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## Informational Letter

### Section 1

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| <b>Transmittal:</b>                    | 08-INF-01   |
| <b>To:</b>                             | Local Department of Social Services Commissioners   |
| <b>Issuing Division/Office:</b>        | Center for Employment and Economic Supports   |
| <b>Date:</b>                           | January 4, 2008   |
| <b>Subject:</b>                        | Earned Income Tax Credit (EITC) and Other Tax Credits for Tax Year 2007                               |
| <b>Suggested Distribution:</b>         | Temporary Assistance Directors<br>Food Stamp Directors<br>Employment Coordinators<br>TOP Coordinators |
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| <b>Attachments:</b>                    | None  |
| <b>Attachment Available On – Line:</b> | <input type="checkbox"/>  |

### Filing References

| Previous ADMs/INFs | Releases Cancelled | Dept. Regs. | Soc. Serv. Law & Other Legal Ref. | Manual Ref. | Misc. Ref.             |
|--------------------|--------------------|-------------|-----------------------------------|-------------|------------------------|
|                    | 06 INF-36          |             |                                   |             | 06 ADM-12<br>00 LCM-11 |

### Section 2

#### I. Purpose

The purpose of this Informational Letter (INF) 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 Tax Year 2007. In addition, local districts are requested to reach out to their clients and other low-income households to encourage them to file for these various tax credit benefits. Details on how to obtain EITC outreach materials may be found in Part III (Program Implications) of this INF.

## 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 up to \$6,130. 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 \$2.6 billion in federal EITC and \$700 million in State EITC for Tax Year 2005. The average combined claim per household was over \$2,300. However, the IRS has estimated that about 20-25% of households eligible for the credit do not claim it. That is why outreach and promotion of the credit is so important.

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

- Those receiving temporary assistance who are working;
- 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 local 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

For Tax Year 2007, the maximum credits have increased as follows:

- two or more children \$4,716 (federal) + \$1,414 (State) = \$6,130
- one child \$2,853 (federal) + \$ 855 (State) = \$3,708
- no children \$ 428 (federal) + \$ 128 (State) = \$ 556

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

- two or more qualifying children           \$37,783 (or \$39,783 if married)
- one qualifying child                       \$33,241 (or \$35,241 if married)
- no qualifying children                     \$12,590 (or \$14,590 if married)

### **NEW YORK CITY EITC**

New York City full-year residents and New York City part-year residents who claimed the federal EITC may now claim a New York City EITC. A New York State income tax Form IT-215 must be completed and attached to the state income tax return to claim it. The credit is equal to 5% of the allowable federal EITC or \$236 for a household with two or more children and \$143 for a household with one child.

### **NONCUSTODIAL PARENT NEW YORK STATE EARNED INCOME TAX CREDIT (NCP EITC)**

This is a New York State tax credit that addresses the needs of low-income noncustodial parents, age 18-65, which supplements their earnings and helps qualified taxpayers become more involved in the economic and social well-being of their children. A Form IT-209: Claim for Noncustodial Parent New York State Earned Income Credit must be filed with Form IT-215 to claim it.

To be qualified, a noncustodial parent must:

- be a New York resident taxpayer;
- be 18 years of age but younger than 66;
- be a noncustodial parent and have a child(ren) that does not reside with him/her;
- 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 any tax year in which the NCP EITC is claimed.

Further details may be found in 06 ADM-12.

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

Child-only cases are a significant proportion of nearly every local district's caseload. Statewide, over 46% of Temporary Assistance for Needy Families (TANF) family cases are child-only. 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 and assist them in filing.

### **FEDERAL CHILD TAX CREDIT and NEW YORK STATE (NYS) EMPIRE STATE CHILD CREDIT**

The federal Child Tax Credit, worth up to \$1,000 for each qualifying child under age 17, is a nonrefundable 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.

The Empire State Child Credit is a credit for children ages 4-16. Tax payers can claim a credit equal to the greater of \$100 times the number of children who qualify for the federal Child Tax Credit or 33% of the taxpayer's federal Child Tax Credit. State Form IT-213 is used to claim the credit.

A working family can claim the federal Child Tax Credit and the NYS Empire State Child Credit in addition to the EITCs.

### **CHILD AND DEPENDENT CARE CREDIT**

The federal Child and Dependent Care Credit is a tax benefit that helps families pay for child care and can also help families that must pay for the care of a spouse or an adult dependent that is incapable of caring for him or herself. The credit can be worth as much as \$1,050 for families with one child or dependent in care and up to \$2,100 for families with more than one child or dependent in care. The credit may be claimed by attaching Form 2441 to Form 1040 or, if Form 1040A is filed, attach Schedule 2.

The NYS credit is a minimum of 20% and as much as 110% of the federal credit, dependent upon the amount of the NYS adjusted gross income amount. Form IT-216 is used to claim the State credit.

The federal Child and Dependent Care Credit is not refundable; it can only be used to reduce any tax owed. However, the NYS tax is refundable in that if it exceeds the amount of tax owed, the balance is returned to the taxpayer in the form of a tax credit.

### **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 postsecondary 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 2004, 2005, 2006) 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 \$65 extra in each bi-weekly paycheck and still receive a lump sum, albeit smaller, EITC payment after they file taxes. This may be 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.

### **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.” A preferable alternative is for individuals to 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-three (23) 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://www.otda.state.ny.us/main/reform/vita.htm>. 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.

### **OUTREACH AND PROMOTIONAL MATERIALS**

Outreach and promotional materials produced by the Center on Budget and Policy Priorities can be downloaded from their website, [www.cbpp.org](http://www.cbpp.org). Under **Projects and Initiatives**, select the **2008 EITC Kit** box, anticipated to be available in January 2008. Within the kit are flyers and envelope stuffers available in both English and Spanish. Detailed information on tax credits and outreach strategies can also be downloaded from the site.

#### **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:

NYS 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 site at [http://otda.state.ny.net/psqi/eforms/OTDA-876-Req\\_for\\_Documents\\_or\\_Publications.dot](http://otda.state.ny.net/psqi/eforms/OTDA-876-Req_for_Documents_or_Publications.dot).

Copies of the brochure may be obtained from the OTDA internet site at <http://www.otda.state.ny.us/main/reform>, including versions in Arabic, Chinese, Russian and Spanish as well as English.

#### **Issued By**

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