Money and You: Taking some extra credit

by Carrie_Schwab_Pomerantz

With all the media attention given to the tax rebate checks scheduled to go out in May, it's easy to gloss over some of the other tax credits that are designed to provide extra income to working people through tax refunds. But with April 15 clearly in sight, now's the time to focus on ways that you - and the people close to you - can keep more of your hard-earned dollars in your pockets.

That's why I'd like to talk about the Earned Income Tax Credit. While it may or may not apply to you personally, the more individuals who know about it, the more money saved. And if you read this column regularly, you know that I'm a big proponent of saving as much money as you can.

A SIMPLE DEFINITION

The Earned Income Tax Credit (EITC) is a refundable credit for people who work but don't earn high incomes. While the definition of "high incomes" varies across the country, generally speaking, people who make less than $40,000 a year may be eligible for the EITC.

But before we get into the specifics, let's clarify the definition a bit. The EITC is a tax credit or a dollar-for-dollar reduction of taxes owed. Some credits are refundable, meaning taxes could be reduced to the point that an individual would receive a refund rather than owing any taxes. The EITC is considered a refundable credit.

If, like many people, your eyes glaze over when it comes to taxes, you might be wondering if it's really worth the bother.

Well consider this: In 2006, more than 22.4 million taxpayers received more than $43.7 billion in Earned Income Tax Credits. That's real money worth real consideration. And the IRS estimates that 20 percent more taxpayers may be eligible for the EITC but unaware of it.

NOT SO SIMPLE QUALIFYING REQUIREMENTS

Taxes are never simple. And the requirements to qualify for the EITC can seem dauntingly complicated. This may account for the number of eligible taxpayers who don't file for it. While the best resource for understanding the requirements is probably the IRS Earned Income Tax Credit Assistant available at www.irs.gov, I'll break down the basics here.

The EITC isn't just for families. Even single taxpayers without children may qualify. To determine if you're eligible, you have to first look at four factors:

1) Your earned income, which includes wages, tips and self-employment income; however, not income from other sources such as investments, social security or unemployment benefits.

2) Your adjusted gross income (AGI), which is your gross income minus certain deductions, such as an IRA deduction or alimony paid by you.

3) Your investment income in the form of interest, dividends or capital gains.

4) If you have qualifying children. We'll get into the definition of what determines a "qualifying child" later.

Let's start with the income figures. To qualify for the EITC for the 2007 tax year, your investment income must be no greater than $2,900 and your earned income and AGI must be under:

- $37,783 for single filers ($39,783 married filing jointly) with two or more qualifying children.

- $33,241 for single filers ($35,241 married filing jointly) with one qualifying child.

- $12,590 for single filers ($14,590 married filing jointly) with no qualifying children.

Seems simple enough on the surface. But here are some fine points you should be aware of to help determine eligibility.

QUALIFYING CHILDREN

In most cases, to qualify a child must have a valid Social Security number and be:

- Younger than 19 (24 if your child is a full-time student; no age limit for a permanently disabled child).

- Your child by birth or adoption, or your stepchild or grandchild. Siblings and children of siblings may also be considered, as well as foster children with certain conditions.

- A member of your household in the U.S. for more than half the year.

NO CHILDREN

If you don't have children, there are three additional requirements:

- You must be at least 25 years old, but younger than 65 at the end of the tax year for which you're making the claim.

- You can't be the dependent of another taxpayer.

- You must live in the U.S. for more than half of the tax year.

MARRIED COUPLES

If you're married, you must file a joint return to be eligible for the credit. If you're married but your spouse didn't live in your home for the past six months, you may be able to file as head of household and still claim the credit.

WORTH THE EFFORT

If you think you or someone you know might qualify for the EITC, it's definitely worth pursuing. Depending on the amount of earned and adjusted gross incomes, qualifying taxpayers filing returns in 2007 can claim a credit for as much as:

- $4,716 with two or more qualifying children

- $2,853 with one qualifying child

- $428 with no qualifying children

On top of these amounts, many states also offer residents an earned income tax credit, increasing the benefit.

While this may seem like an a lot to consider, you don't have to do it alone. There are more than 12,000 free tax preparation sites across the country that specialize in services for people with low-to-moderate incomes. Plus, taxpayers who qualify for the EITC can receive help through the IRS Free File program available online or at IRS Taxpayer Assistance Centers nationwide.

The Earned Income Tax Credit is only one of several credits available to help you lessen your tax bite. Spending a little extra time to find out which credits you qualify for could mean a bigger tax refund this year - one you can put toward your savings for the years to come.

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