



# Earned Income Credit



# Earned Income Credit

- Must have earned income to qualify for the credit

**Earned Income for EIC<sup>2</sup>**

Includes	Doesn't include
<ul style="list-style-type: none"> <li>• Taxable wages, salaries, and tips</li> <li>• Union strike benefits</li> <li>• Taxable long-term disability benefits received prior to minimum retirement age</li> <li>• Net earnings from self-employment</li> <li>• Gross income of a statutory employee</li> <li>• Household employee income</li> <li>• Nontaxable combat pay election</li> <li>• Nonemployee compensation</li> <li>• The rental value of a home or a housing allowance provided to a minister as part of the minister's pay (Out of Scope)</li> </ul>	<ul style="list-style-type: none"> <li>• Interest and dividends</li> <li>• Social Security, including SSI and SSDI, and railroad retirement benefits</li> <li>• Welfare benefits</li> <li>• Workfare payments</li> <li>• Pensions and annuities (except if disability pension and taxpayer is under minimum retirement age)</li> <li>• Veteran's benefits (including VA rehabilitation payments)</li> <li>• Workers' compensation benefits</li> <li>• Alimony</li> <li>• Child support</li> <li>• Nontaxable foster-care payments</li> <li>• Unemployment compensation</li> <li>• Taxable scholarship or fellowship grants that aren't reported on Form W-2</li> <li>• Earnings for work performed while an inmate at a penal institution or on work release<sup>1</sup></li> <li>• Salary deferrals (for example, under a 401(k) or 403(b) plan or the Federal Thrift Savings Plan)</li> <li>• The value of meals or lodging provided by an employer for the convenience of the employer</li> <li>• Disability Insurance payments resulting from premiums paid by the taxpayer</li> <li>• Excludable dependent care benefits (line 25 of Form 2441)</li> <li>• Salary reductions such as under a cafeteria plan</li> <li>• Excludable employer-provided educational assistance benefits (may be shown in box 14 of Form W-2)</li> </ul>

Pub 4012 I-3

<sup>1</sup>This particular income is entered as other income on the return and not counted as earned income.

<sup>2</sup>The same definitions can be applied to the Additional Child Tax Credit and the Dependent Care Credit.

# Earned Income Credit

- Requirements for everyone
  - Taxpayers and qualifying children must all have Social Security Numbers
    - If the taxpayers have SSN's and the children do not they can now claim EIC under the requirements of having no qualifying children)
  - Can't be filing married filing separate (one exception-did not live with spouse for last 6 months of the year or had a separation agreement and the child lived with the person filing for more than half the year)
  - Must be a US citizen or resident alien all year
  - Can't be filing a form 2555 (foreign income)
  - Investment income has to be less than \$11,000
  - Can't be a qualifying child of another person

# Earned Income Credit

- Requirements if there is a qualifying child
  - Must meet relationship, age, joint return, and residency test (see next slide with details)
  - Child cannot be used for more than one person to claim EIC

# Earned Income Credit

## EIC With a Qualifying Child

Step	Probe/Ask the taxpayer	Action
1	Does your qualifying child have an SSN that allows him or her to work? Answer NO if the child's Social Security card says "NOT VALID FOR EMPLOYMENT" and his or her SSN was only obtained to get a federally funded benefit.	If <b>YES</b> , go to Step 2. If <b>NO</b> , STOP. You can't claim the EIC on the basis of this qualifying child, however, you may qualify to claim the childless EIC if you meet the requirements.
2	Is the child your son, daughter, stepchild, adopted child, or eligible foster child, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them?	If <b>YES</b> , go to Step 3. If <b>NO</b> , STOP. This child isn't your qualifying child. Go to interview tips for EIC Without a Qualifying Child.
3	Was the child any of the following at the end of the tax year? • Under age 19 and younger than the taxpayer (or spouse, if filing jointly) • Under age 24 and a full-time student and younger than the taxpayer (or spouse, if filing jointly), or • Any age and permanently and totally disabled	If <b>YES</b> , go to Step 4. If <b>NO</b> , STOP. This child isn't your qualifying child. Go to interview tips for EIC Without a Qualifying Child.
4	Did the child file a joint return for the year? <sup>1</sup> Answer NO if the child and his or her spouse filed a joint return only to claim a refund of income tax withheld or estimated tax paid.	If <b>NO</b> , go to Step 5. If <b>YES</b> , STOP. This child isn't your qualifying child (failed the joint return test). Go to interview tips for EIC Without a Qualifying Child.
5	Did the child live with you in the United States for more than half (183 days for 2023) of the tax year? <sup>2</sup> Active duty military personnel stationed outside the United States are considered to live in the United States for this purpose.	If <b>YES</b> , go to Step 6. If <b>NO</b> , STOP. This child isn't your qualifying child. Go to interview tips for EIC Without a Qualifying Child.
6	Is the child a qualifying child of another person? There may be a case when a qualifying child can't be claimed by anyone. Example: The only parent that the child lives with doesn't work or file a tax return and another adult can't meet the general eligibility rules. In this example, no one qualifies to claim this child as a qualifying child for EIC.	If <b>YES</b> , explain to the taxpayer what happens when more than one person claims the EIC using the same child (Qualifying Child of More than One Person rule). If the taxpayer chooses to claim the credit with this child, compute the EIC using the appropriate EIC worksheets. If <b>NO</b> , compute the EIC using the appropriate EIC worksheet.

<sup>1</sup>If your child was married at the end of the year, he or she doesn't meet the joint return test unless you can claim the child as a dependent or you can't claim the child as a dependent because you gave that right to the child's other parent.

<sup>2</sup>Temporary absences. Count time that you or your child is away from home on a temporary absence due to a special circumstance as time the child lived with you. Examples of a special circumstance include illness, school attendance, business, vacation, military service, and detention in a juvenile facility.

# Earned Income Credit

- If the child can be claimed by more than one person, use the following to decide who can use the child for EIC
  - If only one of the people is the parent the child is a qualifying child of the parent
  - If the parents don't file a joint return and both could claim the child, the child is the qualifying child of the parent who the child lived with longer, if the child lived with the parent equal amount of time it goes to ever has a higher AGI
  - If no parent can claim the child as a qualifying child then who ever in the household with the highest AGI
  - If a parent can claim the child but chooses not to, the child can be claimed by the person in the household with the highest AGI as long as it is higher than the parents AGI

# Earned Income Credit

- Requirements if there are no qualifying children
  - Must be 25 but not over 65
  - Must have lived in the US for more than half the year
  - Cannot be a dependent of someone else

# Earned Income Credit

- Income Limitations
  - If three or more qualifying children \$56,838 (\$63,398 Married filing joint)
  - If two qualifying children \$52,918 (\$59,478 for Married filing joint)
  - If one qualifying children \$46,560 (\$53,120 for Married filing joint)
  - If no qualifying children \$17,640 (\$24,210 for Married filing joint)
- If the Earned Income Credit was previously disallowed Form 8862 needs to be filed to claim the credit
  - This form is also used for disallowed Credit for other dependents, child tax credit, and American opportunity tax credit



# Examples from 4491



*James and Jill are filing a joint return and both have valid SSNs. They have two daughters; Susie has a valid SSN and Sally has an ITIN. Only the daughter with the valid SSN may qualify the tax return for EIC.*



*Tom and Martha are a married couple. Tom is 66 and Martha is 58 years old. If all other rules are met, they would qualify for the EIC.*



*For a couple filing a joint return, only one taxpayer has to meet the age requirement.*



*Jane, 31, and Todd, 33, have an 8-year-old daughter, Amanda. All are U.S. citizens and have valid SSNs. Jane and Todd have never been married. Jane and Amanda lived together all year in an apartment. Todd lived alone. Jane earned \$15,000 working as a clerk in a clothing store. Todd is an assistant manager of a hardware store and earned \$48,000. He paid over half Jane's rent and utilities, and also gave Jane extra money for groceries. Todd does not pay any expenses or support for any other family member. Todd does not pay any expenses or support for any other family member.*

*Although Todd provided over half the cost of a home for Jane and Amanda, he cannot file Head of Household and he cannot claim Amanda for EIC, since she did not live with him more than half the year. Jane cannot file as Head of Household either because she did not pay for more than half of her household costs. Jane is the only one who can claim Amanda as a qualifying child for EIC. Review the Earned Income Credit rules in the Volunteer Resource Guide, Tab I, Earned Income Credit.*

# Examples from 4491

**Question 1:** A taxpayer without a qualifying child is filing as Married Filing Separately. Does this taxpayer qualify for the EIC?

- a. Yes
- b. No

**Question 2:** A taxpayer has interest income of \$4,500. His earned income is only \$7,000. He is single, has a valid Social Security number and is not the qualifying child of anyone else. Does he qualify for the EIC?

- a. Yes
- b. No

**Question 3:** Maureen's 20-year-old daughter, Angie, lived with her for eight months of the year. Angie is not married and is a full-time college student. Is Angie a qualifying child for the EIC?

- a. Yes
- b. No

# Examples from 4491

**Question 4:** Three children live with Mira, who cares for them as her own: Twila, the 3-year-old daughter of Mira's cousin; Chez, Mira's newly adopted 2-year-old son from Europe, who has lived with Mira since November of the tax year; and Dwight, Mira's 20-year-old son, who attends community college part time. Which of them are qualifying children?

- a. Twila
- b. Chez
- c. Dwight
- d. None

**Question 5:** Margie's daughter, Aimee, turned 23 early in the tax year while attending college full time. Margie is filing as Head of Household. Margie has an AGI of \$31,000. Assuming that she and her daughter pass all other tests, can Margie claim the EIC?

- a. Yes
- b. No

# Examples from 4491

**Question 6:** Rob and Laura are divorced. Laura is the custodial parent for Dawn, who lived with her all year. Laura signed Form 8332, allowing Rob to claim Dawn as a dependent until she turns 18. Can Rob claim Dawn for the EIC?

- a. Yes
- b. No

**Question 7:** Jewel and her daughter lived with Jewel's brother, Emmitt all year. Jewel earns \$20,000 and claims her daughter as the qualifying child for the EIC. Emmitt is 25 years old and earned \$8,500. Is Emmitt able to claim the EIC for a taxpayer without a qualifying child?

- a. Yes
- b. No

**Question 8:** Larry is 35 years old and unmarried. Larry lives with his brother, Jeff, who is unmarried and totally and permanently disabled. Jeff receives disability income that is used to pay for more than half of his support. Can Larry claim Jeff as a qualifying child for EIC?

- a. Yes
- b. No

# Resources

- Pub 4491
- <https://www.irs.gov/pub/irs-pdf/p4491.pdf>
- Link and Learn Lesson
- [https://apps.irs.gov/app/vita/content/29s/29\\_01\\_005.jsp?level=basic](https://apps.irs.gov/app/vita/content/29s/29_01_005.jsp?level=basic)
- Schedule EIC
- <https://www.irs.gov/pub/irs-dft/f1040sei--dft.pdf>
- Pub 596
- <https://www.irs.gov/pub/irs-dft/p596--dft.pdf>

Questions?