ODEP
Office of Disability Employment Policy

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The Earned Income Tax Credit: Capitalizing on Tax Incentives

Introduction

Poverty remains a major issue nationwide, and it especially impacts individuals with disabilities. Overcoming the barrier of poverty and creating long-term personal economic stability requires more than just employment. Working-age adults with disabilities are three times more likely to live in poverty than their non-disabled peers. This brief will provide information about the Earned Income Tax Credit (EITC), which is an important tool to encourage work and improve economic status.

EITC Basics

Congress first approved the EITC in 1975 as a refundable tax credit for eligible low-income workers with and without disabilities. There are three major purposes of the EITC: (1) to reduce the tax burden on low-income workers, (2) to provide a work incentive, and (3) to supplement wages. Every year, millions of taxpayers claim this credit, resulting in tens of billions of dollars in tax refunds.

Many working individuals with and without disabilities do not realize they may qualify for the credit and are unfamiliar with the concept of a "refundable credit." A refundable credit offers a benefit to workers whose earnings are too small to have any tax liability, for example, those who typically earn too little to file a return.

Eligibility for the EITC

Single or married people who worked full or part-time can qualify for the EITC, depending upon their income level.

The American Recovery and Reinvestment Act (ARRA) provides a temporary increase in the earned income tax credit (EITC) for taxpayers with three or more qualifying children. The maximum EITC for this new category is $5,657. ARRA also increases the beginning point of the phase-out range for the credit for all married couples filing a joint return, regardless of the number of children. These changes apply to 2009 and 2010 tax returns.

The credit begins to phase out at $21,420 for married taxpayers filing a joint return with children and completely phases out at $40,463 for one child, $45,295 for two children and $48,279 for three or more children. For married taxpayers filing a joint return with no children, the credit begins to phase out at $12,470 and completely phases out at $18,440.

The threshold amounts for 2009 tax returns follow:

- $13,440 ($18,440 if married filing joint) if you do not have a qualifying child
- $35,463 ($40,463 married filing jointly) if you have one qualifying child
- $40,295 ($45,295 married filing jointly) if you have two qualifying children
- $43,279 ($48,279 married filing jointly) if you have three or more qualifying children

The maximum EITC for 2009:

- $5,657 with three or more qualifying children
- $5,028 with two qualifying children
- $3,043 with one qualifying child
- $457 with no qualifying children

Investment income must be $3,100 or less for the year.

To claim the EITC, a worker must file a tax return with the IRS (either Form 1040, 1040A, or 1040EZ). Workers do not have to calculate their own EITC. If they choose, the IRS will calculate it for them.

Workers with Disabilities

To be eligible for the credit, an individual must have earned income, also known as wages or salary. Most disability-related public benefits, such as Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI) (See attached brief on

Social Security benefits), are not considered earned income. Many individuals with a disability, and between the ages of 25 and 64, who worked at least part-time, would qualify for the EITC. If an individual with a disability received either SSI or SSDI and did not work at all in the previous tax year has a spouse who did work, then they together may qualify for the credit.

Earned income credit has no effect on certain benefits.

Any refund you receive because of the EITC and any advance EITC payments you receive will not be considered income when determining whether you are eligible for the following benefit programs, or how much you can receive from these programs. However, if the amounts you receive are not spent within a certain period of time, they may count as an asset (or resource) and affect your eligibility.

- Medicaid and supplemental security income (SSI)
- Food stamps
- Low-income housing

Temporary assistance for needy families (TANF) benefits may be affected. Please check with your state.

Do not overlook your state credit. If you can claim the EITC on your federal income tax return, you may be able to take a similar credit on your state or local income tax return. For a list of states that offer a state EITC, go to www.irs.gov/eitc.
It is also important to know that eligible workers with disabilities who are filing for the EITC for the first time may file retroactively, to claim the credit for a three-year period.

The Retroactive EITC Claim

Mary Williams is not married and has no children. She worked part-time in 2004, 2005, and 2006 and currently receives SSI benefits. In each of the three past years, Mary earned $5,000. Mary's earnings would entitle her to a $387 tax refund, by claiming the credit in 2006. Mary has not filed a tax return for any of the past three years, because she did not earn enough to pay taxes. Since the EITC can be claimed retroactively, Mary can now submit to the IRS a tax return for each year and be entitled to a refund of more than $900.

Assistance with Tax Filing

The IRS Stakeholder Partnerships, Education and Communication (SPEC) Division is directly involved in marketing and outreach to low-income workers. In the last 5 years, SPEC has been engaged in the Real Economic Impact Tour (REIT) to deliver financial education and tax preparation services at no cost to low-income workers with disabilities (for more information on the REIT, see www.reitour.org). Persons with and without disabilities can also receive free tax preparation service through Volunteer Income Tax Assistance (VITA) sites in 100 cities. At VITA sites, IRS trained volunteers will help low-income workers prepare and file a tax return, including access to EITC. VITA sites in many communities are located in libraries, community colleges, shopping malls, faith and community-based organizations, and in One-Stop Career Centers. For more information on how to find a VITA site near you, please see the resource section below.

Connecting the EITC and Asset Development

The IRS offers an option for tax filers that will allow them to "split their refund." The split refund enables a filer receiving a refund through a direct deposit, to arrange for part of it to be deposited directly into a savings account. This allows lower income workers a convenient automatic savings mechanism that can start them on a path to advance self-sufficiency. The split refund may also be a way to provide an initial deposit for an Individual Development Account (IDA), a matched savings plan that is tied to a specific asset development goal. (For more information on IDAs, please see the attached brief) Furthermore, it opens up opportunities to engage financial institutions in developing new services that are attractive to lower income tax payers. Many of the IRS facilitated community partnerships nationwide are collaborating with banks and credit unions at VITA sites to open new savings accounts. Low-income filers can expedite their refund by filing electronically with the assistance provided at the VITA site, and having their refunds deposited directly into their new account.

Conclusion

EITC is a unique tool to both encourage work and preserve income for low-income workers with and without disabilities. With the new option of a split refund, the VITA site can bring together financial institutions and other community partners to start a relationship with the lower income workers with and without disabilities that connects use of the credit with the benefits of savings, financial education, and the importance of asset building.

Action Steps

1. Learn more about the EITC and VITA sites in your community, by visiting the IRS EITC Central Web site at www.eitc.irs.gov
2. Learn more about IRS marketing and outreach to individuals with disabilities through community partnerships nationwide, by reviewing http://www.irs.gov using search for "Community Network"
3. Review the Real Economic Impact Tour Web site: www.reitour.org
4. Find a VITA site to assist you in preparing your tax returns and accessing this tax credit by calling: 1-800-829-1040

Why This Policy Brief Series?

The vision of the U.S. Department of Labor (USDOL) is to advance the economic futures of workers, including those with disabilities. The unique mission of the Office of Disability Employment Policy (ODEP) within USDOL is to promote the involvement, cooperation, and collaboration of multiple federal, state, and local agencies with the private sector, to increase participation of individuals with disabilities in the workforce and economic mainstream. No single program, policy, funding stream, or strategy is a universal solution for the multiple challenges encountered by individuals with disabilities who want become economically self-sufficient. Yet, across the Federal Government, there are tools and strategies now being implemented to help lift low-income wage earners—including individuals with disabilities—out of poverty and empower them through employment and expanded economic opportunities. This portfolio series introduces asset development concepts, tools, and activities that individuals with disabilities, their families, and the workforce development professionals who support them can use to build wealth on the foundation of successful employment.

Contents

The series will explore the following topics:

I. Financial Education
II. Earned Income Tax Credit
III. Individual Development Accounts
IV. Social Security Work Incentives and Benefits Management
V. Braiding Multiple Resources in Self-Directed Budgets

Why This Series is a Useful Tool for Individuals

Using this series, eligible individuals and families will be guided to access multiple resources that can assist them in building their personal wealth. Each of these briefs is designed to be accessible to professionals in the field and to recipients of services and benefits. Users are provided with contact information, Web sites, and strategies to pursue these benefits.

Why This Series is a Useful Tool for Employers

Employers increasingly face the challenge of retention of talent and human capital. Companies can no longer afford to compete only for the highest-level professionals and assume the lower-paying positions will fill themselves. The human resource is now the investment of principal importance to any company that depends on a range of skills for production or delivery of its product or service. As such, providing resources that promote greater value and satisfaction to their employees, without incurring additional costs, should be a meaningful proposition to any executive or human resource professional. This series is designed to either be distributed to a company's employees, or to act as a guide for human resource professionals on how to better leverage various incentives on behalf of company employees.

Why This Series is a Useful Tool for the Workforce Development System

Organizations and agencies that provide employment or other assistance are frequently unaware of the broad range of asset development strategies available to their constituents and customers. By using and distributing this brief, the workforce development system can assist its customers in attaining long-term financial stability. Also, by diversifying the types of resources available to its customers, the obligation placed on any single funding stream will decrease.

Information for this portfolio brief came from:

- National Center on Workforce and Disability/Adult (NCWD/A), Website: http://www.onestops.info/
- Michael Morris, JD of the Law, Health Policy & Disability Center, University of Iowa College of Law; The Burton Blatt Institute; and National Disability Institute, Washington, D.C; e-mail address: mmorris@ndi-inc.org
- Office of Disability Employment Policy at the U.S. Department of Labor

For additional information on Financial Education and Asset Development, contact:

ODEP
1-866-633-7365
1-877-889-5627 (TTY)
http://www.dol.gov/odep

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NCWD/A PARTNERS

- Institute for Community Inclusion at UMass Boston
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