

Earned Income Credit Eligibility Chart

The taxpayer must meet all the rules in this column.		The taxpayer must meet all the rules in <i>one</i> of these two columns, whichever applies.	
Rules for Everyone		Rules With a Qualifying Child	Rules Without a Qualifying Child
<p>1) The greater of AGI or earned income must be less than:</p> <ul style="list-style-type: none"> \$14,880 (\$20,430 for MFJ) with no qualifying children, \$39,296 (\$44,846 for MFJ) with one qualifying child, \$44,648 (\$50,198 for MFJ) with two qualifying children, or \$47,955 (\$53,505 for MFJ) with three or more qualifying children. <p>2) The taxpayer (and spouse if MFJ) must have a valid Social Security number. Qualifying children listed on Schedule EIC must also have valid Social Security numbers except a child who was born and died in 2016. Adoption and individual taxpayer identification numbers (ATINs and ITINs) do not qualify. A Social Security number on a card that reads "Not Valid for Employment" does not qualify. A Social Security number on a card that reads "Valid for work only with DHS (or INS) authorization" qualifies.</p>	<p>3) Filing status cannot be "Married Filing Separately."</p> <p>4) The taxpayer must be a U.S. citizen or resident alien all year. A nonresident alien can claim the credit if married to a U.S. citizen or resident alien and the nonresident alien chooses to be treated as a resident for all of 2016 by filing a joint return.</p> <p>5) The taxpayer cannot file Form 2555 or Form 2555-EZ (relating to foreign income).</p> <p>6) Investment income must be \$3,400 or less. See <i>Investment Income Limit</i>, page 11-10.</p> <p>7) The taxpayer must have earned income. See <i>Earned Income</i>, page 11-10.</p>	<p>8) The child must meet the relationship, age, residency, and joint return tests. See <i>Qualifying Child</i>, below.</p> <p>9) The qualifying child cannot be used by more than one person to claim the EIC. See <i>Qualifying Child of More Than One Person</i>, Tab 3.</p> <p>10) The taxpayer cannot be a qualifying child of another person.</p>	<p>11) The taxpayer must be at least age 25 but under age 65. For MFJ, only one spouse needs to meet the age test.</p> <p>12) The taxpayer cannot be the dependent of another person.</p> <p>13) The taxpayer cannot be a qualifying child of another person.</p> <p>14) The taxpayer must have lived in the United States more than half the year. United States does not include Puerto Rico or U.S. possessions, such as Guam. United States military personnel stationed outside the United States on extended active duty are considered to live in the United States for purposes of EIC.</p>

Basics of the Earned Income Credit (EIC)

The EIC is a refundable credit for low-income earners. Taxpayers with investment income of more than \$3,400 do not qualify. The EIC is not allowed for tax years of less than 12 months unless the short year is due to the death of a taxpayer.

Use the *Earned Income Credit Worksheet*, page 16-5, and the *Earned Income Credit Table*, page 2-15, to compute the credit.

Earned Income Credit Chart

	Income Range	Income Range for Maximum Credit	Credit Amount
Married Filing Jointly			
No children	\$0 – \$20,430	\$ 6,610 – \$13,820	\$0 – \$ 506
One child	\$0 – \$44,846	\$ 9,920 – \$23,740	\$0 – \$3,373
Two children	\$0 – \$50,198	\$13,930 – \$23,740	\$0 – \$5,572
Three children	\$0 – \$53,505	\$13,930 – \$23,740	\$0 – \$6,269
Single, Head of Household, Qualifying Widow(er)			
No children	\$0 – \$14,880	\$ 6,610 – \$ 8,270	\$0 – \$ 506
One child	\$0 – \$39,296	\$ 9,920 – \$18,190	\$0 – \$3,373
Two children	\$0 – \$44,648	\$13,930 – \$18,190	\$0 – \$5,572
Three children	\$0 – \$47,955	\$13,930 – \$18,190	\$0 – \$6,269

Taxpayers with more than \$3,400 of investment income are ineligible for the Earned Income Credit.

New for 2016: Refunds for taxpayers claiming the Earned Income Tax Credit will not be issued before February 15, 2017. This applies to the entire refund, not just the portion associated with the credit. There is no provision for hardship claims before February 15, 2017.

Tax ID required. To claim the Earned Income Credit, the taxpayer must have a Social Security number (SSN) or individual taxpayer identification number (ITIN) for the taxpayer by the tax filing due date of the return. Any child used to claim the credit must also have an SSN, ITIN, or adoption taxpayer identification number (ATIN). The credit cannot be claimed if the taxpayer or child obtains an ID number after the tax filing deadline, even if an extension is filed.

Qualifying Child

For purposes of the Earned Income Credit, a child must meet all of the following four tests.

- Relationship.** The child must be the taxpayer's son, daughter, stepchild, foster child, or a descendant of any of them (for example, a grandchild), or brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them (for example, niece or nephew).
- Age.** The child must be under age 19 at the end of 2016, and younger than the taxpayer (or spouse if filing jointly); under age 24 at the end of 2016, a student, and younger than the taxpayer (or spouse if filing jointly); or permanently and totally disabled at any time during 2016, regardless of age.
- Residency.** The child must have lived with the taxpayer in the United States for more than half of 2016. Residence in Puerto Rico or a U.S. possession, such as Guam, will not qualify. However, U.S. military personnel stationed outside the United States on extended active duty are considered to live in the United States during that duty period for purposes of the EIC. **Exception:** See *Exceptions of Time Lived with Taxpayer*, Tab 3.
- Joint return.** The child cannot file a joint return for the year. **Exception:** The joint return test does not apply if the child and his or her spouse file a joint return only to claim a refund.



The support test for dependents does not apply for purposes of the EIC. A child who meets all requirements can be a qualifying child even if the child provides over half of his or her own support.

If the parents of a child can claim the child as a qualifying child but no parent claims the child, no one else can claim the child unless that person's AGI is higher than the highest AGI of any of the child's parents who can claim the child.

Qualifying child of more than one person. Special rules apply if the child is the qualifying child of more than one person. See *Single Parent Situations for 2015*, Tab 3, and *Qualifying Child of More Than One Person*, Tab 3.

Taxpayers without a qualifying child. Taxpayers who do not have a qualifying child may qualify for the Earned Income Credit

if they meet the eligibility requirements. See *Earned Income Credit Eligibility Chart*, page 11-9.

Schedule EIC, Earned Income Credit. Schedule EIC must be completed and attached to Form 1040 if the taxpayer is claiming a qualifying child.

Investment Income Limit

EIC cannot be claimed if the taxpayer has investment income of more than \$3,400. Investment income is the total of:

- Interest income (taxable and nontaxable) from lines 8a and 8b, Form 1040.
- Dividends from line 9a, Form 1040.
- Capital gain from line 13, Form 1040. Subtract any gain from line 7 or 9, Form 4797, *Sales of Business Property*.
- Royalties from line 23b, Schedule E, and income from rental of personal property from line 21, Form 1040. Subtract related expenses from line 20, Schedule E, and line 36, Form 1040.
- Net income less any losses, but not below zero, from passive activities (such as activities included on Schedule E).
- Parents reporting a child's income:
 - Include child's interest and dividend income from Form 8814 reported on line 21, Form 1040.
 - Include child's nontaxable interest from line 1b, Form 8814.
 - Do not add the child's qualified dividends and CGDs from Form 8814—the child's qualified dividends and CGDs are included in the taxpayer's line 9a and line 13 totals of Form 1040.
 - Use Worksheet 2 in IRS Pub. 596 to calculate investment income if the child received an Alaska Permanent Fund dividend.

Capital losses on line 13, Form 1040 and losses from other activities included above do not reduce investment income.



Earned Income

Earned income generally means taxable employee pay and net earnings from self-employment. Use the *Earned Income Credit Worksheet*, page 16-5, to calculate earned income.

Wages. Earned income includes the amount from line 7, Form 1040, reduced by:

- Scholarship or fellowship grants not reported on Form W-2.
- Amounts received for work performed while an inmate in a penal institution (PRI).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental IRC section 457 plan (DFC).

Combat pay. Taxpayers can elect to include the nontaxable combat pay in earned income when figuring the EIC. The amount of nontaxable combat pay should be shown as Code Q, box 12, Form W-2.

If the election is made, all the taxpayer's nontaxable combat pay is included in earned income. If both spouses have combat pay, each spouse can make his or her own election.

Disability pay. If the taxpayer retired on disability, benefits under an employer's plan are earned income for EIC until the taxpayer reaches minimum retirement age. Benefits should be reported to the taxpayer on Form W-2 and reported on line 7, Form 1040. Beginning on the day the taxpayer reaches minimum retirement age, payments are taxed as pension and no longer qualify as earned income for EIC. Benefits should be reported to the taxpayer on Form 1099-R. Payments under a disability insurance policy paid for by the taxpayer are not taxable income and are not earned income for EIC.

Example: John is 55 and is receiving disability payments from his employer. He is eligible to receive his pension at age 60. His disability income is taxable and considered earned income for EIC purposes. When he is 60, his income will be considered pension income and still taxable, but no longer considered earned income for EIC purposes.

Example: Henry is 50 and is receiving disability payments from an insurance policy he purchased through his payroll deductions while he was working. These payments are from insurance and not an employer's disability plan; therefore, they are not taxable and are not considered earned income for EIC purposes.

Self-employment. Earned income includes net profit from self-employment reduced by the deduction for one-half of SE tax.

Author's Comment: All allowable expenses must be deducted in computing SE income. Net earnings from self-employment are defined in IRC section 1402(a) as the gross income for the business "less the deductions allowed by this subtitle which are attributable to such trade or business." The IRS looks closely at taxpayers who claim the EIC based on net earnings from self-employment with little or no reported expenses and will make appropriate adjustments or disregard the self-employment income altogether for purposes of computing EIC. The IRS cautions taxpayers to consider the 10-year disallowance of EIC in cases of fraud. (Ltr. Rul. 200022051)

Church employees. If an amount is included both on line 7, Form 1040, and on Schedule SE, subtract that amount from line 7 income when using the *Earned Income Credit Worksheet*, page 16-5.

Clergy. If the amount on Schedule SE includes an amount that was also reported on line 7, Form 1040, subtract that amount from the amount on line 7, Form 1040, when using the *Earned Income Credit Worksheet*, page 16-5. Write "clergy" on the line next to line 66a, Form 1040.

Income that is not earned income. Do not include any of the following items in earned income when computing EIC.

- Interest and dividends.
- Pensions and annuities.
- Social Security and railroad retirement benefits.
- Alimony and child support.
- Welfare benefits.
- Workers' compensation benefits.
- Unemployment compensation.
- Nontaxable foster care payments.
- Veterans' benefits including VA rehabilitation payments.
- Nontaxable workfare payments.
- Nontaxable military payment. *Exception:* See *Combat pay*, previous column.



Community property. If a taxpayer is married, but qualifies to file as Head of Household (see *Married individuals considered unmarried*, Tab 3), and lives in a state with community property laws, earned income for EIC does not include any amount earned the spouse that is treated as belonging to the taxpayer under those laws. The taxpayer's earned income does include the entire amount he or she earned, even if part of it is treated as belonging to the spouse under community property laws.

EIC Due Diligence

New for 2016: Due diligence requirements have been expanded and revised. Paid preparers must meet due diligence requirements on returns claiming any the following tax credits:

- Child Tax Credit and/or Additional Child Tax Credit.
- Earned Income Credit.
- American Opportunity Credit.

See *Due Diligence Requirements*, page 11-3.