



# You've Earned It!

What the Earned Income Tax Credit  
Can Do for You





## Money You Can Use To Better Your Life

### What is the Earned Income Tax Credit (EITC)?

It's a federal income tax credit for people who work, but don't earn much money. If you qualify, you could receive as much as \$4,500 this year. You apply for it when you file your federal income tax return.

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### Am I eligible for the EITC?

You may be if you meet the rules to claim the credit. Some of the rules are:

- You must have earned income from employment or self-employment.
- You must have a valid Social Security number.
- Your earned income does not exceed the annual limit.

To find out if you qualify, go to [www.irs.gov](http://www.irs.gov) and type "EITC" in the search box.

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### What is earned income?

It is income you get from employment or self-employment. Earned income includes:

- taxable wages, salaries and tips; and
- net earnings from self-employment.

## **Earned income does not include:**

- nontaxable employee benefits, such as education assistance; or
- pensions, alimony, child support and Temporary Assistance for Needy Families (TANF).

Special earned income rules apply for members of the U.S. armed forces in combat zones, members of the clergy and those with disability retirement income.

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## **Can I get my EITC now?**

The IRS does offer an advance EITC, where you receive part of the credit in your paycheck during the year. To be eligible for the advance EITC, you must:

- receive wages;
- expect to qualify for the EITC; and
- complete Form W-5, Earned Income Tax Credit Advance Payment Certificate, and give it to your employer.

Keep in mind, if you find out later that you do not qualify, you will need to fill out a new Form W-5 and give it to your employer to stop the advance payments. AND, you will have to repay ALL advance EITC money when you file your tax return.

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## **How can I get help with claiming my credit?**

- Visit a Volunteer Income Tax Assistance (VITA) site for free help in filing your taxes and for answers to tax questions. Call 1-800-829-1040 for VITA locations near you.
- Go to [www.irs.gov/eitc](http://www.irs.gov/eitc) for free information and forms. The web site also has an EITC Assistant feature that can show you if you qualify.
- Use “Free File,” a link to free online filing available through the IRS web site, [www.irs.gov](http://www.irs.gov).
- Call 1-800-829-3676 for free IRS publications and forms.

# Maximizing Your EITC

## Split that check

The IRS has made it very simple to spend a little and save a lot by allowing those receiving a refund to have it split and automatically deposited into three accounts, such as a checking account, a savings account and an Individual Development Account (IDA). Spend a little on a special treat for the family, and then save the rest in either a regular savings account or an IDA.

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## Open an Individual Development Account

IDAs are programs to help low- and moderate-income working families increase their savings. They are “matched savings accounts” in which deposits you make are matched by contributions from the sponsoring organizations. Typically, IDAs are designed to help participants save for a down payment on a home, pay for a college education or finance a small business. For a program in your area, check the listing in the back of this booklet.

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## Set up an emergency fund

Emergencies such as a car repair or a broken refrigerator happen at the most inconvenient of times financially. Help yourself stay calm and cool the next time an emergency repair comes your way by establishing or replenishing an emergency fund with your refund. An emergency fund should ideally contain enough money to cover living expenses for six months.

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## Create a 529 College Savings Plan

Establish or add to a 529 College Savings Plan or a state-matched college savings plan. These plans are available in many states. For information on college savings programs in your state, check the listing in the back of this booklet.

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## Pay down debt

Use a portion of your refund to help pay down high-interest debt, such as that from credit cards. You might also want to identify those with low balances and pay them off first. HINT: Don't pay down the card only to charge it right up again. Use this as a chance to get rid of debt; *do not* free up room on the card just to buy more stuff.



## Mya's Choices

Mya is a single mother with one child. She has a good job as an administrative assistant with the State Department. The amount of her Wages, Tips and Salary on her most recent W-2 is \$22,000. Because Mya has no other wages or deductions, her adjusted gross income is also \$22,000. Using the EITC Assistant on the IRS web site, Mya estimates that she may be entitled to a \$1,590 EITC when she files her tax return. With the EITC, Mya's total refund check from the IRS is projected to be \$1,900.

As a single mom, Mya often can't afford to give her son the latest electronic toy on the market, as other children his age have. Mya's first thought is to buy her son a new game system or perhaps a battery powered jeep. Mya could never afford those things normally. On second thought, Mya wonders what those things are really teaching her son about money. What to do?

The following payday, Mya opens her check to find an insert telling about something called Individual Development Accounts (IDAs) and providing a web site for more information. At the local library that evening, Mya looks up the web site and learns that, with an IDA, she could potentially double her money. She learns the IDA can be used for one of three things she has been dreaming about for years: buying a home, starting her own small business or going back to school.

Mya decides to use her tax refund to open an IDA and is accepted into a program that matches her savings 3-to-1, up to a maximum match of \$2,000.

This means that Mya's \$1,900 refund will expand to \$3,900!

Mya will now have the chance to follow her dreams and build an asset. Great choice, Mya!



## **Blowing Your Dough**

### **RALs**

Don't rush the tax refund process. Stay away from Refund Anticipation Loans (RALs), offered by some fee-based tax preparers. Those loans are very expensive and can use up a big chunk of your refund. The average tax return takes only a matter of weeks to process. Filing electronically on your own or with the help of volunteers can really speed up your refund. You have done without the money all year. Why rush to get it now and end up paying part of it to someone else? Instead, use "Free File," a link to free online filing available through the IRS web site at [www.irs.gov](http://www.irs.gov). Not comfortable doing your own return? Then visit a Volunteer Income Tax Assistance (VITA) site for free help in filing your taxes. For a location near you, call 1-800-829-1040.

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### **Going, going, gone**

Don't spend all your refund on little things, like dining out or toys for your children, that only make you happy right now. These things do not have long-term value and will leave you wondering where your refund went.

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### **Big toys**

Don't spend all your refund on a big screen TV or other big purchases that you otherwise wouldn't be able to afford. Although they offer short-term fun, they do not help you build assets or secure your financial future.

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### **Lucky number seven**

There is a right way and a wrong way to double your money. Resist taking your refund for a spin at the track or casino. Chances are higher that your hands will be empty at the end of the night instead of overflowing with money.



**Pocket flap**



Federal Reserve Bank of St. Louis  
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This brochure was produced by the Community Affairs Office of the Federal Reserve Bank of St. Louis. For copies, call 314-444-8761 in St. Louis or call one of the Bank's branches:

- 501-324-8300 in Little Rock,
- 502-568-9200 in Louisville, or
- 901-523-7171 in Memphis.



# Where To Go for Help in Missouri

## ■ IDA Providers

### **Better Family Life**

724 N. Union, Suite 301  
St. Louis, MO 63108

Phone: 314-367-3440

[www.betterfamilylife.org](http://www.betterfamilylife.org)

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### **Beyond Housing**

4156 Manchester Road  
St. Louis, MO 63110

Phone: 314-533-0600, ext. 41

[www.beyondhousing.org](http://www.beyondhousing.org)

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### **Catholic Charities Housing Resource Center**

800 N. Tucker Blvd.  
St. Louis, MO 63101

Phone: 314-241-5600, ext. 7106

[www.ccstl.org](http://www.ccstl.org)

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### **Community Action Agency of St. Louis County**

2709 Woodson Road  
St. Louis, MO 63114

Phone: 863-0015, ext. 429

[www.caastlc.org](http://www.caastlc.org)

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### **East Missouri Action Agency**

P.O. Box N  
Park Hills, MO 63601

Phone: 573-431-5191, ext. 125

[www.eastmoaa.org](http://www.eastmoaa.org)

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### **Hi-Tech Charities**

1371 Hamilton Ave.  
St. Louis, MO 63112

Phone: 314-389-5737, ext. 111

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### **International Institute of Metropolitan St. Louis**

3654 S. Grand Blvd.  
St. Louis, MO 63118

Phone: 314 773-9090,  
ext. 195 or 133

[www.iistl.org](http://www.iistl.org)

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### **Justine Petersen Housing & Reinvestment Corp.**

1023 N. Grand Blvd.  
St. Louis, MO 63106

Phone: 314-664-5051, ext. 115

[www.justinepetersen.org](http://www.justinepetersen.org)

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### **MERS/Goodwill Industries**

1727 Locust St.  
St. Louis, MO 63103

Phone: 314-241-3464

[www.mersgoodwill.org](http://www.mersgoodwill.org)

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### **Missouri Association for Community Action**

2410 Hyde Park Road, Suite A  
Jefferson City, MO 65109

Phone: 573-634-2969, ext. 5

[www.communityaction.org](http://www.communityaction.org)

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**Opportunities Industrialization  
Center of the Midwest**

5814 Thekla Ave.  
St. Louis, MO 63120  
Phone: 314-383-3890

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**People's Community  
Development Corp.**

5701 Delmar Blvd.  
St. Louis, MO 63112  
Phone: 314-367-7848, ext. 1205  
www.phcenters.org

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**Redevelopment Opportunities  
for Women**

2229 Pine St.  
St. Louis, MO 63103  
Phone: 314-588-8300  
www.row-stl.org

**■ Missouri 529 Plans**

**(College Savings Plan)**

Phone: 888-414-MOST  
https://missourimost.s.upromise.com

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**■ Free Tax Information**

Phone: 1-800-829-1040  
Web sites: www.irs.gov  
www.irs-eitc.info

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**To find the nearest location that  
provides free tax preparation  
assistance if you qualify.**

Phone: 1-800-427-4626 (toll-free)  
314-421-4636 (St. Louis)

# The EITC in Missouri

## 2005 Tax Return Summary\*

Total returns filed	2,611,000
Returns with EITC	452,000
Total EITC refunds	\$827,000,000
Average EITC refund	\$1,831

*\*SOURCE: Tax Policy Center, Urban Land and Brookings Institution, "Earned Income Tax Credit by State, Tax year 2005." Oct. 4, 2007. www.taxpolicycenter.org/taxfacts*