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OWF/PRC Guidance Letter No. 54

TO: Directors, County Departments of Job and Family Services
Directors, County Public Children Services Agencies
Directors, Child Support Enforcement Agencies

FROM: Tom Hayes, Director

DATE: January 12, 2004

SUBJECT: Earned-Income Tax Credit (EITC)

The purpose of this guidance letter is to provide an update on the Earned Income Tax Credit (EITC) information. County departments of job and family services are encouraged to inform their customers about the EITC and to assist their customers in obtaining this tax credit. This letter obsoletes OWF/PRC Guidance Letter number 26.

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. If back taxes are owed, EITC may reduce an individual's tax debt.

EITC is not considered as income and does not impact an individuals TANF, Food Stamp, SSI, Medicaid, CHIP, Foster Care, Adoption, or Public Housing assistance.

The maximum amount of the EITC credit for filing year 2003 is \$4,204. To qualify for the EITC, the family's adjusted gross income and total earned income must be less than:

- ? \$11,230 (\$12,230, if filing a joint return) without a qualifying child;
- ? \$29,666 (\$30,666, if filing a joint return) with one qualifying child;
- ? \$33,692 (\$34,692, 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 (AEITC) 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**.

To claim the EITC, an individual must meet certain criteria. Rules that apply to everyone filing for the EITC for tax year 2003 are:

- ? Employee and qualifying child must have social security cards.
- ? Filing status cannot be married, filing separately.
- ? Individual filing for the EITC must be a U.S. citizen or resident alien throughout the tax year.
- ? Income reported for the tax year cannot include foreign earned income.
- ? Investment income must be \$2,550 or less.
- ? Individual applying for the EITC must have earned income.

Additional rules that apply if an individual files for the EITC for tax year 2003 and claims a qualifying child:

- ? The child must meet relationship, age, and residency tests.
- ? The child cannot be used by more than one person to claim the EITC.
- ? The employee filing for the EITC cannot be a qualifying child of another person.

Additional rules that apply if an individual files for the EITC for tax year 2003 and does **not** have a qualifying child:

- ? Must be at least age 25 but under age 65.
- ? Cannot be a dependent of another person or qualifying child of another person.

- ? Must have lived in the U.S. for more than half the year.

Individuals filing for the EITC who have a qualifying child must use tax Form 1040 or Form 1040A and complete Schedule EIC. Individuals filing who do not have a qualifying child may use Form 1040, Form 1040A, or Form 1040EZ.

There are free tax preparation sites throughout Ohio. IRS sponsored programs are the Volunteer Income Tax Assistance (VITA) program 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.

The qualifying rules for the EITC are subject to change each year. Counties are advised to keep informed of the changes for each tax year by visiting the IRS web site at www.irs.gov; or calling the national toll free number at 800-829-1040, calling the local IRS office, or calling an IRS Territory Manager. Territory Managers for Ohio are: Cleveland - Gloria McGhee, 216-328-2850, Cincinnati - Vickie Fairley, 513-263-3940, and Columbus - Sandy Trigg, 614-280-8645.

You may obtain additional information from the following resources:

Internal Revenue Service, The Digital Daily, Department of the Treasury, Earned Income Credit, <http://www.irs.gov/individuals/page/0,,id=13712,00>.

Department of the Treasury, Internal Revenue Service, Publication 596, Cat. No. 15173A, Earned Income Credit (E.C.), <http://www.irs.gov/individuals/page/0,,id=13712,00>.

If you have any questions, you may contact your state Work Activity Policy Coordinator through the WACTA mailbox: WACTA@ODJFS.state.oh.us.

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