

EARNED INCOME TAX CREDIT FAQ

Q1. What is the Earned Income Tax Credit (EITC)?

A1. The earned income credit (EITC) is a tax credit for certain people who work and have low wages. A tax credit usually means more money in your pocket. It reduces the amount of tax you owe. The EITC may also give you a refund.

Q2. Who can claim the credit?

A2. To claim the EITC on your tax return, you must meet all of the following rules:

- 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)
- You must meet these EITC Thresholds and Limitations

Q3. What if I was denied the EITC last year?

A3. If your EITC for any year after 1996 was denied or reduced for any reason other than a math or clerical error, you must attach a completed Form 8862, [Information to Claim Earned Income Credit After Disallowance](#), to your next tax return to claim the EITC. You must also qualify to claim the EIC by meeting all the rules described in Publication 596.

However, do not file Form 8862 if either (1) or (2) below is true.

1. After your EITC was reduced or disallowed in the earlier year:

- You filed Form 8862 (or other documents) and your EITC was then allowed, and
- Your EITC has not been reduced or disallowed again for any reason other than a math or clerical error.

2. You are taking the EITC without a qualifying child and the only reason your EITC was reduced or disallowed in the earlier year was because the IRS determined that a child listed on Schedule EITC was not your qualifying child.

Also, do not file Form 8862 or take the EITC for:

- 2 years after there was a final determination that your EITC was reduced or disallowed due to reckless or intentional disregard of the EITC rules, or

- 10 years after there was a final determination that your EITC was reduced or disallowed due to fraud.
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Q4. Who is a qualifying child?

A4. Your child is a qualifying child if your child meets three tests. The three tests are:

1. Relationship
2. Age
3. Residency

Relationship

To be your qualifying child, a child must be your:

- Son, daughter, stepchild, eligible foster child, or a descendant (for example, your grandchild) of any of them, or
- Brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew).

Definitions to clarify the relationship test.

Adopted child. An adopted child is always treated as your own child. The term "adopted child" includes a child who was lawfully placed with you for legal adoption.

Eligible Foster Child. A person is your eligible foster child if the child is placed with you by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

Age

Your child must be:

1. Under age 19 at the end of the year,
2. A full-time student under age 24 at the end of the year, or
3. Permanently and totally disabled at any time during the year, regardless of age.

Residency Test

Your child must have lived with you in the United States for more than half of the year.

See Publications 596 and 501 for more details

Q5. Who is an eligible foster child?

A5. An eligible foster child is an individual who is placed with you by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

Q6. What is Earned Income?

A6. Earned income includes all the taxable income and wages you get from working.

There are two ways to get earned income:

1. You work for someone who pays you, or;
2. You work in a business you own.

Taxable earned income includes:

- Wages, salaries, and tips;
- Union strike benefits;
- Long-term disability benefits received prior to minimum retirement age;
- Net earnings from self-employment.

Combat Pay

Nontaxable combat pay election. You can elect to have your nontaxable combat pay included in earned income for the earned income credit. The amount of your nontaxable combat pay should be shown on your Form W-2, in box 12, with code Q.

Q7. How do I figure my credit?

A7. Once you know that you qualify for the EITC, you need to know how to figure the amount of the credit. You have two choices of how to figure the credit:

1. Have the IRS figure the credit for you. If you would like the IRS to do this, see Publication 596, or
2. Figure the credit yourself. To do this you must use the Earned Income Credit Worksheet (EIC Worksheet) in the instruction booklet for Form 1040, Form 1040A, or Form 1040EZ, and the Earned Income Credit (EIC) Table in the instruction booklet, or use the EITC Assistant Tool online.

For more information, see Chapter 4, Figuring and Claiming the EITC, in Publication 596.

Q8. How can I get EITC in my paycheck?

A8. You may prefer to get some of next year's EITC throughout the year, rather than wait and get EITC after you file your tax return. To get EITC, complete Form W-5 and give the lower part of the form to your employer. Keep the top part for your records. For more information, see Advance EITC Questions and Answers.

Q9. What if I am prohibited from claiming the EITC for a period of years?

A9. If your EITC for any year after 1996 was denied and it was determined that your error was due to reckless or intentional disregard of the EITC rules, then you cannot claim the EITC for the next 2 years. If your error was due to fraud, then you cannot claim the EITC for the next 10 years. The date on which your EITC was denied and the date on which you file your tax return affects the years for which you are prohibited from claiming the EITC.



Q10. Where can I get more information?

Please visit www.irs.gov or a local tax preparation site.