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Informational Letter

Section 1

Transmittal:	04 INF 1
To:	Local District Commissioners
Issuing Division/Office:	Transitional Supports and Policy
Date:	January 13, 2004
Subject:	Earned Income Tax Credit and Other Tax Credits
Suggested Distribution:	Temporary Assistance Directors Food Stamps Directors Employment Coordinators TOP Coordinators Staff Development Coordinators Medicaid Directors
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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.
03 INF-01					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 reach out to Temporary Assistance, Food Stamp, Medicaid, Family Health Plus, 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 2003 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. Medicaid and Family Health Plus do not count the EITC as income. Medicaid also disregards the EITC as a resource in the month received and for the following month.

The credits are an important anti-poverty tool that can dramatically increase family income 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 three years, and never received the EITCs, may file for these benefits.

The EITCs can significantly increase the available 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 2003 (TY '03)

- The maximum credits have increased as follows:
 - two or more children \$ 4204 (federal) + \$ 1261 (state) = \$ 5465
 - one child \$ 2547 (federal) + \$ 764 (state) = \$ 3311
 - no children \$ 382 (federal) + \$ 114 (state) = \$ 496

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

- The qualifying income limits for the EITCs have increased as follows:
 - two qualifying children \$ 33,692 (or \$34,692 if married)
 - one qualifying child \$ 29,666 (or \$30,666 if married)
 - no qualifying children \$ 11,230 (or \$12,230 if married)

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 who may be eligible to claim the credit. Households in which children only receive Medicaid/Child Health Plus A may also be eligible to receive the EITCs.

CHILD TAX CREDIT

The Child Tax Credit, worth up to \$1,000 for each qualifying child, is a nonrefundable credit used to reduce the amount of tax owed. However, if the child tax credit exceeds the amount of tax owed, the taxpayer may claim the difference as an Additional Child Tax credit, which is a refundable credit.

A qualifying child is any child who:

- is the taxpayer's son, daughter, adopted child (including any descendant of the taxpayer's son, daughter or adopted child), stepchild, or eligible foster child;
- was under age 17 at the end of the 2003;
- is a U.S. citizen or resident alien; and
- is claimed as the taxpayer's dependent.

The Additional Child Tax Credit allows a portion of the child tax credit to be refundable for certain taxpayers. Form 8812: Additional Child Tax Credit must be completed to receive a refund.

EDUCATION CREDITS

There are two education credits that may be claimed by each eligible student 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.

Twenty-three (23) social services districts are hosting VITA tax preparation sites this coming tax season. For those districts not hosting a tax preparation site, a statewide listing of VITA locations is available electronically. You may request a listing by contacting Mark Schaffer. Locations of VITA offices will also 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.

Issued By

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**Division/Office: Division of Transitional Supports
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