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TAX CREDITS FOR EMPLOYEES

"Help Lift Children Out of Poverty"

Earned Income Tax Credit (EIC)

Child Tax Credit (CTC)

Wisconsin Homestead Credit

Further Information

Earned Income Credit (EIC): EIC is credited for lifting millions of children out of poverty and has helped close the poverty gap for single parents that are working. The money a poor working family receives via the tax credit can bring their total income above the poverty level. The EITC has also helped many TANF recipients escape welfare dependency and achieve self-sufficiency through paid employment. As welfare caseloads decline and a commitment to move TANF recipients into the low-wage labor market remains steady, the EITC makes work pay for low-income families struggling to raise their children out of poverty. Qualifying persons who file federal tax returns get back some or all of the federal income tax withheld from their pay during the year. Even workers whose earnings were too small to have taxes withheld can get the EIC. Families with children who claim the federal EIC are automatically eligible for the Wisconsin Earned Income Credit. The EIC may be claimed for up to 3 previous years, if a claimant was eligible. Individuals can claim the credit if their adjusted gross income and their taxable earned income will each be less than:

- $12,120 ($14,120 for married filing jointly) with no qualifying child
- $32,001 ($34,001 for married filing jointly) with one qualifying child
- $36,348 ($38,348 for married filing jointly) with two or more qualifying children

Amount of Credit:

Federal EIC: Maximum of $2,747 for 1 child, $4,536 for 2 or more children, $412 with no children

Wisconsin EIC: The amount is a percentage of the federal amount, totaling 4% with 1 qualifying child (maximum credit $110), 14% with 2 children (maximum credit $635) or 43% with 3 or more children (maximum credit $1,950).

HELP YOUR EMPLOYEES GET MORE FROM THEIR REGULAR PAYCHECK!

Federal EIC also has an "advance" feature (AEIC) which allows a portion of the anticipated credit to be included in the filer's regular paychecks instead of the worker having to wait until they file their tax returns. This can be done at **no cost** to the employer. However, it is the ***responsibility of the employee***, rather than the employer, to determine if he/she is eligible for the credits. The employee files a W-5 form with the employer to initiate the payments. The employer then adds the AEIC amounts to the worker's net pay. The employer recoups the amounts of EIC advances by reducing the amount of payroll tax paid. Workers who are not raising children in their home are not eligible for the advance payments. The State EIC is not available in advance.

Child Tax Credit(CTC): CTC is a federal tax credit for families with children under age 17. It is designed to lessen the impact of income taxes for families raising children. Qualifying persons who file federal tax returns get back some or all of the federal income tax withheld from their pay during the year. In addition, some workers whose earnings are too low to owe any taxes can get cash back from the credit.

The CTC is worth up to $1,000 per child. Not all families qualify for the full credit. In general, the credit is phased in as **earned income** goes above $11,300, until the maximum credit is reached. The credit is gradually phased out at very high-income levels.

Receiving the CTC does not affect EIC eligibility or benefits. Likewise, receiving the EIC does not affect the Child Tax Credit eligibility or benefit levels. Families that meet eligibility criteria can receive both credits. The CTC and other tax credits do not count as income in determining eligibility for benefits such as W-2, Medicaid, Food Stamps, SSI or public or subsidized housing.

If the amount of the worker's child tax credit is more than their taxes, they may be able to claim an "additional" child tax credit for as much as 15% of their earned income greater than $11,300. Or, if they have three or more children, they may be able to claim the "additional" credit up to the amount of Social Security taxes they paid during the year, less any Earned Income Tax Credit received. The worker would receive the greater credit of the two for which they qualify. The total of both credits still cannot be more than $1,000 for each qualifying child

Wisconsin Homestead Credit: Many low-income working families will qualify for the Wisconsin Homestead Credit. This credit is designed to soften the impact of property taxes and rent on persons with lower incomes. For individuals who pay rent, only a portion of the rent they pay is recognized the same as property taxes. The maximum credit available is $1,160. The basic requirements for Homestead relief relate to age and income. To qualify, a person must own or rent his or her residence, be at least 18 years of age, and have household income of not more than $24,500. In addition, the individual cannot have been a recipient of Temporary Assistance for Needy Families (TANF) or General Assistance payments during each of the twelve months in the filing year.

Further Information:

- IRS volunteers offer free tax preparation assistance at Volunteer Income Assistance (VITA) sites throughout Wisconsin. Those areas can be found by calling 1-800-829-1040 or by **visiting this** website: **http://www.dor.state.wi.us/faqs/pcs/vita.html#county**

- For more information on the **Federal EIC and Child Tax Credit, and Wisconsin EIC and Homestead Credit** visit http://www.uwex.edu/ces/econ

- For general information about **Wisconsin Tax Credits,** visit the Dept. of Revenue website at http://www.dor.state.wi.us/ or call 1-608-266-8641. For general information about **Federal Tax Credits,** visit the IRS website at http://www.irs.gov/ or call 1-800-829-1040.

Census data has shown that the EITC lifts more children out of poverty than any other single program or category of programs. These credits not only increase their income and help them become self-sufficient, but it increases their productivity as employees as well. Employers will find that eligible employees will use EITC to cover costs, such as childcare and transportation, which frequently serve as barriers to employee retention and productivity. Furthermore, employers who promote the Advanced Earned Income Tax Credit (AEITC) discover that the immediate increase in the amount of take home pay for workers serves as an effective recruiting and retention tool. Awareness of these tax credits thus benefits both workers and employers.