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# BOLSTERING THE SUCCESS OF WORKING FAMILIES

TAX CREDITS FOR WORKING FAMILIES | NATIONAL CONFERENCE OF STATE LEGISLATURES

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NATIONAL ASSOCIATION OF LATINO ELECTED AND APPOINTED OFFICIALS

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# ABOUT NCSL

## What is NCSL?

- NCSL is a membership organization of all state legislators and legislative staff.
- **Mission:** To improve the quality and effectiveness of state legislatures; to promote policy innovation and communication among state legislatures; and to ensure state legislatures a strong, cohesive voice in the federal system

## What are our services?

- State-federal relations
- Legislative Strengthening
- State-Policy Research

# TAX CREDITS FOR WORKING FAMILIES

## Earned Income Tax Credit

- *Purpose:* A tax credit for tax filers and their families earning under specified thresholds. Amount of credit mostly determined by income level and number of qualifying children.
- Refundable
- IRS Publication 596

## Child Tax Credit

- *Purpose:* To support tax filers with children - \$2000 credit per qualifying child.
- Refundable
- IRS Publication 972

## Child and Dependent Care Tax Credit

- *Purpose:* Tax credit for working tax filers to pay for child or dependent care expenses.
- Non-refundable
- IRS Publication 503

## Requirements

- Earns income and files taxes
- If childless, be between the ages 25-65

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## 2018 EITC Income Limits

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## 2018 EITC Income Limits, Maximum Credit Amounts and Tax

[English](#) | [Español](#) | [中文\(繁\)](#)


**Individuals**

**Businesses and Self Employed**

### Earned Income and AGI Limits

The tax year 2018 [Earned income](#) and adjusted gross income (AGI) must each be less than:

If filing...	Qualifying Children Claimed			
	Zero	One	Two	Three or more
Single, Head of Household or Widowed	\$15,270	\$40,320	\$45,802	\$49,194

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- Create a state EITC
  - Refundable vs. Non-refundable
  - How is it Calculated?
  - Who Qualifies?
  - Outreach and Education (Federal and State credit)  
(Are eligible individuals claiming the credit?)
  - Data Collection

## STATE EITC STATUTES – WHAT IS IN THEM?

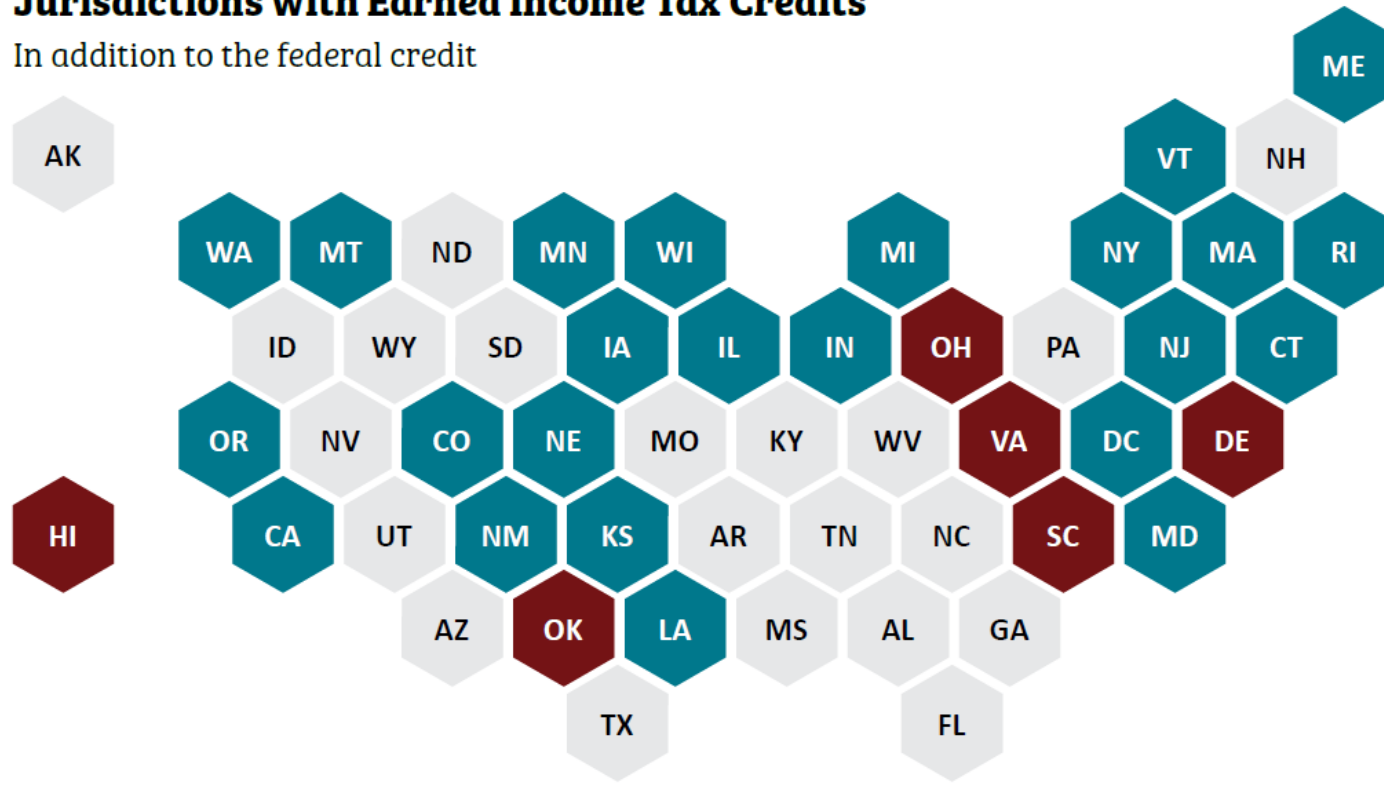
The Commissioner of Community Affairs shall notify in writing any person who received rental assistance under section 8 of the United States Housing Act or received aid under the Supplemental Security Income Program of the availability of the state and federal EITC.

B	C	D	E	F	G	H	I
jurisdiction	EITC Calculation	Refundable?	Minimum	Tax Preparation Assistance	Employer Notification	General Awareness	Notification to Specific Benefit Recipients
FEDERAL EITC	<a href="#">See IRS publication for exact requirements and calculation</a>	Yes	<ul style="list-style-type: none"> <li>Must file taxes</li> <li>Have a qualifying child or be between 18 &amp; 65 years old</li> <li>Earn less than</li> </ul>	<a href="#">VITA Grant Information</a>		<a href="#">IRS EITC Awareness Day</a> <a href="https://www.eto.irs.gov/partner-toolkit/eto-awareness-day/eto-awareness-day-2">https://www.eto.irs.gov/partner-toolkit/eto-awareness-day/eto-awareness-day-2</a>	
California	<a href="#">California uses different income levels and phase out calculations than the FEITC. 2017 Instructions</a>	Yes  Cal.Rev. & T.Code § 17052	<ul style="list-style-type: none"> <li>Have wages and adjusted gross income within certain limits.</li> <li>For tax year 2017, W-2 income and self-employment income may be used to claim CalEITC.</li> <li>For tax years 2015 and 2016, W-2 income may be used to claim CalEITC; self-employment income may not be used to claim CalEITC.</li> <li>Have a Social Security Number issued by the Social Security Administration that is valid for employment for each taxpayer, taxpayer's spouse, and any qualifying children.</li> <li>Did not use the "married-RDP filing separately" filing</li> <li>Removed the age requirement for childless taxpayers</li> </ul>		Employer must notify w/in 1 week of providing W-2 (Notice reqs. In T.Code § 19854)  <i>Tax Code § 1985?</i>  Contents of the employer notification.  <i>Tax Code § 1985?</i>	<ul style="list-style-type: none"> <li><a href="#">In order to alleviate the tax burden on working poor persons and families to enhance the wages and income of working poor persons and families, to ensure that California receives its share of the federal money available in the federal Earned Income Tax Credit program, to ensure that the poorest working Californians access the additional state EITC, and to inject additional federal money into the California economy, the state shall facilitate the furnishing of information to working poor persons and families regarding the availability of the federal and state earned income tax credit so that they may claim those credits on their federal and state income tax returns.</a></li> <li><a href="#">It is the intent of this act to offer the most cost-effective assistance to eligible taxpayers through the following:</a> <ul style="list-style-type: none"> <li><a href="#">(1) Notices provided by their employers.</a></li> <li><a href="#">(2) Notices provided by state departments and agencies that serve those who may qualify for the EITC.</a></li> <li><a href="#">(3) By taking steps to ensure that eligible Californians claim both the federal and state EITC.</a></li> </ul> </li> </ul> Tax Code § 19853  <a href="#">LAO analysis</a>	State agencies, to their program participants once per year in Jan-April. (among other more practicable)  <i>Tax Code § 1985?</i>  It is the intent of the Legislature to do each of the following: (1) Maximize the ability of CalVORk's recipients to benefit from the federal or state Earned Income Tax Credit (EITC), including retroactive EITC credits and the Advance EITC, take advantage of the earned-income disregard to increase their CalFresh benefits, and accumulate credit toward future social security income. (2) Educate and empower all CalVORk's participants who receive the federal or state EITC to save or invest part or all of their credits in instruments such as individual development accounts, 401(k) plans, 403(b) plans, IRAs, 457 plans, Coverdell ESA plans, an account established pursuant to the California Secure Choice Retirement Savings Program (Title 21 commencing with Section 100000), of the Government Code), restricted accounts pursuant to subdivision (a) of Section 11955.2, or 529 plans, and to take advantage of the federal Assets for Independence program and other matching funds, tools, and training available from public or private sources, in order to build their assets. (b) It is the intent of the Legislature that counties encourage CalVORk's recipients to participate in activities that will maximize their receipt of the EITC. To this end, counties may do all of the following: (1) Structure welfare-to-work activities pursuant to subdivisions (a) to (j), inclusive, of Section 11322.6 to give recipients the option of maximizing the portion of their CalVORk's benefits that meets the definition of "earned income" in Section 32(c)(2) of the Internal Revenue Code. (2) Inform CalVORk's recipients of each of the following: (A) That earned income, either previous or future, may make them eligible for the federal or state EITC, including retroactive EITC credits and the Advance EITC to increase their CalFresh benefits, and accumulate credit toward future social security income. (B) That recipients, as part of their welfare-to-work plans, have the option of engaging in subsidized employment and grant-based on-the-job training, as specified in Section 11322.6, and that participating in these activities will increase their earned income to the extent that they meet the requirements of federal law. (C) That receipt of the federal or state EITC does not affect their CalVORk's grant and is additional tax-free income for them. (D) That a CalVORk's recipient who receives the federal or state EITC may invest these funds in an individual development account, 401(k) plan, 403(b) plan, IRA, 457 plan, 529 college savings plan, Coverdell ESA, an account established pursuant to the California Secure Choice Retirement Savings Program, or restricted account, and that investments in these accounts will not make the recipient ineligible for CalVORk's benefits or reduce the recipient's CalVORk's benefits. (3) At each regular eligibility redetermination, the county shall ask a recipient whether the recipient is eligible for and takes advantage of the EITC. If the recipient is eligible and does not participate, the county shall give the recipient the federal or state EITC form and encourage and assist the recipient to take advantage of
Colorado	10% of FEITC <i>C.R.S.A. § 39-22-123.5</i>	Yes  <i>C.R.S.A. § 39-22-123.5</i>	Claim the FEITC  <i>C.R.S.A. § 39-22-123.5</i>				A county department shall assist participants in applying for and receiving the earned income tax credit under applicable rules of the federal internal revenue service.  <i>C.R.S.A. § 26-2-716</i>
Connecticut	23% of the FEITC <i>Conn. Stat. § 12-704e</i>	Yes  <i>Conn. Stat. § 12-704e</i>	Eligible for FEITC CT resident  <i>Conn. Stat. § 12-704e</i>				The Labor Department shall provide information concerning the federal earned income credit program established pursuant to 26 USC 32, to each applicant for a recipient of unemployment compensation benefits.  <i>Conn. Stat. § 31-274i</i>
Delaware	20% of the FEITC <i>Del. Code Ann. tit. 30, § 1117</i>	No  <i>Del. Code Ann. tit. 30, § 1117</i>	DE resident  <i>Del. Code Ann. tit. 30, § 1117</i>		Every employer required to deduct and withhold tax under this chapter from the wages or other remuneration of an employee shall furnish to each such employee, all information required by the Internal Revenue Service regarding the employee's eligibility for the federal earned income tax credit.  <i>30 Del.C. § 1152</i>		During the month of January, the Department shall send a notice to recipients paid by the Department under this subsection in the form of: (1) Any notice available from the Internal Revenue Service concerning the EIC, including but not limited to the notice of a possible federal tax refund due to the earned income credit; or (2) A notice developed by the Department which shall include the maximum earned income credit and the maximum earnings to which such tax credit shall apply, as determined by the federal government.  <i>31 Del.C. § 503</i>

# STATES WITH EITCS

## Jurisdictions with Earned Income Tax Credits

In addition to the federal credit



### Did You Know?

- The average amount of federal earned income tax credit (EITC) received nationwide in 2016 was \$2,455.
- Twenty percent of people eligible for the federal EITC did not claim it in 2016. To increase awareness, the Internal Revenue Service sponsors awareness day and provides outreach materials.
- 8.1 million families lived in poverty in 2016 according to the

TO

# EITC

## ■ How is it Calculated?

- Most states calculated their EITC as a percentage of the federal credit.
- New Jersey 40% of the federal credit, Montana 3% of the federal credit.
- California & Minnesota calculate it direct from incomes.

## ■ Who Qualifies?

- California, Maine, Minnesota & Maryland expanded to childless workers.
- Minnesota expanded the credit to higher income thresholds.
- Wisconsin doesn't apply to childless workers.



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- Workers at risk for overlooking this important credit include those:
    - Living in non-traditional homes, such as a grandparent/grandchild
    - Whose earnings declined or marital or parental status changed
    - Without children
    - With limited English skills
    - Veterans
    - Living in rural areas
    - Who are Native Americans
    - With earnings below the filing requirement
    - Who have disabilities or are raising children with disabilities

**EITC OUTREACH EFFORTS**



## ■ Outreach Categories

- General Outreach
- Employer-led Outreach
- Other benefit recipient Outreach
- Tax preparation Assistance (VITA program grantees)

**EITC OUTREACH EFFORTS**

# EITC DATA COLLECTION

## California - Franchise Tax Board

- # of tax returns claiming the credit.
- # of individuals represented on tax returns claiming the credit.
- Average credit amount.
- Distribution of credits by number of dependents and income ranges.
- Estimate of people lifted out of “deep poverty”

## Hawaii - Department of Taxation

- # of credits granted for the prior calendar year.
- Total amount of the credits granted.
- Average value of the credits granted to taxpayers whose earned income falls within various income ranges.

## New Jersey - Department of the Treasury

- The Department of the Treasury shall make available to the Department of Human Services necessary statistical information obtained with respect to the New Jersey Earned Income Tax Credit program.



## The Child Tax Credit

### Calculating the Credit

When calculating the total amount of federal income tax owed, eligible taxpayers can reduce their federal income tax liability by the amount of the child tax credit. Currently, eligible families that claim the child tax credit can subtract up to \$2,000 per qualifying child from their federal income tax liability. The maximum amount of credit a family can receive is equal to the number of qualifying children in the family multiplied by \$2,000.


If a family's tax liability is less than the value of their child tax credit, they may be eligible for a refundable credit calculated using the earned income formula. The refundable portion of the credit is referred to as the additional child tax credit, or ACTC. Under this formula, a family is eligible for a refund equal to 15% of their earnings in excess of \$10,000 up to the maximum amount of the refundable portion of the credit. The maximum amount of the refundable portion of the credit is \$1,400 per qualifying child.

The \$2,000-per-child value of the credit falls by a certain amount as a family's income rises. Specifically, for every \$1,000 of modified adjusted gross income (MAGI) above the threshold amount, the credit falls by \$50—or effectively 5% of MAGI above the threshold. The threshold amount depends on a taxpayer's filing status, and equals \$200,000 for single parents and married taxpayers filing separate returns, and \$400,000 for married taxpayers filing joint returns. The actual income level at which the credit is entirely phased out (i.e., equals zero) depends on the number of qualifying children a taxpayer has. Generally, it takes \$40,000 of MAGI above the phaseout threshold to completely phase out \$2,000 of credit. For example, the credit will completely phase out for a married couple with two children if their MAGI exceeds \$480,000.

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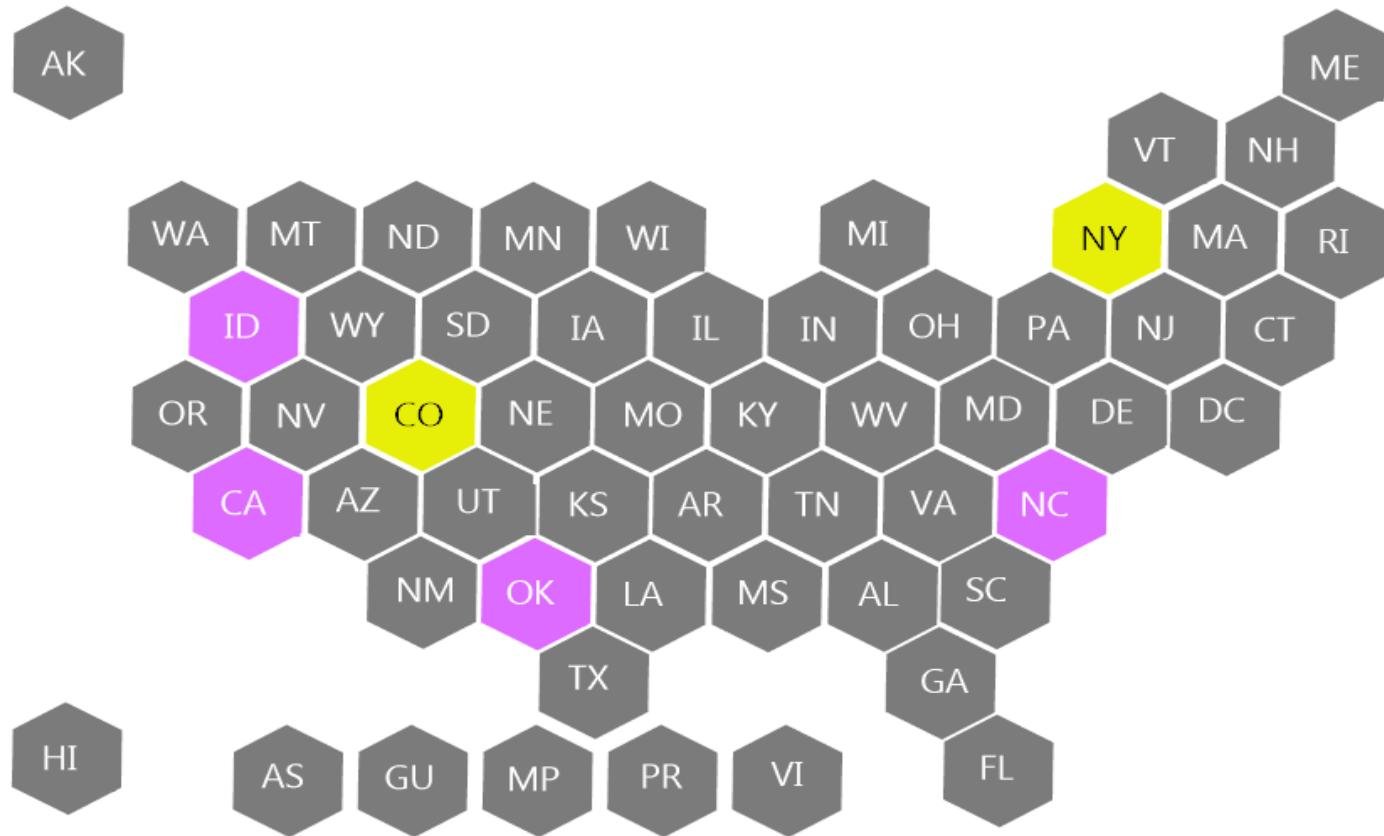
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The child tax credit can offset a taxpayer's Alternative Minimum Tax (AMT) liability. Currently, the maximum credit per child, refundability threshold, and phaseout thresholds are not indexed for inflation. From 2018 to 2025, the maximum amount of the ACTC is indexed for inflation. **Table 1** provides an overview of key provisions of the child tax credit under current law and how they will change, as scheduled under P.L. 115-97.

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- Create a state EITC
  - Refundable vs. Non-refundable
  - How is it Calculated?
  - Who Qualifies?

**STATE CTC: WHAT IS IN STATUTE?**

# STATES WITH CHILD TAX CREDITS



At least 6 states have  
Child Tax Credits

- States with Refundable Child Tax Credit
- States with Non-Refundable Child Tax Credit

# CTC

- How is it Calculated?
  - A mix of fixed dollar amounts and percentages of the federal credit.
- Who Qualifies?
  - Oklahoma - Income less than \$100,000.
  - Colorado - Child must be younger than 6.
  - New York - Child must be older than 4.

- Earns income and files taxes
- Expenses must be paid to work or seek work
- Nonrefundable

	<b>File</b>	<b>Pay</b>	<b>Refunds</b>	<b>Credits &amp; Deductions</b>	
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[Home](#) > [Help](#) > [Tax Topics](#) > [Topic No. 602 Child and Dependent Care Credit](#)

**Example 2.** In July of this year, to permit your spouse to begin a new job, you enrolled your 3-year-old daughter in a nursery school that provides preschool childcare. You paid \$300 per month for the childcare. You can use the full \$1,800 you paid ( $\$300 \times 6$  months) as qualified expenses because it isn't more than the \$3,000 yearly limit.

from employer's cafeteria plan and excluded from Randall's income . . .

3) Reduced dollar limit on work-related expenses. Randall can use for the credit . . .

## Amount of Credit

To determine the amount of your work-related expenses (after applying the 30% and dollar limits) by a percent

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depends on your adjusted gross income shown on Form 1040, line 7; or Form 1040NR, line 36. The following table shows the percentage to use based on adjusted gross income.

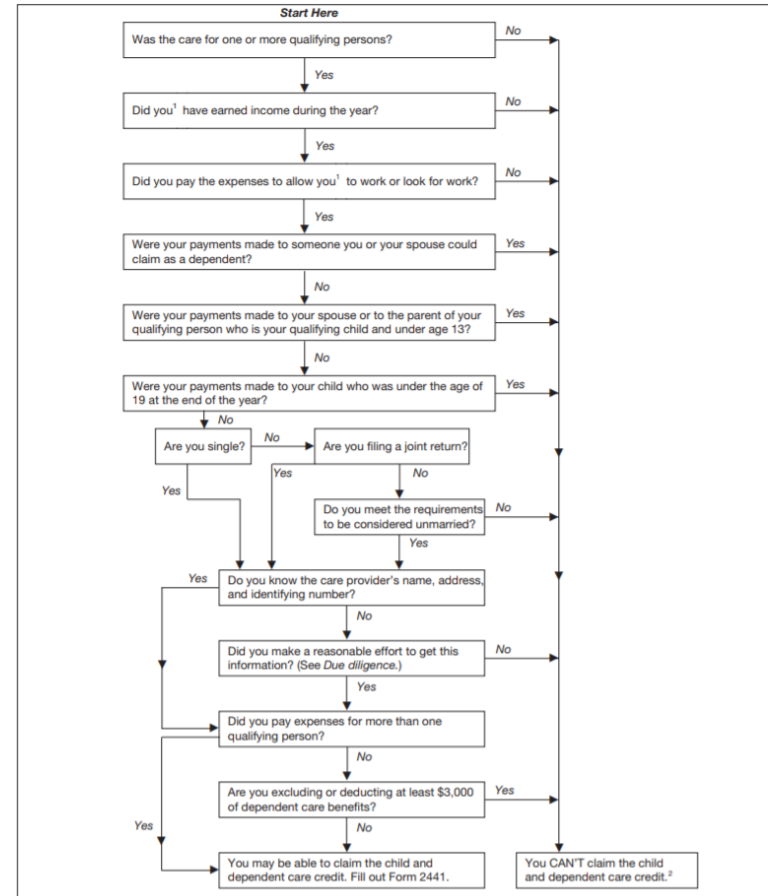
<u>IF your adjusted gross income is:</u>	<u>THEN the</u>
<u>Over:</u>	<u>percentage is:</u>
<u>But not over:</u>	

Even though line 2 indicates you didn't have any dependent care expenses, you can change the fact that they had two dependent children for the purposes of Form 2441.


**Payments for prior year's expenses.** If you had work-related expenses in 2017 that were not claimed, you may be able to increase the credit



Figure A. Can You Claim the Credit?

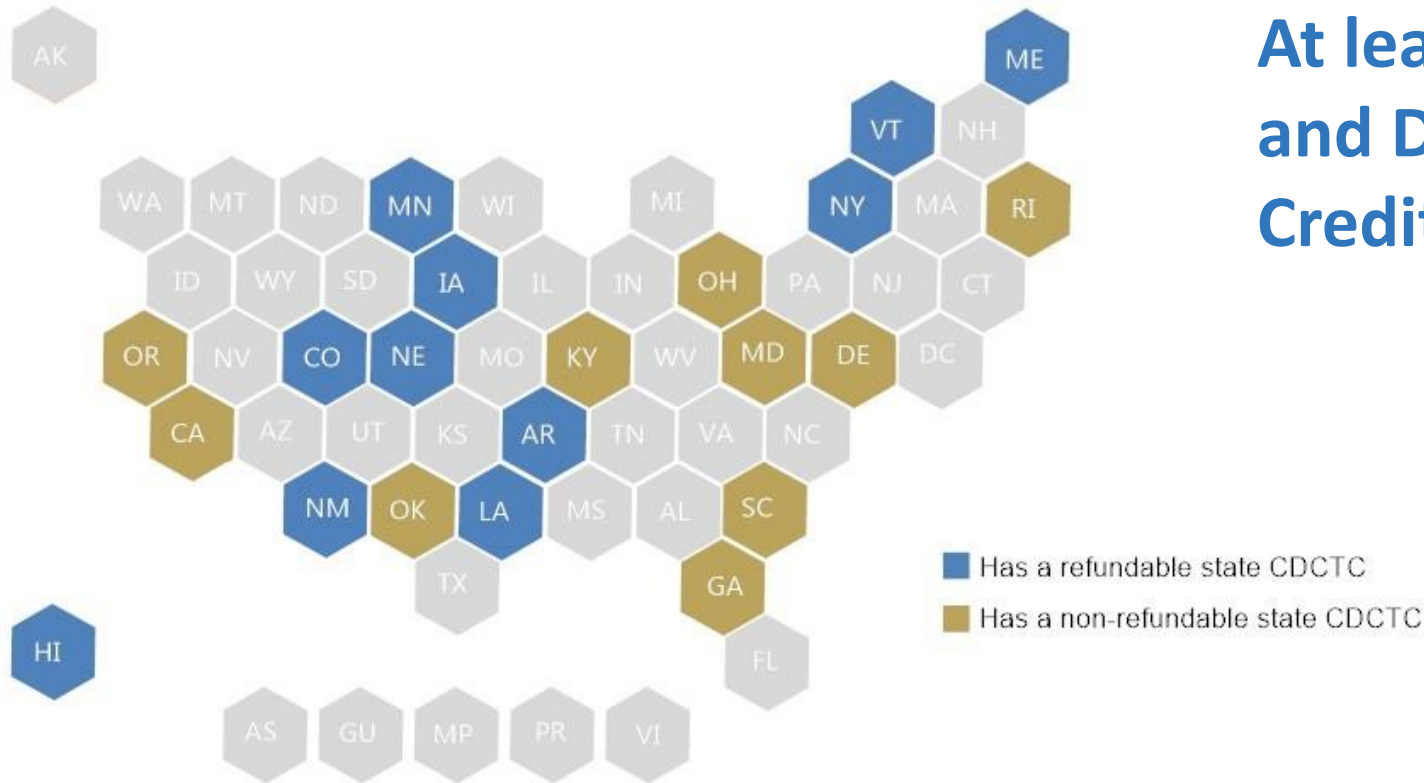


# FEDERAL CDCTC

- 
- Create a state CDCTC
  - Refundable vs. Non-refundable
  - How is it Calculated?
  - Who Qualifies?

**STATE CDCTC: WHAT IS IN STATUTE?**

# CHILD AND DEPENDENT CARE TAX CREDIT



At least 21 states have Child and Dependent Care Tax Credits

# CDCTC

- How is it Calculated?
  - Most states calculate their CDCTC as a percentage of the federal credit.
  - Hawaii, California, Iowa, Nebraska, New York, Oregon, Vermont have graduated scales based on income.
- Who Qualifies?
  - Arkansas, Maine & Vermont have additional standards regarding the facility.

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# CONTACT INFORMATION

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