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OFFICE OF FAMILY STABILITY LETTER # 46

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TO: Directors, County Departments of Job and Family Services

FROM: Jeanne Carroll, Deputy Director
Office of Family Stability

SUBJECT: **Earned Income Tax Credit (EITC) and Child Tax Credit (CTC)**

This letter is being issued to provide an update on the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). It also provides information on where to obtain an Outreach Campaign Kit which provides everything needed to help workers get the tax credits they have earned. County departments of job and family services are encouraged to inform their customers about the EITC and the CTC and to assist their customers in obtaining these tax credits. This letter obsoletes OWF/PRC Guidance Letter number 54.

Earned Income Tax Credit (EITC)

The EITC is a federal income tax credit for certain persons who work. The credit is based on a percentage of the employee's earned income and is claimed by filing a federal income tax return. The credit is subtracted from the amount of tax owed so that individuals pay less tax. Employees may qualify for the refund even if they are not required to pay taxes on their income. If eligible, individuals can claim the EITC for three prior years even if they had not previously filed a tax return.

The maximum amount of the EITC credit for filing year 2005 is \$4,400. To qualify for the EITC, the family's adjusted gross income and total earned income must be less than:

- \$11,750 (\$13,750, if filing a joint return) without a qualifying child;
- \$31,030 (\$33,030, if filing a joint return) with one qualifying child;
- \$35,263 (\$37,263, if filing a joint return) with two or more qualifying children.

Qualifying child means a son, daughter, adopted child, stepchild, grandchild, or eligible foster child who is less than 19 years of age; or a full-time student who is less than 24 years of age; or a child who is permanently and totally disabled. The qualifying child must have lived with the employee in the United States for more than six months during the tax year. Sisters, brothers, stepsisters or stepbrothers can be a qualifying child if the employee provides care for the child as if it were their own.

Advance EITC allows employees who expect to qualify for the Earned Income Tax Credit and have at least one qualifying child to receive part of the credit in each paycheck

during the year, in effect, increasing the amount of their take-home pay. If an employee expects to qualify for the EITC and wants to receive some of the credit during the year, the employee must complete IRS Form W-5 (Earned Income Credit Advance Payment Certificate) and give it to their employer. Individuals must complete and submit a new form to their employer each year.

Child Tax Credit (CTC)

The Child Tax Credit is a federal tax credit worth up to \$1,000 in 2005 for each qualifying child under age 17 claimed on the worker's tax return.

To be eligible for the CTC refund, a single or married worker must:

- Have a qualifying child under age 17;
- Have taxable earned income above \$11,000; and
- Have either a Social Security number (SSN) or an Individual Taxpayer Identification Number (ITIN). ITINs are issued by the IRS to individuals who are unable to obtain a Social Security number.

Beginning in 2005, a child can be claimed even if they are not claimed as a dependent on the filer's tax return. For these cases a new **Form 8901, *Information on Qualifying Children Who Are Not Dependents***, must be attached to the tax return. This form will provide the child's name, Social Security number and the child's relationship to the tax filer.

Many low-wage working families that qualify for the CTC refund will also be eligible for the EITC. For many families that qualify for both credits, the EITC will be larger, but the CTC still will provide a significant boost in their income.

Neither the EITC nor the CTC counts as income in determining eligibility for benefits such as TANF, Food Stamps, SSI or public housing.

Katrina Emergency Tax Relief Act

In September 2005, Congress passed legislation concerning EITC and CTC claims by Katrina survivors. This special provision is available to individuals who were living in a county designated a federal disaster area when the hurricane struck or who had evacuated just before. If their 2005 earned income is *lower* than their 2004 earned income, these individuals can choose to use their 2004 amount when figuring their EITC and their CTC refund. This change will enable many whose 2005 income is reduced because of Katrina related reasons to get a larger tax refund.

The new legislation also gives the Internal Revenue Service (IRS) the authority to adjust how it applies tax law regarding issues such as residency requirements so that tax filers

don't lose tax credits or filing status due to dislocation and separation of family members caused by the hurricane or relief payments received by the family.

The Tax Credit Outreach Kit

The 2006 Tax Credit Outreach Kit developed by the Center on Budget and Policy Priorities contains materials for outreach efforts on the EITC and the CTC. Included in the kit is easy-to-read fact sheets on both credits; a full range of outreach strategy ideas that have been used successfully in local communities; posters, flyers, and envelope stuffers in English and Spanish; and the essential tax forms workers need to claim the credits. These fact sheets are:

- Facts about Tax Credits for Working Families;
- Strategies for Promoting Tax Credits for Working Families;
- Opportunities for Linking Workers to Free Tax Help and Asset Development;
- Outreach Campaign Tools Envelope, and
- Alert on Hurricane Relief.

The Tax Credit Outreach Kit can be found at: <http://www.cbpp.org/eic2006/index.html>

Free Help

Families can receive FREE help in filing their tax forms. Paying for tax preparation takes away from the monetary value of receiving the EITC. Free tax preparation sites are located throughout Ohio. IRS sponsored programs are the Volunteer Income Tax Assistance Program (VITA) and the American Association of Retired Persons (AARP) Tax Counseling for the Elderly (TCE) volunteers. VITA volunteers prepare basic income tax returns for individuals who have low to moderate incomes, or who have disabilities, or who do not speak English. TCE volunteers assist low-income taxpayers who are elderly. Individuals who are denied the EITC may be referred to the local legal aid program which can assist in attempting to get the EITC approved.

For more information on the EITC, CTC, and VITA programs, contact **the IRS at 1-800-TAX-1040** or by visiting their web site at www.irs.gov.

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