

The Federal and State Earned Income Tax Credits (EITC)

Tax Year 2018 Fact Sheet

WHAT ARE THE EARNED INCOME TAX CREDITS?

- They are tax breaks for working families and individuals.
- They are part of the federal and state tax codes.
- They are designed to reduce the taxes paid by struggling families and supplement the wages of workers with low to moderate incomes.
- They help workers support their families, encourage a higher participation in the workforce, and reward individuals who find employment.

WHO CAN CLAIM THE EITC?

- Single or married people who worked at some point in 2018, self-employed workers, cash assistance recipients with earned income and qualified immigrants can all qualify for the EITC, depending on their income.
- Workers whose earnings are too small to have paid federal taxes can still get money back because the EITC is a refundable tax credit. Receiving the tax credit is contingent upon filing a tax form.
- Individuals who file as single, head of household or married filing jointly may receive the EITC. It is not available to taxpayers who file as married filing separately.
- Workers with investment income exceeding \$3,500 in 2018 may not claim the EITC.
- Filers without qualifying children must be age 25-64 to be eligible.

HOW CAN WORKERS CLAIM THE CREDITS?

- Married workers must file a joint return to get the EITC.
- To get the federal EITC, workers in 2018 must file Form 1040 and must fill out and attach Schedule EIC.
- To get the state EITC, workers simply need to enter the amount of their federal EITC from their federal tax form onto line 27a of their Michigan tax form, and then multiply that number by .06 (6%) and put it on line 27b.
- Workers can claim the federal EITC for the previous three tax years as well as the current year.

WHICH CHILDREN CAN BE COUNTED FOR EITC PURPOSES?

- Qualifying children must be under age 19, under age 24 if they are full-time students, or any age if they are totally or permanently disabled. They must be younger than the person claiming the child unless totally and permanently disabled.
- Sons, daughters, stepchildren, grandchildren and adopted children are all considered qualifying children as long as they lived with the taxpayer for more than half the year.
- In some cases, brothers, sisters, stepbrothers and stepsisters who live with the filer for more than half the year may be counted if they are not counted on anyone else's return.

HOW MUCH CAN A WORKER GET BACK?

| | Raising One Child | | Raising Two Children | | Raising Three or More Children | | Not Raising Children (must be age 25-64) | |
|---------------------------------------|-------------------|----------|----------------------|----------|--------------------------------|----------|---|----------|
| | Single | Married | Single | Married | Single | Married | Single | Married |
| Workers with maximum earnings up to: | \$40,320 | \$46,010 | \$45,802 | \$51,492 | \$49,194 | \$54,884 | \$15,270 | \$20,950 |
| Can get a federal EITC up to: | \$3,461 | | \$5,716 | | \$6,431 | | \$519 | |
| Can get a state EITC up to: | \$208 | | \$343 | | \$386 | | \$31 | |
| For a total EITC amount up to: | \$3,669 | | \$6,059 | | \$6,817 | | \$550 | |

- Nieces, nephews or foster children placed by an agency are considered qualifying children if they lived with the taxpayer in the U.S. more than half the year, were cared for as if they were members of the family and are not claimed on another person's tax return.
- A valid Social Security number is required for each qualifying child.

WHAT ABOUT ERRORS IN CLAIMING THE EITC?

- To reduce EITC error and fraud rates, the IRS verifies the Social Security numbers for all parents and children claiming the EITC.
- If a worker claims the EITC and the IRS finds out that taxes are owed, the filer must pay whatever is owed. However: 1) the EITC may be enough to cover the taxes owed; 2) the IRS is usually willing to work out payment plans for back taxes; and 3) the filer may be able to make an "offer in compromise" that is less than the tax bill.
- Most EITC errors occur because two separated parents are claiming the same child for the same period of time, or because of the low training level of many commercial tax preparers. The highest-trained preparers are Volunteer Income Tax Assistance (VITA) preparers, who are trained directly by the IRS.

HOW CAN EITC REFUNDS BE USED TO BUILD SAVINGS?

- Filers can use direct deposit to split a part of their federal refund into a bank account or IRA. To do this, file Form 8888 with the tax return.

DOES THE EITC AFFECT PUBLIC ASSISTANCE BENEFITS?

Generally, no. The EITC is not counted as income when determining eligibility for Family Independence Program (FIP) cash assistance, Medicaid, food assistance, Supplemental Security Income or federally assisted housing programs. For certain programs, there may be specified deadlines by which the benefit must be spent.

ADDITIONAL TIPS

1. Taxpayers who receive the federal EITC should note that the IRS will not issue refunds until mid-February.
2. Do not use rapid refunds offered by commercial tax preparers. They are high-interest loans that reduce the amount of money going into the pockets of hardworking taxpayers.
3. VITA (Volunteer Income Tax Assistance) sites exist to help people fill out their tax forms for free. To find the nearest VITA site, go to www.michiganfreetaxhelp.org or call 2-1-1.
4. Families who qualify for the EITC may also be able to receive other tax credits, such as the Michigan Homestead Property Credit, the Federal Child and Dependent Care Credit, the Michigan Home Heating Credit and the federal Child Tax Credit.

