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EARNED INCOME CREDIT (EIC) UPDATE

By Victor Sy, CPA, MBA

The earned income credit (EIC) is a **refundable tax credit for certain low-income taxpayers**. It was expanded to include taxpayers with **no** qualifying children.

The earned income credit is based on the concept of **negative** income taxation. While the government collects taxes from the paying masses, it **rebates taxes from you and me to taxpayers with low income**.

There are families with low income and with minor children who do not file tax returns because they are not required to. Fine, but what if the government pays you back to file? Read on and learn more about this government **subsidy** that pays people who file:

1. To claim the credit, all of the **following conditions must be met**:
 - A. The taxpayer must receive **earned income**. For EIC purposes, earned income includes employee compensation (wages, tips), 1099 Independent Contract Income, commissions, net earnings from Schedule C self-employment, strike benefits, combat pay, pensions, and Social Security benefits are not earned income for this purpose.
 - B. Your filing status must **not be married filing separate**.
 - C. You must not be a qualifying child of another person.
 - D. You must not be claiming foreign-earned income exclusion at the same time.
 - E. The amount of EIC **depends on the number of your qualifying children**. A qualifying child means your son, daughter, stepchild or legally adopted child or foster child (including a grandchild or a child placed by an authorized agency pending adoption). The child must be **under 19 years old or under age 24 and a full-time student**, or a child who is permanently and totally disabled at any age. If the child is married at the end of the year, the child must also be your dependent to qualify you for the credit. When a child is a qualifying child for more than one person, only the person with the highest AGI may claim the EIC.
2. The **BASIC EARNED INCOME CREDIT (EIC)** can be as much as:
 - A. **\$464** for no child.
 - B. **\$3,094** for one qualifying child.
 - C. **\$5,112** for two qualifying children.
 - D. **\$5,751** for three or more qualifying children.
3. You can **no longer receive EIC without a valid SSN** from the SSA. An Individual Taxpayer Identification Number (ITIN) is no longer valid for claiming this credit.
4. The IRS is clamping down on taxpayers who have abused the earned income credit. Any taxpayer who fraudulently claims the earned income credit is ineligible to claim it for a subsequent period of 10 years. Any taxpayer who erroneously claims the EIC due to reckless or intentional disregard of rules is ineligible to claim the EIC for the next two years.

DEVELOPMENT 1: The Chief Counsel of the IRS advised that a taxpayer who is eligible for the earned income credit but who does not have a social security number (and therefore cannot claim the credit) may amend the tax return after the current year to claim the credit.

DEVELOPMENT 2: Of the total number of individual tax returns audited by the IRS in 2005, 43% were selected on the basis of an earned income credit claim.