

[illegible]



About Earned Income Credit (EIC)

- TaxSlayer: Payments Screen
- Additional resources listed in L< “References” tab
- Review all tips and cautions
- Read all examples and sample interviews
- We will review answers to each exercise in the lesson



Objectives – Earned Income Credit (EIC)

- Determine if a taxpayer is eligible for the EIC
- Calculate the EIC
- Time Required: 1 hour

Topics



- What is the EIC?
- Qualifying for the EIC
- Rules for taxpayers with qualifying children
- Rules for taxpayers without qualifying children
- Calculating the tax credit



Key Terms

Definitions are always available in the L< online Glossary.

- ATIN
- Earned Income
- Earned Income Credit (EIC)
- ITIN
- Unearned Income
- Refundable Credit



What is the EIC?

- A refundable tax credit available to eligible taxpayers who do not earn high incomes
- Qualifying taxpayers can receive a refund even if they have no filing requirement, owe no tax, and had no income tax withheld
- Families may claim EIC for three or more children, and amounts are adjusted for inflation every year



Qualifying for the EIC

- Three sets of rules:
 - General eligibility rules for everyone
 - Rules for taxpayers with one or more qualifying children
 - Rules for taxpayers who do not have a qualifying child
- Review [Pub 4012](#), Summary of EIC Eligibility Requirements; focus on Part A and Part D
- Avoid common EIC filing errors:
 - Incorrectly reported income
 - Incorrectly reported SSNs
 - Married taxpayers incorrectly filing as Single or Head of Household
 - Claiming a non-qualifying child

Qualifying for the EIC

- What are some example of earned income that may qualify taxpayers for the EIC?
 - Wages, salaries, tips, and other taxable employee pay
 - Taxable long-term disability benefits received prior to minimum retirement age
 - Nontaxable combat pay; compare the EIC amount with and without this pay before electing to include it in earned income
- See [Pub 4012](#), Earned Income Table for a complete list

| Earned Income for EIC ² | |
|---|--|
| Includes | Doesn't include |
| <ul style="list-style-type: none">• Taxable wages, salaries, and tips• Union strike benefits• Taxable long-term disability benefits received prior to minimum retirement age• Net earnings from self-employment• Gross income of a statutory employee• Household employee income• Nontaxable combat pay election• Nonemployee compensation• The rental value of a home or a housing allowance provided to a minister as part of the minister's pay (Out of Scope) | <ul style="list-style-type: none">• Interest and dividends• Social Security, including SSI and SSDI, and railroad retirement benefits• Welfare benefits• Workfare payments• Pensions and annuities (except if disability pension and taxpayer is under minimum retirement age)• Veteran's benefits (including VA rehabilitation payments)• Workers' compensation benefits• Alimony• Child support• Nontaxable foster-care payments• Unemployment compensation• Taxable scholarship or fellowship grants that aren't reported on Form W-2• Earnings for work performed while an inmate at a penal institution or on work release¹• Salary deferrals (for example, under a 401(k) or 403(k) plan or the Federal Thrift Savings Plan)• The value of meals or lodging provided by an employer for the convenience of the employer• Disability insurance payments resulting from premiums paid by the taxpayer• Excludable dependent care benefits (line 25 of Form 2441)• Salary reductions such as under a cafeteria plan• Excludable employer-provided educational assistance benefits (may be shown in box 14 of Form W-2) |

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

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



Rules for Taxpayers with Qualifying Children

- Claiming a child who is not a qualifying child is one of the most common EIC errors; make sure you apply the rules correctly.
- Review [Pub 4012](#), Tab I, Earned Income Credit:
 - Summary of EIC Eligibility Requirements, Part B
 - EIC General Eligibility Rules Chart
 - EIC Qualifying Child Chart
 - Qualifying Child of More than One Person

Common EIC Filing Errors

- Claiming a child who doesn't meet the residency and relationship requirements
- Married taxpayers incorrectly filing as a single or head of household
- Incorrectly reporting income, particularly income and expenses from self-employment
- Incorrect Social Security numbers
- Not claiming a qualifying child because the child is not a dependent, e.g., a full time student under age 24 who supported themselves. Support is not a test for EIC

Rules for Taxpayers without Qualifying Children

Rules are presented in Pub 4012, Tab I, Earned Income Credit, Part C, and EIC charts

- Must be at least age 25 but under age 65 as of December 31
- Cannot be the dependent of another person
 - Check Part I, question 11 on Form 13614-C
- Must have lived in the U. S. more than half the year

| Part A Rules for Everyone | Part B Rules If You Have a Qualifying Child | Part C Rules If You Don't Have a Qualifying Child | Part D Earned Income and AGI Limitations |
|---|--|--|---|
| Taxpayers & qualifying children must all have SSN that is valid for employment by the due date of the return (including extensions). ¹ | Child must meet the relationship, age, residency test and joint return tests but not the support test. The child doesn't have to be your dependent. ² | Must be at least age 25 but under age 65 as of December 31. ³ | You must have earned income to qualify for this credit. Your earned income and AGI must be less than: |
| You must meet certain requirements if you are separated from your spouse and not filing a joint return. ⁴ | Qualifying child can't be used by more than one person to claim the EIC. | Can't be the dependent of another person. | \$56,838 (\$63,398 for married filing jointly) if you have three or more qualifying children, |
| Must be a U.S. citizen or resident alien all year. | The taxpayer can't be a qualifying child of another person. | Must have lived in the United States more than half the year. | \$52,918 (\$59,478 for married filing jointly) if you have two qualifying children, |
| Can't file Form 2555 (relating to foreign earned income). | | Can't be a qualifying child of another person. | \$46,560 (\$53,120 for married filing jointly) if you have one qualifying child, or |
| Investment income must be \$11,000 or less. | | | \$17,640 (\$24,210 for married filing jointly) if you don't have a qualifying child. |
| Can't be a qualifying child of another person. | | | |

Calculating the Tax Credit

- Check the question on page 3 of Form 13614-C, did the taxpayer have a tax credit disallowed?
 - If yes, see the special rules in Pub [4012](#), Disallowance of the Earned Income Credit
- EIC amount is determined using worksheets and the EIC tables
 - Found in [Pub 596](#) or in Form 1040 Instructions
 - TaxSlayer will calculate the amount of EIC
- Use Schedule EIC if the taxpayer has at least one qualifying child
- Taxpayers with no children make a direct entry on the EIC line on Form 1040.

| d Add lines 25a through 25c | | 25d |
|--|--|-----|
| If you have a qualifying child, attach Sch. EIC. | 26 2024 estimated tax payments and amount applied from 2023 return | 26 |
| | 27 Earned income credit (EIC) | 27 |
| | 28 Additional child tax credit from Schedule 8812 | 28 |
| | 29 American opportunity credit from Form 8863, line 8 | 29 |



Summary

- The earned income credit (EIC) computation is based on filing status, number of qualifying children, earned income, and adjusted gross income. Certain individuals with no children may also qualify.
- By using the intake and interview sheet, the EIC charts in the Volunteer Resource Guide, and correctly filling out the EIC worksheets, most common errors can be avoided.
- The EIC is entered in the Payments section of the return.