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## Informational Letter

### Section 1

<b>Transmittal:</b>	06-INF-36
<b>To:</b>	Local District Commissioners
<b>Issuing Division/Office:</b>	Employment and Transitional Supports
<b>Date:</b>	December 20, 2006
<b>Subject:</b>	Earned Income Tax Credit (EITC) and Other Tax Credits for Tax Year 2006
<b>Suggested Distribution:</b>	Temporary Assistance Directors Food Stamp Directors Employment Coordinators TOP Coordinators
<b>Contact Person(s):</b>	Mark Schaffer 518-474-9346; Mark.Schaffer@otda.state.ny.us
<b>Attachments:</b>	Attachment I – EITC All Purpose Flyer (English and Spanish) Attachment II – EITC Envelope Stuffer (English and Spanish) Attachment III – EITC Federal Benefits Chart
<b>Attachment Available On – Line:</b>	<input checked="" type="checkbox"/>

### Filing References

Previous ADMs/INFs	Releases Cancelled	Dept. Regs.	Soc. Serv. Law & Other Legal Ref.	Manual Ref.	Misc. Ref.
	06 INF-01				06 ADM-12 00 LCM-11

### Section 2

#### I. Purpose

The purpose of this letter is to inform local social services districts of the changes in the Earned Income Tax Credit (EITC) and the availability of other tax credits for this year. In addition, we are requesting that local district staff reach out to their clients and other low-income households to encourage them to file for these various tax credit benefits. Attached are EITC outreach materials that may be provided to these households and to community agencies (see Attachments I and II for English and Spanish versions of a flyer and an envelope stuffer). Attachment III contains the Tax Year 2006 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, neither the New York State EITC nor the federal EITC will count as income or resources for temporary assistance. In addition, federal and State EITCs continue to be excluded as food stamp income.

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 almost \$5,900. In addition, households who qualified in the past three years, and never claimed EITCs to which they were entitled, may file retroactively for these benefits.

Over 1.4 million New York households claimed over \$2.6 billion in federal EITC benefits for Tax Year 2005. The amount of the State EITC is not yet available, but is estimated that 1.3 million eligible taxpayers claimed over \$700 million. For Tax Year 2005, the average combined federal/State EITC credit claimed was over \$2,300. However, the IRS has estimated that approximately 26% of households eligible for the credit do not claim it and that is why outreach and promotion of the credit is so important.

While our goal is to reach as many eligible taxpayers as possible, particular target populations should include:

- Those leaving welfare for work who have had little or no previous labor force experience and may not be familiar with the EITC and other available tax benefits;
- Non-parent working relative caregivers who are raising EITC-eligible children in their home; and
- Legal immigrant households who may mistakenly believe they are ineligible for the EITC.

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. Therefore, it is important that district staff discusses the EITCs and encourage households to file for them. In particular, households that are facing financial problems such as rent or utility arrears should be encouraged to file for the credits to help increase their income.

## III. Program Implications

### EARNED INCOME TAX CREDIT

The maximum credits have increased as follows:

- two or more children     \$4,536 (federal) + \$1,360 (State) = \$5,896
- one child                 \$2,747 (federal) + \$824 (State) = \$3,571
- no children                \$412 (federal) + \$123 (State) = \$535

The qualifying income limits for the EITCs have increased as follows:

- two or more qualifying children \$36,348 (or \$38,348 if married)
- one qualifying child \$32,001 (or \$34,001 if married)
- no qualifying children \$12,120 (or \$14,120 if married)

### **EITC AND CHILD-ONLY CASES**

Child-only cases are a significant proportion of nearly every district's caseload. Statewide, over 43% of the caseload is composed of child-only cases. 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. OTDA strongly suggests that in those child-only cases where the payee has earned income that an effort is made to make these payees aware of their potential eligibility for the EITCs.

### **CHILD TAX CREDIT**

The Child Tax Credit, worth up to \$1,000 for each qualifying child under age 17, is a non-refundable credit used to reduce the amount of tax owed. However, if the child tax credit exceeds that amount, the taxpayer may claim the difference as an Additional Child Tax Credit, which is a refundable credit and may be claimed by filing Form 8812: Additional Child Tax Credit with federal taxes.

A working family can get both the Child Tax Credit and EITC.

### **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). Both of these credits differ from the EITC in that they are not refundable, but the credits can be used to reduce the amount of taxes filers owe.

**Hope Credit:** This credit applies to the first two taxable years of postsecondary education. \$1,650 is the maximum credit per student that may be claimed.

**Lifetime Learning Credit:** This credit is available for students at any point in their post-secondary education. The maximum credit is \$2,000 for one household, regardless of the number of eligible students in the family.

### **CLAIMING TAX CREDITS FOR PREVIOUS YEARS**

Workers can file for both State and federal tax credit refunds for the last three years (Tax Years 2003, 2004, 2005) if they were eligible for the credits but did not claim them.

If a federal tax return had been filed for a past year but the worker did not claim a tax credit, they may now claim the credit(s) by completing Form 1040X: Amended U.S. Individual Income Tax Return and attach it to a copy of the tax return filed for that year. If a federal return had not been filed, a worker will need to file their taxes using the appropriate forms for that year.

The New York State EITC can also be claimed for the last three years. Since the amount of the State EITC is based upon the federal credit, the worker needs to complete and submit the IT-215: Claim for Earned Income Credit for the appropriate year if tax forms were filed for that year. If New York State taxes were not filed for the given year, they must be filed at the same time.

### **ADVANCE EITC**

Low-income wage earners with qualifying children may, at their option, receive a part of their federal 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 \$1,300 per month can get about \$50 to \$60 extra in each bi-weekly paycheck and still receive a lump sum, albeit smaller, EITC payment after they file taxes. 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. There is no advance payment option for the State EITC.

### **NONCUSTODIAL PARENT NEW YORK STATE EARNED INCOME TAX CREDIT**

This is a new New York State tax credit to address the needs of low-income working fathers age 18-65 to help them to become more involved in the economic and social well-being of their children.

To be qualified, a father must:

- be a New York resident taxpayer;
- be 18 years of age;
- be a noncustodial parent and have a child(ren) that does not reside with him;
- have a child support order through a New York State Child Support Collection Unit (SCU) for at least one-half year; and
- have paid (100%) of the current amount of child support due for a given tax year.

Further details may be found in 06 ADM-12.

## **VOLUNTEER INCOME TAX ASSISTANCE (VITA) AND TAXPAYER ASSISTANCE**

Individuals may obtain specific federal tax information by calling the IRS toll-free at 1-800-829-1040. New York 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 “rapid refund”. But, individuals can receive tax information or have their tax forms filled out for free by visiting their local VITA center. Most sites will also provide e-filing services at no charge and, if used, the taxpayer can 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-four (24) social services districts are hosting VITA sites this coming tax season. For those districts not hosting a tax preparation site, a statewide listing of [VITA locations](#) is available electronically on the OTDA intranet (<http://otda.state.nyenet/dta/eitc-vita-06.pdf>). Locations of VITA offices will also be publicized in the media or can be obtained by calling the toll-free IRS telephone number, 1-800-829-1040. We strongly urge local districts to know where the VITA sites are located in their districts and provide this information when encouraging families to apply for the EITCs.

### **IV. Forms Information**

A revised EITC brochure, PUB # 4786: The Earned Income Tax Credit may be requested on form OTDA-876: “Request for Forms or Publications” and sent to:

Office of Temporary and Disability Assistance  
BMS Document Services and Operational Support  
P.O. Box 1900  
Albany, NY 12201

The brochure may also be ordered through Outlook. To order the brochure you must obtain an OTDA-876 electronically by going to the OTDA intranet ([http://otda.state.nyenet/psqi/eforms/OTDA-876-Req\\_for\\_Documents\\_or\\_Publications.dot](http://otda.state.nyenet/psqi/eforms/OTDA-876-Req_for_Documents_or_Publications.dot)).

Copies of the [brochure](#) may be obtained from the OTDA internet (<http://www.otda.state.ny.us/reform/default.htm>), including versions in Arabic, Chinese, Russian and Spanish as well as English.

#### **Issued By**

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**Title: Deputy Commissioner**

Division/Office: Division of Employment and Transitional Supports