

# Module 7: REFUNDABLE CREDITS – EARNED INCOME TAX CREDIT

*Special thanks to: Xavier Nanez, Department of Personal Financial Planning, Texas Tech University for his contribution to content provided in this module.*



# By the end of this module you will...

- Understand the Earned Income Tax Credit (EITC)
- Understand how a Taxpayer Qualifies for EITC
- Know what Rules Apply
- Know what Qualifies as Earned Income
- Know what Income does not qualify for the EITC

# In this module...

- [What is the Earned Income Tax Credit \(EITC\)](#)
- [How a Taxpayer Qualifies for the EITC](#)
- [What Rules Apply](#)
- [What Qualifies at Earned Income](#)
- [What Income does not qualify for the EITC](#)
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# What is the Earned Income Tax Credit (EITC)

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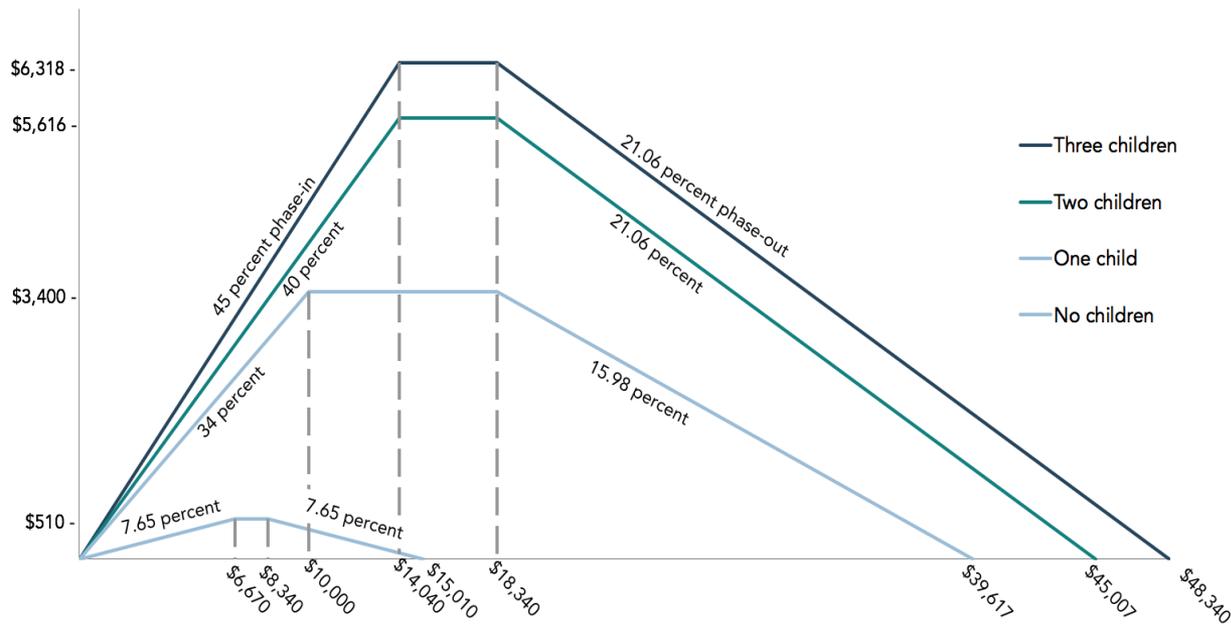
- The Earned Income Tax Credit is a tax benefit that can serve as a financial supplement for taxpayers with low to moderate working incomes, particularly those individuals with children. Millions of workers qualify for the EITC.
- The EITC is a completely refundable tax credit, which would indicate that the taxpayer may get money back, even if no taxes are owed to the Internal Revenue Service (IRS).
- The two main factors when calculating the amount of the EITC depend on the recipient's income and number of qualifying children.
- For 2017 - 1040EZ contains the EITC line.

<b>Payments, Credits, and Tax</b>	7	Federal income tax withheld from Form(s) W-2 and 1099	7
	8a	<b>Earned income credit (EIC)</b> (see instructions)	8a
	b	Nontaxable combat pay election.	8b
	9	Add lines 7 and 8a. These are your <b>total payments and credits</b> .	9
	10	<b>Tax.</b> Use the amount on <b>line 6</b> above to find your tax in the tax table in the instructions. Then, enter the tax from the table on this line.	10
	11	Health care: individual responsibility (see instructions) Full-year coverage <input type="checkbox"/>	11
	12	Add lines 10 and 11. This is your <b>total tax</b> .	12

# What is the EITC?

**FIGURE 1**  
Earned Income Tax Credit  
2017

Credit amount



- The **maximum** amount of credit for the 2018 Tax Year is:
  - \$519 with no qualifying children
  - \$3,461 with one qualifying child
  - \$5,716 with two qualifying children
  - \$6,431 with three or more qualifying children
- See this chart to showcase the impact of the EITC.

Source: Tax Policy Center, IRS Rev. Proc. 2016-55.

Note: Assumes all income comes from earnings. Amounts are for taxpayers filing a single or head-of-household tax return. For married couples filing a joint tax return, the credit begins to phase out at income \$5,590 higher than shown.



# How a Taxpayer Qualifies for the EITC

# How a Taxpayer Qualifies for the EITC

In order to qualify for the Earned Income Tax Credit, an individual must meet all the following criteria:

- Have earned income in the tax year
- Been a citizen of the U.S. or a resident alien for the entire duration of the tax year
- Have a valid Social Security Number for yourself, your spouse, and the Social Security Number of any qualifying child for the EITC.
- Investment income cannot exceed \$3,500.



# What Rules Apply



# What Rules Apply To The Taxpayer

In addition to the Requirements on slide 8, there are income thresholds that must be met.

For the 2018 tax year, the Earned Income and Adjusted Gross Income must not exceed the following thresholds.

- \$15,270 if you are not claiming a child, (\$20,950 if you are filing jointly)
- \$40,320 if you are claiming one qualifying child, (\$46,010 if you are filing jointly)
- \$45,802 if you are claiming two qualifying children, (\$51,492 if you are filing jointly)
- \$49,194 if you are claiming three or more qualifying children, (\$54,884 if you are filing jointly)

# Qualifying Child Rules

According to the IRS, your child must have a Social Security Number (therefore, ITINs are not applicable) and must pass all the following tests:

## Relationship

- The following will satisfy the relationship requirement.
  - Your son, daughter, adopted child, stepchild, foster child or a descendent of any of the previously stated relationships (e.g., your grandchild).
  - Your brother, sister, half brother, half sister, step brother, step sister or a descendant of any of them (e.g., a niece or nephew).

## Age

- At the end of the filing year, your child was younger than you and younger than 19.
- At the end of the filing year, your child was younger than you, younger than 24 and a full-time student.
- At the end of the filing year, your child was any age and permanently and totally disabled.

## Residency

- Your child must have lived with you for more than half of the year.

# Income Qualifications



# What Qualifies as Earned Income

Earned Income can be classified as income that you have had to work for.

Income that is generated from interest, rental income, investment dividends, unemployment, worker's compensation and pensions will **not** count as earned income.

The IRS explicitly defines the following as earned income:

- Income earned as an employee (Form W-2)
- Gross Profits from operating a business (Form 1099-MISC, 1099-K, and cash)
- Some Union strike benefits qualify



# What Doesn't Qualify?

As mentioned earlier in this module, the IRS has explicit classifications for unearned income.

This type of income does not involve direct forms of active work or a business venture/activity to receive that income. Some examples of these income sources are:

- Alimony or Child Support
- Unemployment or Worker's Compensation
- Any income that has been received while incarcerated
- Inheritances
- Gifts, gambling winnings, and awards
- Investment Income, Dividends, Interests



# Re-Cap



# Re-Cap

- The Earned Income Tax Credit is a tax benefit for taxpayers with low to moderate working incomes, particularly those with children.
- The EITC is a refundable tax credit, which would indicate that the taxpayer may get money back, even if no taxes are owed to the IRS.
- Earned Income can be classified as income that you have had to work for. Income that is generated from interest, rental income, investment dividends, unemployment, worker's compensation and pensions will not count as earned income.
- Qualifications must be met by the taxpayer(s).
  - Note: Reference slide 10 for the Qualifying Child Rules.
- The **maximum** amount of credit for the 2018 Tax Year is:
  - \$519 with no qualifying children
  - \$3,461 with one qualifying child
  - \$5,716 with two qualifying children
  - \$6,431 with three or more qualifying children

# Knowledge Check - Scenario



# Knowledge Check - Scenario

- Let's say Mr. and Mrs. Smith are a married couple with two small children. Their income last tax year was a combined \$50,000 of wages. With their combined income, and the two qualifying children, their maximum EITC will be \$5,716. Which will be a refundable tax credit.
- The actual amount of EITC decreases with higher income. For tax year 2017, the Smith's EITC would be \$120. If their income had been only \$40,000, their EITC would have been \$2,226.
- For further clarity the bracket below can be referenced in red.

If filing...	Qualifying Children Claimed			
	Zero	One	Two	Three or more
Single, Head of Household or Widowed	\$15,270	\$40,320	\$45,802	\$49,194
Married Filing Jointly	\$20,950	\$46,010	\$51,492	\$54,884

The maximum amount of credit for Tax Year 2018 is:
\$6,431 with three or more qualifying children
\$5,716 with two qualifying children
\$3,461 with one qualifying child
\$519 with no qualifying children

# Knowledge Check

Additional Resources:

- [Qualifying for the Earned Income Tax Credit](#)
- [2018 EITC Income Limits, Maximum Credit Amounts and Tax Law Updates](#)
- [Volunteer Resource Guide, Publication 4012](#)

## Up Next...

# Module 8: Tax Benefits for Education

