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Informational Letter

Section 1

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Filing References

Previous ADMs/INFs	Releases Cancelled	Dept. Regs.	Soc. Serv. Law & Other Legal Ref.	Manual Ref.	Misc. Ref.
06 ADM-12 00 LCM-11 97 ADM-23	08 INF-01	352.20(g)	131-n	<u>TASB</u> - 19(C)(11)	GIS 05 TA/DC007

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 2008.

In addition, 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 Section 2, Part III (Program Implications) of this INF.

II. Background

The EITC continues to be a very important tax benefit which is available to employed low-income households. As in previous years, neither the New York State, New York City, nor the federal EITC will be deemed to be income or resources for temporary assistance purposes. In addition, New York State, New York City, and federal EITCs are excluded as income for food stamps.

The credits are an important anti-poverty tool which 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 tax benefits totaling up to \$6,271. In addition, households who qualified for the credit during the past three years, but who never claimed the EITC to which they were entitled, may file retroactively for these benefits.

Nearly 1.5 million New York households claimed \$2.8 billion in federal EITC and \$760 million in State EITC for Tax Year 2006. The average combined claim per household was over \$2,400. Notwithstanding, the IRS estimates that about 20-25% of households eligible for the credit still do not claim it. That is why district outreach and promotion of the credit is so important.

While OTDA's goal is to reach as many eligible low-income 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 discuss the EITCs and encourage households to file for them at Volunteer Income Tax Assistance (VITA) sites. 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 2008, the maximum credits have increased as follows:

- two or more children \$4,824 (federal) + \$1,447 (State) = \$6,271
- one child \$2,917 (federal) + \$ 875 (State) = \$3,792
- no children \$ 438 (federal) + \$ 131 (State) = \$ 569

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

- two or more qualifying children \$38,646 (or \$41,646 if married)
- one qualifying child \$33,995 (or \$36,995 if married)
- no qualifying children \$12,880 (or \$15,880 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 \$241 for a household with two or more children and \$146 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, nearly half of Temporary Assistance for Needy Families (TANF) 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 actually owed. To the extent that the federal child tax credit might exceed the amount of tax actually owed, the taxpayer may claim the difference in the form of an Additional Child Tax Credit, which is a refundable credit. The Additional Child Tax Credit 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. Taxpayers can claim a credit equal to the greater of \$100 multiplied by 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 both the federal Child Tax Credit as well as 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 qualifying families pay for child care and can also help families that must pay for the care of a spouse or 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 completing and attaching Form 2441 to Form 1040 or, if Form 1040A is filed, complete and attach Schedule 2.

The New York State credit is a minimum of 20% and as much as 110% of the federal credit, depending upon the amount of NYS adjusted gross income. Form IT-216 is used to claim the State credit. A New York City Child and Dependent Care Credit is also available for New York City residents and may be claimed on Form IT-216.

The federal Child and Dependent Care Credit is not refundable - it can only be used to reduce any taxes owed. However, both the New York State and New York City credits are refundable in that if they exceed 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 eligible students by completing federal Form 8863: Education Credits (Hope and Lifetime Learning Credits). Unlike the EITC, neither of these credits are refundable. Rather they can be used only to reduce the amount of taxes owed.

Hope Credit: This credit applies to the first two taxable years of postsecondary education. \$1,800 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

Taxpayers who were eligible for, but did not claim, State and federal tax credit refunds for the last three years (Tax Years 2005, 2006, 2007) can claim them now by completing Form 1040X: Amended U.S. Individual Income Tax Return and attaching 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 likewise 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 using either IT-201: Resident Income Tax Return (long form) or IT-150: Resident Income Tax Return (short form).

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 post-filing check from the IRS). This is called the “advance EITC payment.” For many low-income 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, 2009, 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, 1-800-906-9887. The districts are strongly urged to know where the VITA sites are located in their districts, and to offer this information when encouraging families to apply for the EITC and other credits.

OUTREACH AND PROMOTIONAL MATERIALS

Outreach and promotional materials produced by the Center on Budget and Policy Priorities can be downloaded from their website, <http://www.cbpp.org>. Under **Projects and Initiatives**, select the **2008 EITC Kit** box. 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.

myBenefits WEBSITE

Earlier this year, OTDA launched www.myBenefits.ny.gov. This site serves as a single internet portal for visitors to connect with benefits, services, and work supports. Through this site visitors can learn about and be screened for an array of work supports, from tax credits to food stamps, HEAP, WIC, and School Breakfast and Lunch Meals. There are also direct links to “Resources for Working Families” and a county-by-county listing of VITA sites.

Because most tax payers who are eligible for one work support are eligible for many of the other supports, we strongly encourage local staff to provide their clients with this website or access the site with their clients in order to screen them for eligibility for other work supports.

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](http://otda.state.nyenet/psqi/eforms/OTDA-876-Req_for_Documents_or_Publications.dot) electronically by going to the OTDA intranet site at 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 site at <http://www.otda.state.ny.us/main/reform>, including versions in Arabic, Chinese, Russian and Spanish as well as English.

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