

DEPARTMENT OF SOCIAL SERVICES

744 P Street, Sacramento, CA 95814



March 20, 1991

ALL-COUNTY INFORMATION NOTICE NO. I-30-91

TO: ALL COUNTY WELFARE DIRECTORS  
ALL COUNTY GAIN COORDINATORS

SUBJECT: NEW EARNED INCOME TAX CREDIT PROVISIONS

There have been significant changes to the rules concerning the Earned Income Tax Credit (EITC) beginning with tax year 1990. The effect of the new rules is to significantly increase the amount of low income tax benefits potentially available to individuals who have low earnings. This could include participants of the Greater Avenues for Independence (GAIN) Program who become employed. An explanation of the new federal law published by the Center on Budget Priorities shows that tax benefits will be a maximum of 17.3 percent of the first \$7,140 in earnings in 1991 gradually increasing to 25 percent of the first \$8,100 in earnings for families with two or more children in tax year 1994 reaching a maximum yearly benefit of \$2,025 from that year forward. Benefits gradually phase-out as earnings increase.

We are providing this information in order to keep you informed about resources which are available to GAIN participants when they find jobs. We hope that this will provide some additional incentive for GAIN participants to obtain employment and begin the process of becoming economically self-sufficient. Attached is an excerpt from the publication "One Step Forward" issued by the Center on Budget and Policy Priorities which describes in greater detail the new EITC benefits and schedule for phase-in.

If you have any questions, you may contact the GAIN and Employment Services Operations Bureau at (916) 324-6962.

A handwritten signature in black ink, appearing to read "D. J. Boyle".

DENNIS J. BOYLE  
Deputy Director

Attachment

cc: CWDA

## The Earned Income Tax Credit

Most of the increase in low income tax benefits – \$13.1 billion over five years – comes through expansion of the earned income tax credit. EITC benefits eventually will be raised about 70 percent.

The EITC is a tax credit available to working families with children that have incomes below about \$20,000. For tax year 1990, the income cut-off is \$20,264; for tax year 1991, it will be about \$21,100. The credit is "refundable." This means that if a family earns too little to owe federal income tax – or if the amount of the credit exceeds the income tax the family owes – the IRS sends the family a check.

For tax year 1990, EITC benefits equal 14 percent of the first \$6,810 in family earnings, resulting in a maximum EITC benefit of \$953. EITC benefits remain at the maximum \$953 level as family income rises from \$6,810 to \$10,730. As incomes rise above \$10,730, benefits phase out slowly. The benefits fall to zero when income reaches \$20,264.

The new legislation enlarges the EITC in three ways: 1) it increases EITC benefits for all eligible families; 2) it adds a further benefit for families with two or more children, and 3) it adds a supplemental benefit for families with a child under one year of age.

Under the new law, the EITC benefit for tax year 1991 will equal 16.7 percent of the first \$7,140 for earnings for a family with one child, and 17.3 percent of the first \$7,140 in earnings for families with two or more children. As a result, the maximum basic EITC benefit will rise from \$953 for tax year 1990 to \$1,192 for tax year 1991 for families with one child, and to \$1,235 for families with two or more children. The family will also receive a new, supplemental EITC benefit – equal to an additional five percent of the first \$7,140 in earnings – if the family has a child under one year old. A family with a child under age one thus receives a supplemental EITC benefit of up to \$357.

These EITC increases grow larger each year until they phase in fully for tax year 1994. At that point, the basic EITC benefit will equal 23 percent of about the first \$8,100 in earnings for a family with one child, and 25 percent of the first \$8,100 in earnings for families with two or more children. For tax year 1994, the maximum credit thus should equal about \$1,860 for a family with one child and

\$2,025 for a family with two or more children. In addition, the supplemental benefit for families with a child under age one should reach a maximum of about \$405 – or five percent of the first \$8,100 in earnings for tax year 1994.

The new law makes the EITC more attractive in another way as well. It stipulates that EITC benefits cannot be counted as income in determining eligibility or benefit levels for AFDC, SSI, Medicaid, food stamps, or subsidized housing programs, including rural housing programs. While the EITC was already disregarded as income in a number of these programs, EITC benefits could, make a family ineligible for AFDC – or cause a family's rent to rise if it lived in subsidized housing – for the month in which the EITC payment was received. Now, that will no longer happen.

Table IV  
The New EITC Benefit Structure

<u>Tax Year</u>	<u>Family With One Child</u>		<u>Family With Two or More Children</u>		<u>Supplemental Credit For Families with a Child under One</u>	
	<u>Credit Percentage</u>	<u>Maximum Benefit</u>	<u>Credit Percentage</u>	<u>Maximum Benefit</u>	<u>Credit Percentage</u>	<u>Maximum Benefit</u>
1990	14% of first \$6,810	\$953	14% of first \$6,810	\$953	—	—
1991	16.7% of first \$7,140	1,192	17.3% of first \$7,140	1,235	5% of first \$7,140	\$357
1992	17.6% of first \$7,440	1,309	18.4% of first \$7,440	1,369	5% of first \$7,440	372
1993	18.5% of first \$7,760	1,436	19.5% of first \$7,760	1,513	5% of first \$7,760	388
1994	23% of first \$8,090	1,861	25% of first \$8,090	2,023	5% of first \$8,090	405

Note: Dollar amounts for 1991 and beyond are based on current CBO estimates of inflation (using the Consumer Price Index). Precise dollar amounts may vary when inflation estimates are revised.

Furthermore, the legislation repeals the rules under which poor working families on AFDC used to be disqualified for the EITC if their AFDC benefits exceeded their earnings. Such families will now be able to qualify for the EITC on the same basis as other low income working families.

One other EITC change is likely to cause some problems, however. Starting with tax returns for 1991 -- that is, tax returns filed in early 1992 -- families will have to file a separate schedule to receive the EITC, in addition to their 1040 or 1040A form. Just as taxpayers claiming itemized deductions file a separate schedule along with their 1040 form, taxpayers claiming the EITC will need to attach a new EITC form.

This change was necessitated by a number of the other EITC revisions in the legislation which make it impossible to include, on the basic 1040 form, all of the information needed to determine EITC benefits. Requiring a separate form is likely to make EITC public information efforts particularly important in the future.