

Earned Income Tax Credit (EITC)

POLICY BRIEF

JANUARY 28, 2010

WHAT IS THE EITC?

The Earned Income Tax Credit (EITC) is a refundable federal tax credit for working individuals and families. The credit offsets payroll and income taxes therefore reducing the tax burden on low- to moderate- income workers. Additionally, the EITC encourages and rewards work as the credit increases with the amount of income earned.

The EITC is often referred to as one of the most successful federal anti-poverty programs. According to the Center on Budget and Policy Priorities, the EITC lifted an estimated 6.6 million people out of poverty, including 3.3 million children, 2009. Without the EITC, the poverty rate among children would be nearly one-third higher. The EITC also lifts more children out of poverty than any other single program or category of programs in the United States.¹

ELIGIBILITY REQUIREMENTS

The amount of EITC received depends on a worker's income, marital status, and number of children. In 2009, a worker with children making at or below \$35,000 to \$48,000 is eligible and a worker without children making at or below \$13,000 is eligible. Additionally, the American Recovery and Reinvestment Act of 2009 (ARRA) expanded the EITC by providing a larger credit to families with three or more children and reducing the marriage penalty (meaning families will not receive a smaller credit because they are an individual filer versus a joint filer).

Eligibility Requirements for the Federal EITC, Tax Year 2009			
Number of Qualifying Children	Individual Filer	Joint Filer	Maximum Credit
Zero	\$13,440	\$18,440	\$457
One	\$35,463	\$40,463	\$3,043
Two	\$40,295	\$45,295	\$5,028
Three or more	\$43,279	\$48,279	\$5,657

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ELIGIBILITY REQUIREMENTS (CONT.)

The maximum credit for a family with two children is eligible for a maximum credit of \$5,028. This money can make a substantial difference and usually used to pay for big ticket items such as a car or for job training or postsecondary education.

Given the current economic recession, the EITC may be more important to working families than ever before. It is important to remember that if a tax filer was eligible for the EITC and did not claim it, they can amend their tax returns and claim it up to three years retroactively. For family with two children this could equate to \$14,388 (for tax year 2007, 2008, and 2009).² This could help many struggling families pay for health care, child care, and housing.

PARTICIPATION RATES

Twenty-four million working individuals and families claimed the EITC in 2008. In Indiana, over 493,000 Hoosiers benefitted from the EITC and received an average credit of \$1,991. In total, the EITC put nearly \$981.6 million back into the pockets of working Hoosier families.³

However, it is estimated that approximately 25 percent of tax payers who are eligible do not claim the credit. It is important for workers to know that they can receive the credit even if they do not owe taxes and if they do not have children. Low-income workers without children are believed to be the largest group of taxpayers who do not claim the credit.

INDIANA STATE EITC

Indiana is one of 24 states that have their own state EITC to supplement the federal credit. State EITCs range from 3.5 percent to 33 percent. The District of Columbia has the highest credit at 35 percent. Indiana's EITC is based on the federal EITC and is set at 9 percent of the federal credit.

Maximum Credit for State EITC, Tax Year 2009	
Number of Qualifying Children	Maximum Credit
Zero	\$41
One	\$274
Two	\$453
Three or more	\$509

¹ Center on Budget and Policy Priorities. *Policy Basics: The Earned Income Tax Credit*. 4 December 2009. Available at: <http://www.cbpp.org/cms/index.cfm?fa=view&id=2505>.

² Internal Revenue Service. *EITC limits, Maximum Credit Amounts, and Tax Law Updates*, Retrieved on 27 January 2010. Available at: <http://www.irs.gov/individuals/article/0,,id=150513,00.html>.

³ Internal Revenue Service. *EITC State Statistics at-a-Glance for Tax Year 2008*, Retrieved on 20 January 2010. Available at <http://www.eitc.irs.gov/central/eitcstats/>.