Fact Sheet - The Earned Income Tax Credit (EITC)
Highlights for Armed Forces (Military) Taxpayers

Key Messages:

- The Earned Income Tax Credit is a tax break for married couples making less than $34,178 and individuals making less than $33,178 in tax year 2002.
- Certain military personnel (single or married) can pay less federal income tax, no federal income tax at all or receive an unanticipated refund.
- 2002 EITC tax law changes may allow more military personnel to be eligible for the credit.
- Basic housing and subsistence allowances and combat zone compensation are no longer part of "earned income" for purposes of determining the credit.

For Additional Information:

- *Visit the IRS EITC web site at www.irs.gov/eitc.*
- View the following publications on line at www.irs.gov or order them by calling 1-800-829-3676.
  - Publication 3, Armed Forces' Tax Guide
  - Publication 596, Earned Income Credit (EIC)
  - Publication 3211, EITC Q & As
- Consult your military Unit Tax Advisor or your personal tax advisor.

About the EITC

- The Earned Income Tax Credit is a tax credit for certain people who work and have earned income. A tax credit usually means more money in your pocket. It reduces the amount of tax you owe and may result in a refund.
- The 2002 credit can be up to $4,140, depending on the taxpayer's income and number of qualifying children.
- To qualify for the credit, taxpayers must meet the eligibility requirements and file a tax return, even if they do not owe any tax or did not earn enough money to file a tax return.
- Married and single taxpayers can qualify for the credit, which was enacted by Congress in 1975.
- There are rules to determine whether a child is a qualifying child and there are additional rules for taxpayers without a qualifying child.
- There are various income limitations.
- Valid social security numbers (SSNs) are required for the taxpayer (and spouse, if filing jointly) and any qualifying child listed on Schedule EIC.

***See page 2 for the EITC eligibility requirements*.**

EITC Considerations for Military Taxpayers:

- Military taxpayers, who were not eligible in previous years, may find they now qualify for the EITC. Beginning in tax year 2002, taxpayers will no longer include any nontaxable employee compensation when determining earned income. (Nontaxable compensation includes salary deferrals, such as contributions to 401(k) and the Federal Thrift Savings plans, and excludable employer-provided benefits, such as dependent care and adoption benefits. For military personnel, nontaxable compensation also includes basic housing and subsistence allowances and combat pay compensation.
- Military personnel who expect to be eligible for the EITC in 2003 and have at least one qualifying child are entitled to receive Advance EITC payments with their pay. Additional information is available from the finance office.
- Common EITC return errors are mismatched or incorrect SSNs, married taxpayers filing as single or head of household instead of as married filing jointly, etc. Errors can result in refund delays.
- Penalties are imposed on taxpayers that fraudulently claim the EITC.

Rules For Everyone

Must have earned income. (Earned income must be less than the amounts listed in the middle of column 3).

Beginning in tax year 2002, combat zone compensation and basic allowances for housing and subsistence are not considered earned income.

Filing status cannot be "married filing separately."

Cannot be the qualifying child of another person.

Must be a United States (U.S.) citizen or resident alien for the entire year. Nonresident aliens may qualify if they are married to a U.S. citizen or resident and they filed a joint return.

Investment income must be $2550 or less.

Cannot file Form 2555, Foreign Earned Income or Form 2555-EZ, Foreign Earned Income Exclusion.

Must have a valid social security number.

Rules to be a Qualifying Child

Must be the taxpayer's:

- son, daughter, stepson, stepdaughter or a descendent of any of them, or
- brother, sister, stepbrother, stepsister, or a descendent of any of them, whom the taxpayer cares for as the taxpayer's own child, or
- an eligible foster child (a child placed with the taxpayer by an authorized placement agency) whom the taxpayer cares for as the taxpayer's own child.

An adopted child is treated as a child by blood.

Must live with the taxpayer in the United States for more than half of 2002. Military personnel stationed outside the United States on extended active duty are considered to be living in the United States.

If the child fails the residence test because he/she was born or died in 2002, the child is treated as meeting the test if the child lived with the taxpayer for that part of the year the child was alive.

Must be:

- Under age 19 at the end of 2002, or
- Under age 24 and a full-time student at the end of 2002, or
- Permanently and totally disabled at any time during the year, regardless of age.

Note: If two or more taxpayers have the same qualifying child, they may choose which of them will claim the credit using that child. When more than one taxpayer claims the credit using the same child, the tie-breaker rule applies. *

Rules With No Qualifying Child

Must be at least age 25, but under age 65.

Cannot be the dependent of another person.

Must have lived in the United States more than half of the year. Military personnel stationed outside the United States on extended duty are considered to be living in the United States.

Tax Year 2002 Earned & Adjusted Gross Income Limitations for the EITC

Single or Head of Household:
$33,178 if more than one qualifying child
$29,201 if one qualifying child
$11,060 if no qualifying child

Married Filing Jointly
$34,178 if more than one qualifying child
$30,201 if one qualifying child
$12,060 if no qualifying child

See qualifying child rules in column 2.

*Tie-breaker Rule

If two or more taxpayers claim the same qualifying child, the taxpayer who is entitled to the credit is:

- The parent if one taxpayer is the child's parent.
- The parent the child lived with for the longest period during the year.
- The parent with the highest adjusted gross income (AGI), if the child lived with both parents an equal amount of time during the year.
- The taxpayer with the higher AGI, if neither taxpayer is the child's parent.