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Informational Letter

Section 1

Transmittal:	03 INF 1
To:	Local District Commissioners
Issuing Division/Office:	Transitional Supports and Policy
Date:	January 16, 2003
Subject:	Earned Income Tax Credit and Other Tax Credits
Suggested Distribution:	Temporary Assistance Directors Food Stamps Directors Employment Coordinators TOP Coordinators Staff Development Coordinators
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Attachments:	Attachment I - EIC All Purpose Flyer (English and Spanish versions) Attachment II - EIC Envelope Stuffer Attachment III - EIC Federal Benefit Chart
Attachment Available On – Line:	<input checked="" type="checkbox"/>

Filing References

Previous ADMs/INFs	Releases Cancelled	Dept. Regs.	Soc. Serv. Law & Other Legal Ref.	Manual Ref.	Misc. Ref.
01 INF-04					00 LCM-17

Section 2

I. Purpose

The purpose of this letter is to inform local districts of the changes in the EITC for this year and the availability of other tax credits and to request that local districts outreach to temporary assistance, food stamp and other low income households encouraging them to file for these various tax credit benefits. Attached are EITC outreach materials that you may provide to these households and to community agencies. Attachment III is the Tax Year 2002 EITC Federal Benefit chart.

II. Background

The EITC continues to be a very important tax benefit that is available to employed low-income households. As in previous years, the EITCs will not count as income or resources for temporary assistance. Federal and State EITCs continue to be excluded as food stamp income.

The credits are an important tool that, if applied for, can drastically narrow the poverty gap as family members move into the workforce. Workers who qualify for the EITCs and file federal and state tax returns can receive benefits totaling more than \$5000. In addition, households who qualified in the past two years and never received the EITCs may file for these benefits.

The EITCs can significantly increase the spendable income of low-income wage earners. For example, for a family with two children and one wage earner holding a full-time minimum wage job, the state and federal EITCs can add over one-third to that person's earnings. As such, it is important that district staff discusses the EITCs and encourage households to file for the EITCs. In particular, households that are facing financial problems such as rent or utility arrears should be encouraged to file for the EITCs to help increase their income.

III. Program Implications

EARNED INCOME TAX CREDIT

The following highlights EITC changes for Tax Year 2002 (TY '02)

- To be a qualified child, foster children will only have to live with the taxpayer for more than half the year rather than the whole year.
- Military Personnel, in previous tax years, had their meal allowances and provision of basic living quarters considered as earned income, thereby reducing or eliminating their eligibility for the EITCs. For TY '02, neither meal allowances nor provision of basic living quarters are considered as earned income. Therefore, many more military personnel, particularly those below the rank of E-7, will be eligible to receive the EITCs.
- The maximum credits have increased as follows:
 - two or more children \$ 4140 (federal) + \$ 1138 (state) = \$ 5278
 - one child \$ 2506 (federal) + \$ 689 (state) = \$ 3195
 - no children \$ 376 (federal) + \$ 103 (state) = \$ 479

NOTE: For TY '02, the New York State credit is 27.5% of the federal credit. For TY '03, the New York State credit will be 30% of the federal credit.

- The qualifying income limits for the EITCs have increased as follows:
 - two qualifying children \$ 33,178
 - one qualifying child \$ 29,201
 - no qualifying children \$ 11,060

NOTE: For married people filing jointly, add \$1000 to the qualifying income limits.

EITC AND CHILD-ONLY CASES

Increasingly, child-only cases have become a significant proportion of each local district's caseload. In many of these households where the payee is a grandparent or other relative, that payee is self-sufficient and also has earned income. It is important to note that the children in these cases usually meet the definition of "qualifying child(ren)" for EITC.

We strongly suggest that in those child-only cases where the payee has earned income that an effort be made to make these payees aware of their eligibility for the EITCs. Studies have shown that in a number of districts, over a third of the child-only cases have a caretaker relative with earned income and therefore the caretakers in these cases may be eligible to claim the credit.

CHILD TAX CREDIT

The Child Tax Credit is a nonrefundable credit that can reduce owed income tax. The additional child tax credit may be available to individual taxpayers even if no tax is owed. The maximum credit for each qualifying child is \$600. A qualifying child is any child who:

- is the taxpayer's son, daughter, stepchild, adopted child, grandchild, or eligible foster child,
- was under age 17 at the end of 2002,
- is a citizen or resident of the United States, and
- is claimed as the taxpayer's dependent.

Federal tax form Form 8812: Additional Child Tax Credit must be submitted to claim the credit.

EDUCATION CREDITS

There are two education credits that may be claimed by each eligible student when tax returns are filed by completing federal form Form 8863: Education Credits (Hope and Lifetime Learning Credits).

Hope Credit: This credit applies to the first two taxable years of postsecondary education. \$1500 is the maximum credit per student that may be claimed.

Lifetime Learning Credit: This credit is based upon the total of qualified education expenses. The maximum credit is \$1000 per year.

ADVANCE EITC

Low-income wage earners with qualifying children may, at their option, receive a part of their EITC in every paycheck and the rest of their credit after they file their income tax, instead of receiving one large check from the IRS. This is called the "advance EITC payment". For many workers, getting part of the EITC in every paycheck can make a difference in paying rent, buying groceries or meeting other day-to-day needs. For example, a worker making between \$490 and \$1045 a month can receive about \$50 extra in each bi-weekly paycheck. This is particularly important for people entering the workforce at low wages. Employers also benefit because it can increase the take home pay of their employees at no cost to the business. Workers can get the advance payment by completing Form W-5: Earned Income Credit Advance Payment Certificate and submitting it to

their employer. The W-5 can be completed at any time during the year, but a new W-5 must be filed by the worker at the beginning of each year to continue receiving the EITC in their paychecks.

VITA AND TAXPAYER ASSISTANCE

Individuals may obtain specific federal tax information by calling the IRS toll-free at 1-800-829-1040. State taxpayer assistance information is available toll-free by calling 1-800-225-5829.

Many workers, especially those who are new to the workforce, are reluctant to complete tax forms on their own because they are intimidated or unfamiliar with the process. Such workers often seek help from commercial tax preparers and pay a fee for this service. Paying a tax preparer reduces the value of the credit for families most in need of it. In addition, an additional fee is charged for a refund anticipation loan, also known as a “quick turn-around refund”. But, individuals can receive tax information or have their tax forms filled out for free by visiting their local VITA (Volunteer Income Tax Assistance) center. Most sites will also provide e-filing services at no charge and, if used, the taxpayer will receive their refund and/or credits within 10 business days. From mid-January through April 15, VITA volunteers will be at sites in every county throughout the state. This service is now also being provided by 17 social services districts.

Locations of VITA offices will be publicized in the media or can be obtained by calling the toll-free IRS telephone number.

IV. Forms Information

An EITC brochure, PUB# 4786: The Earned Income Tax Credit and an EITC poster, PUB# 4787 may be requested on Form OTDA-876 (Rev.6/98): "Request for Forms or Publications". The request should be sent to:

NYS Office of Temporary and Disability Assistance
Document Services
Forms Supply, Control and Distribution
P.O. Box 1990
Albany, New York 12201

Questions concerning ordering forms should be directed to Document Services by calling 1-800-343-8859, extension 2-0159.

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