



Department of Human Resources  
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## FIA INFORMATION MEMO

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**TO: DIRECTORS, LOCAL DEPARTMENTS OF SOCIAL SERVICES  
DEPUTY/ASSISTANT DIRECTORS FOR FAMILY INVESTMENT  
FAMILY INVESTMENT SUPERVISORS AND ELIGIBILITY STAFF  
POC PROGRAM ADMINISTRATORS  
LOCAL HEALTH DEPARTMENTS**

**FROM: KEVIN M. MCGUIRE, EXECUTIVE DIRECTOR, FIA  
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PATRICIA JENNINGS, ACTING EXECUTIVE DIRECTOR, CHILD CARE  
ADMINISTRATION**

**RE: THE EARNED INCOME TAX CREDIT CAMPAIGN AND FINANCIAL  
LITERACY**

**PROGRAM AFFECTED: ALL**

**ORIGINATING OFFICE: OFFICE OF POLICY, RESEARCH AND SYSTEMS**

### **SUMMARY:**

As we enter tax season, it is again our goal to help low-income working families understand the advantages of filing for the Earned Income Tax Credit (EITC) and other tax credits. EITC helps reduce the tax burden and increase income for working families. It can also be used as an incentive to encourage unemployed customers to find and keep a job. Helping our customers understand the benefits of EITC is a step toward their achieving self-sufficiency.

It is essential that our customers have the skills to manage their finances efficiently. There are many organizations that teach low-income workers how to manage their finances and begin to build savings. This memo provides information about the EITC and other tax reduction programs for 2003 to help local department staff encourage customers to file for EITC to be included in their pay. In addition, it contains information about financial literacy and provides contact information for local departments wanting to receive additional information and training in these areas. In addition to this information memo a supply of the EITC campaign flyers will be sent to each local department by the end of January.

## **WHAT IS EITC AND WHO CAN GET IT?**

EITC is a special tax benefit for working people with low or moderate income. Those who qualify for EITC and file a tax return can get back some or all of the taxes they have paid, reduce the taxes they owe or in some instances get extra money back from the IRS. The following persons may qualify for EITC:

- Families with one child earning less than **\$29,666** in 2003 (or less than **\$30,666** for married workers) can get as much as **\$3,005** EITC.
- Families with two or more children who earn less than **\$33,692** in 2003 (or less than **\$34,692** for married workers) may get as much as **\$4,961** combined state and federal EITC.
- Workers with no qualifying children in their home but who were between ages 25 and 64 on December 31, 2003 and had income less than **\$11,230** (or less than **\$12,230** for married workers) can get as much as **\$382** EITC.

Individuals under age 19 (or under age 24 who are full time students) are qualifying children. Children can be sons, daughters, stepchildren, grandchildren, adopted children or foster care children as long as they lived with the wage earner more than half of the year. In addition, an authorized government or private agency must have placed a foster care child with the family.

## **WHAT IS THE ADVANCE PAYMENT OPTION AND WHO CAN GET IT?**

Most workers get the federal EITC in one check from the IRS after they file a tax return. But there is another choice: employers can add part of a worker's federal EITC to every paycheck, and the worker gets the rest of the credit after filing a tax return. This is the "advance EITC payment."

In 2004, advance EITC payments are available to any worker with at least one qualifying child who expects to earn less than \$30,338 (or \$31,338 for married workers) in 2004. The credit for workers who are **not raising children** in their home **is not** available in advance payments.

The advance EITC payment can make an important difference for many workers, allowing them to pay the rent, buy groceries, cover child care expenses, and meet other day-to-day needs. For example, a worker earning between \$490 and \$1,300 a month can get about \$50 extra in each bi-weekly paycheck.

### **Some individuals should not choose advance EITC payment.**

Advance EITC payments are based on the total income individuals *expect* their families

to earn in a year. Changes in income or family size during the year can decrease the EITC for which individuals are eligible. If an individual continues to receive advance payments based on an incorrect estimate of yearly income, these payments may exceed the amount of the EITC. In this case, the individual would have repay the amount received that the individual was not eligible for.

The following individuals should not use the advance payment option:

- Individuals who hold more than one job at the same time.
- Individuals whose earned income increases a lot during the year.
- Individuals with a working spouse, unless both spouses take advance payments during the year.
- Workers who get married during the year, if both spouses work.

### **HOW INDIVIDUALS GET THE ADVANCE EITC PAYMENT:**

Getting the advance EITC payments is not hard. Eligible individuals fill out a W-5 form called the "Earned Income Credit Advance Payment Certificate" and give the bottom part to their employer. The W-5 is available from employers or from the IRS by calling 1-800-TAX-FORM.

Eligible individuals can file a W-5 at any time during the year, but a new W-5 must be filed at the beginning of each year to continue getting the advance EITC payment in their paychecks.

Individuals who are planning to get married or expect a large increase in income during the year, should ask their employer to stop putting the advance EITC payments in their paychecks. To do this, individuals must file a new W-5 form with their employer and indicate that they don't want to receive the advance EITC payments anymore.

Individuals who get advance EITC payments during the year must file a tax return after the end of the year and include the total amount received in advance payments. They must also complete Schedule EITC and attach it to their tax return.

### **SOME INDIVIDUALS AREN'T ELIGIBLE FOR ADVANCE EITC PAYMENTS:**

Individuals who are not eligible advance payments, include:

- Individuals without qualifying children.
- Farm workers paid by the day.
- People with no Social Security and Medicare taxes withheld from their pay.
- Self employed individuals, who cannot advance the EITC to themselves.

## **WHAT IS THE MARYLAND EARNED INCOME TAX CREDIT?**

Maryland is one of the few states to have a state EITC, which provides further tax relief to low-income workers. Eligibility for the Maryland EITC benefit is based on eligibility for the federal credit. Taxpayers receive Maryland tax credit equal to half the amount for which they were eligible with the federal EITC. Taxpayers can use the Maryland income tax credit they are eligible for to reduce or eliminate any state income tax liability. If the amount of credit exceeds state liability, taxpayers with one or more dependents may be eligible to receive a portion of the state EITC as a refund payment. In order to claim the Maryland EITC, workers must file a Maryland income tax return.

## **WHAT IS THE CHILD TAX CREDIT AND WHO CAN GET IT?**

The Child Tax Credit (CTC) is a benefit to wage earners raising dependent children. It is different from the Child and Dependent Care Credit (which benefits those paying child-care or dependent care expenses). The CTC credit can be up to **\$1,000** per dependent child under the age of 17 living with the wage earner and claimed on the 2003 federal income tax return. Workers must earn over **\$10,500** in 2003 to qualify for the refund. The rules for claiming the CTC are different from those for EITC. Wage earners must attach the appropriate CTC form to their income tax return.

## **WHAT IS THE CHILD AND DEPENDENT CARE CREDIT AND WHO CAN GET IT?**

The Child and Dependent Care Credit allows families with child-care expenses to deduct all or a portion of these expenses from their income taxes. The credit is also available to families who must pay for the care of a spouse or an adult dependent who is incapable of caring for him or herself.

Families can claim the credit if they:

- Paid for care in 2003 for a child under age 13 or a disabled child who lived with the family, **AND**
- Needed the child or dependent care to work or look for work (in 2 parent families, both parents must be working or looking for work unless one parent is a full time student or unable to care for himself or herself, **AND**
- Paid over half the cost of keeping up their home (rent, food, etc.), **AND**
- Paid less for dependent care than their 2003 income. If taxpayers are married and filing joint returns, they must have paid less for care than the income of the spouse with the lowest earnings.

Families can claim only a limited amount of child or dependent care expenses on their

income taxes.

### **WHAT IS THE MONTGOMERY COUNTY WORKING FAMILIES INCOME TAX SUPPLEMENT?**

The Montgomery County EITC (also known as the Montgomery County Working Families Income Tax Supplement) provides an additional income supplement for families raising children. The Montgomery County EITC provides a dollar to dollar match with the state REFUNDABLE EITC, which means it is limited to families raising children. **Montgomery County residents** who file a Maryland income tax return are automatically considered for this credit – no extra filing or form is required.

In addition to qualifying for the Maryland refundable EITC, a taxpayer must have been a Montgomery county resident on December 31 of the tax year and have filed his/her taxes as a Montgomery County resident.

Montgomery County EITC checks are issued in late July. A second distribution in October catches latecomers who filed in July, August, or Sept. A final batch of payments made in January of the next year catches the really late filers who filed their state return after that.

### **HOW DO WE TREAT TAX CREDIT INCOME?**

#### **FIA**

Exclude all EITC and the CTC when determining eligibility for all Family Investment Administration (FIA) Programs.

#### **MA and MCHP**

Both MA and MCHP do not count a refund of income taxes already paid (federal state, county) as income, because that money was counted as income when it was initially received. In addition, these programs do not count a refund or partial advanced payment of the Earned Income Tax Credit received from the federal government through the Tax Reduction Act of 1973 as either income or a resource. MA and MCHP do count an advanced payment of a state or county earned income tax credit as income.

#### **POC**

Exclude all EITC and the CTC when determining eligibility for Purchase of Child Care (POC).

## **HELP WITH INCOME TAX PREPARATION:**

There is a free IRS sponsored program called the Volunteer Income Tax Assistance (VITA) to assist low-income wage earners with tax form preparation. VITA volunteers are usually located in community sites such as churches, libraries, shopping malls, community colleges, etc. Individuals wanting VITA assistance with income tax preparation, should take the following information to the VITA site:

- Social security numbers for him or herself, spouse and any children born on or before December 31, 2003, (some individuals may have an Individual Taxpayer Number (ITIN) and they should provide the ITIN for each person. They will not be able to claim the EITC but will be able to claim the Child Tax Credit,)
- W-2 forms for all jobs worked in 2003,
- 1099-G form if the customer received unemployment benefits any time in 2003,
- 1099-INT if the customer received bank interest in 2003 and
- Any statements showing mortgage interest or settlement costs received from a mortgage company or bank, that the wage earner paid during 2003.

For more information about VITA, EITC or other questions, call **1-800-492-0618**.

## **WHAT IS FINANCIAL LITERACY?**

Financial literacy is the knowledge and the ability to assess one's income and assets and make responsible choices to manage them effectively. Financial literacy includes such skills as effective budgeting, saving and investing strategies, knowledge of tax planning and preparation, debt reduction, homeownership, asset management and more. For low-income workers, the path to self-sufficiency and financial independence often involves acquiring these and many more skills.

Learning sound money management principles can be complex and intimidating. However, if our customers are to be truly self sufficient, they must have this knowledge. Organizations such as the **Maryland Council on Economic Education (MCEE)** partner with various agencies to offer financial literacy education and other asset building services for low-income families. Vendors, local department staff and service coordinators can request train the trainer sessions through the **Annie E. Casey** foundation. Local departments may use these services to structure skills training workshops for customers. For more information about financial literacy programs, call Gretchen Simpson in FIA's Office of Policy, Research and Systems at 410-767-7937.

## **INQUIRIES:**

Please direct TCA policy questions to Gretchen Simpson at 410-767-7937 or Marilyn Lorenzo at 410-767-7333. Direct food stamp (FS) questions to Kay Finegan at 410-767-

7939 and Medical Assistance (MA) questions to Cynthia Carpenter at 410-767-7495.  
Please direct Purchase of Child Care (POC) questions to Betsy Blair at 410-767-7845.

cc: DHR Executive Staff  
FIA Management Staff  
Constituent Services

CCA Management Staff  
DHR HELP DESK