

## **Important Information Regarding your Federal Income Tax and the Earned Income Tax Credit**

The Earned Income Tax Credit (EITC), also known as the Earned Income Credit (EIC), is a refundable Federal income tax credit for low and moderate income working individuals and families. In 1975, Congress originally approved the tax credit program to offset the burden of social security taxes and to provide low-income individuals an incentive to work. When the EITC exceeds the amount of taxes owed, individuals who claim and qualify for the credit are eligible for a tax refund. Each year eligible individuals and families fail to claim the Federal tax credit because they are not aware that they qualify or that it even exists. The IRS estimates that 20-25 percent of Americans who qualify for the credit do not claim it. In addition to non-custodial parents, anecdotal comments from child support professionals indicate that many State and local employees also qualify for the EITC.

The EITC is designed to encourage low and moderate income individuals and families to seek employment. In 2005, more than 21.7 million working families/individuals received \$39.8 billion in EITC refunds. Reportedly, the EITC is the government's largest cash assistance program targeted to low-income Americans.

In October 2006, the Center on Budget and Policy Priorities reported that, in addition to the Federal government, at least twenty States (including the District of Columbia) and several local governments also administered EITC programs.

To meet the eligibility criteria for Federal EITC, individuals and families must meet certain requirements of the IRS and **file a Federal tax return even if they would not have to otherwise due to income below the filing threshold.** Since the EITC has no effect on most welfare benefits, it is not used as a criterion to determine eligibility for Medicaid, Supplemental Security Income (SSI), food stamps, low-income housing or most Temporary Assistance for Needy Families (TANF) payments.

## EITC Thresholds and Tax Law Updates

### Current Tax Year 2006

#### Earned income and adjusted gross income (AGI) must each be less than:

- \$36,348 (\$38,348 married filing jointly) with two or more qualifying children;
- \$32,001 (\$34,001 married filing jointly) with one qualifying child;
- \$12,120 (\$14,120 married filing jointly) with no qualifying children.

#### Tax Year 2006 maximum credit:

- \$4,536 with two or more qualifying children;
- \$2,747 with one qualifying child;
- \$412 with no qualifying children.

Investment income must be \$2,800 or less for the year.

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### Next Tax Year 2007

#### Earned income and adjusted gross income (AGI) must each be less than:

- \$37,783 (\$39,783 married filing jointly) with two or more qualifying children;
- \$33,241 (\$35,241 married filing jointly) with one qualifying child;
- \$12,590 (\$14,590 married filing jointly) with no qualifying children.

#### Tax Year 2007 maximum credit:

- \$4,716 with two or more qualifying children;
- \$2,853 with one qualifying child;
- \$428 with no qualifying children.

Investment income must be \$2,900 or less for the year.

Additional information concerning EITC thresholds is available at <http://www.irs.gov/individuals/article/0,,id=150513,00.html>

## EITC For Individuals

If you're like millions of Americans, you work hard but you don't earn a high income, and want to keep more of what you earn. The Earned Income Tax Credit (EITC) is a credit for people who earn low-to-moderate incomes. EITC can reduce your taxes, and can mean a refund. In simple terms, working families and individuals may keep more of what they work for.

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### You must meet the following EITC requirements:

- Must have a valid [Social Security Number](#)
- You must have earned income from employment or from self-employment.
- Your filing status cannot be married, filing separately.
- You must be a U.S. citizen or resident alien all year, or a nonresident alien married to a U.S. citizen or resident alien and filing a joint return.
- You **cannot** be a qualifying child of another person.
- If you do not have a qualifying child, you must:
  - be age 25 but under 65 at the end of the year,
  - live in the United States for more than half the year, and
  - not qualify as a dependent of another person
- Cannot file Form 2555 or 2555-EZ (related to [foreign earn income](#))

Additional information concerning EITC requirements is available at <http://www.irs.gov/individuals/article/0,,id=150557,00.html>