federal EITC in their paychecks throughout the year and the rest in a check from the IRS after they file their federal tax return. Workers must complete form W-5, the Earned Income Credit Advance Payment Certificate, and give it to their employer.

What is the Child Tax Credit (CTC)? The CTC is a refundable federal tax credit for families with children 16 years of age or younger. The credit is worth up to \$1,000 per child. Workers must have had income above \$11,300 during 2006. Workers must have either an Individual Taxpayer Identification Number (ITIN) or Social Security number that allows them to work.

Which children qualify to be claimed for the CTC? To claim the CTC, a qualifying child must be 16 years of age or younger at the end of 2006. Children who qualify include: sons, daughters, stepchildren, grandchildren, adopted and foster children; brothers, sisters, step-brothers, stepsisters and their descendants such as nieces and nephews. Children must have lived in the U.S. with the worker for more than half the year. The worker must provide more than half the support for the children they are claiming.

Can immigrants claim the EITC? Yes, many legal immigrants who work can qualify for the EITC as long as they meet the other eligibility requirements. Immigrants, their spouses and children claimed for the EITC must each have a valid Social Security number that permits them to work legally in the United States. The children claimed for the credit must have lived in the U.S. in the worker's home for more than six months in 2006. Immigrants that only have an ITIN can

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Frequently Asked Questions continued...

not get the EITC. They can, however, still file taxes and may be able to get other tax credits like the CTC.

Can immigrants claim the CTC? Yes, immigrants who work and have either a social security number or an ITIN may get the CTC as long as they meet the other eligibility requirements. Children claimed for the credit must have either a Social Security number or an ITIN. The children claimed for the credit must also live in the U.S. with the worker for more than half a year.

What is an Individual Taxpayer Identification Number (ITIN)? An ITIN is a tax identification number issued by the Internal Revenue Service (IRS) for immigrants who do not have a Social Security number but would like to file their taxes. The ITIN is used on tax returns in the place of a Social Security number. It does not change a worker's immigration or work authorization status.

How can immigrants get an ITIN? Immigrants who do not have a Social Security number, but would like to file taxes and claim the CTC can apply for an ITIN by filing form W-7, Application for IRS Individual Taxpayer Identification Number, when they file their taxes. All tax returns submitted with W-7 ITIN applications must be sent to the IRS Service Center in Austin, Texas, to be processed. Immigrants who already have an ITIN number can mail their tax returns to their regular processing center. Tax returns using ITINs cannot be e-filed—they must be mailed to the IRS.

What if more than one person wants to claim a child for tax credits? Only one person can claim a qualifying child and receive the EITC and other tax credits, such as the Child Tax Credit (with the exception of married couples filing a joint return). People who have the same qualifying child may decide among themselves

who can claim the child and receive the tax credits. If they cannot decide, the IRS will use the following rule to decide who can claim the child (called the tie-breaker rule).

In general, the child's parent has the right to claim the child. But, if both persons are the child's parent, then the parent with whom the child lived the longest can claim the child. If the child lived with each parent for the same length of time, then the parent with the highest adjusted gross income can claim the child. If neither person is the child's parent, then the person with the highest adjusted gross income can claim the child.

Remember, if more than one person claims the same qualifying child, the IRS may disallow one or more of the tax returns using the rule explained above.

Will the EITC and CTC affect eligibility for other benefits? Generally, the EITC and CTC do not affect eligibility for benefits like TANF, Food Stamps, SSI or public or subsidized housing. The EITC and CTC are not counted as income when determining eligibility for these programs. The CTC does not count as a resource. However, the EITC may be counted as a resource for some programs if it is not spent within a certain timeframe. If the worker has few or no other resources, the EITC is usually not enough to exceed the resource limit for these programs.

Why should someone file taxes? Some people do not have to file taxes because they do not earn enough money. Even if someone does not have to file a tax return, they may want to file to claim the EITC or the CTC and get money back in a tax refund.

How does someone claim the EITC? Workers raising children in 2006 must file either form 1040 or 1040A, and must fill out and attach a Schedule EIC. Workers with children cannot

Frequently Asked Questions continued...

get the EITC if they file form 1040EZ or fail to attach a Schedule EIC. Married workers must file a joint return to get the EITC. If workers are not raising children, they can file any tax form—including the 1040EZ. Write "EIC" or the dollar amount of your credit on the Earned Income Credit line on the tax form. These workers do not need to file a Schedule EIC. To claim the New York State and City EITC, workers must also complete the NYS form IT-215, Claim for Earned Income Credit, and attach it to the state income tax return.

How does someone claim the CTC?

Workers must file federal form 1040 or 1040A. The CTC is first used to reduce or eliminate any federal income tax the worker owes. If any of the CTC remains, then the worker must complete and file form 8812, Additional Child Tax Credit, to figure out if the family qualifies for a refund and how much. This form must be attached to the tax return for the worker to receive the CTC refund. If a worker claims a child who is not a dependent, they must also file form 8901.

What if someone thinks they were eligible for tax credits in the past, but never claimed them?

If workers were otherwise eligible to claim the EITC and CTC in previous years, but didn't claim the credits, they may be able to claim them for up to three previous years. To claim the credits, someone can amend a past tax return or file an original tax return for 2003, 2004 and 2005.

What income counts towards eligibility for the EITC and CTC?

To receive the EITC or the CTC workers must have "earned income." To get the CTC, a worker's earned income must be over \$11,300. There is no minimum income for the EITC. Earned income includes: taxable wages, salaries and tips; union strike benefits; taxable long-term disability benefits received prior to minimum retirement

age; net earnings from self-employment; and gross income of a statutory employee. Among other things, it does not include Social Security benefits, welfare benefits, workfare payments, child support, or veteran's benefits. Workers investment income (for example, interest and dividends) cannot exceed \$2,800.

Where can someone get help claiming the EITC and CTC?

There are many free sites around the state that can help workers file their taxes and claim the EITC and CTC. For the location of free tax preparation sites, contact the IRS at 1-800-829-1040. In New York City, call the New York City information line at 311. To be eligible for assistance at most of these sites, workers must have earned less than \$40,000 with dependent children or earned less than \$20,000 without dependent children.

Is there help available if people have legal questions about their taxes or a problem with the IRS?

Yes. Free or low-cost assistance is available for eligible individuals at Low Income Taxpayer Clinics (LITCs). To find out if you qualify and for a site near you, call the IRS at 1-800-829-1040.

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Children's Defense Fund

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