

## Policy Brief

May 2011

### Earned Income Tax Credit (EITC)

#### ***What is EITC?***

The Earned Income Tax Credit (EITC) is a federal tax credit for low- to moderate- income working individuals and families. The credit reduces the tax burden placed on workers by offsetting payroll and income taxes. The credit is also refundable –meaning that if the credit exceeds the amount of taxes owed, the difference is given back to the worker. Thus, earned income is put back into the pockets of working individuals and families.

The EITC is one of the federal government’s most successful anti-poverty programs lifting more children out of poverty than any other single program or category of programs in the US.<sup>1</sup> According to the CBPP, the EITC lifted an estimated 6.6 million people out of poverty in 2009, including 3.3 million children.

#### ***Who is Eligible to Claim the EITC?***

The EITC is available to most low- to moderate income households. The amount of EITC received is dependent upon a worker’s income, marital status, and number of children. In general, for tax year 2010, working families with children and earning an annual income between \$35,535 to \$43,352 are eligible to receive the tax credit. Workers without children, earning incomes at or below \$13,460 can also receive the EITC.

#### ***How Much can a Household Receive from the EITC?***

The EITC is designed to encourage and reward work by increasing with every dollar of income earned until it reaches its maximum value. However, the maximum value increases with the number of children in a family. Families with three or more children are eligible to receive the maximum credit of \$5,666 in tax year 2010

<b>Eligibility Requirements for the Federal EITC, Tax Year 2010</b>			
<b>Number of Qualifying Children</b>	<b>Individual Filer</b>	<b>Joint Filer</b>	<b>Maximum Credit</b>
<b>Zero</b>	\$13,460	\$18,470	\$457
<b>One</b>	\$35,535	\$40,545	\$3,050
<b>Two</b>	\$40,363	\$45,373	\$5,036
<b>Three or more</b>	\$43,352	\$48,362	\$5,666

Source: The Internal Revenue Service (IRS)

<http://www.irs.gov/individuals/article/0,,id=150513,00.html>

Given the current economic recession, the EITC may be more important to working families than ever before. Workers who were eligible for the EITC in prior tax years, but did not claim it, can amend their tax returns to retroactively claim the EITC for up to three years. For a family with two children, this could equate to \$14,888 (for tax year 2008, 2009, and 2010).<sup>2</sup>

### ***How Many People Claim the EITC?***

Twenty-four million working individuals and families claimed the EITC in 2008.<sup>3</sup> 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 working Hoosier families.<sup>4</sup>

However, it is estimated that approximately 25 percent of taxpayers who are eligible do not claim the credit. It is important for workers to know they may be eligible to receive the EITC 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. These taxpayers are eligible for a maximum credit of \$457 in tax year 2010.

### ***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 35 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.

<b>Maximum Credit for State EITC, Tax Year 2009</b>	
<b>Number of Qualifying Children</b>	<b>Maximum Credit</b>
<b>Zero</b>	\$41
<b>One</b>	\$275
<b>Two</b>	\$453
<b>Three or more</b>	\$510

*Source :Calculations of Federal Values, The Internal Revenue Service (IRS)  
<http://www.irs.gov/individuals/article/0,,id=150513,00.html>.*

### ***How Many EITC Dollars go Unclaimed in Indiana?***

According to the most recent information available, more than 493,000 Hoosiers benefitted from the federal EITC. However, the IRS estimates that approximately 25 percent of individuals who are eligible do not file. Using this data, approximately 123,250 additional Hoosiers were eligible to receive the federal EITC in 2008, but did not claim it. With an average return of \$1,991 for the federal credit, that amounts to over \$245 million in unclaimed dollars for Hoosier workers.

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<sup>1</sup> CBPP.org

<sup>2</sup> Internal Revenue Service. *EITC limits, Maximum Credit Amounts, and Tax Law Updates*, Retrieved on 20 January 2010. Available at:

<http://www.irs.gov/individuals/article/0,,id=150513,00.html>.

<sup>3</sup> Internal Revenue Service. *EITC State Statistics at-a-Glance for Tax Year 2008*, Retrieved on 20 January 2010. Available at

<sup>4</sup> 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/>.