

**OVERVIEW:
EARNED INCOME TAX CREDIT
AND CHILD TAX CREDIT**

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OUTLINE

- Earned Income Tax Credit
 - Federal EITC
 - Vermont EITC
- Child Tax Credit
 - Other states
 - Federal CTC

EARNED INCOME TAX CREDIT

Federal law provides an earned income tax credit and many states, like Vermont, also provide a state-level earned income tax credit. In Vermont, the credit is a percentage of the federal credit amount.

FEDERAL EITC

Eligibility

- Federal law allows a refundable income tax credit for certain people who work and have earned income under a certain threshold. The EITC is available to taxpayers with or without qualifying children. See, I.R.C. § 32.
- There are limits based on adjusted gross income, age, amount and type of earned income, number of qualifying children, and residency in the U.S.

FEDERAL EITC

All taxpayers must meet certain requirements to be eligible

- U.S. citizen or resident alien all year
- Have a valid SSN by due date of filing return (including extensions) for taxpayer and qualifying children* (*ARPA changed SSN rules for children)
- Cannot exclude foreign earned income
- Investment income below threshold (TY21 \$10,000;TY20 \$3,650)
- Have earned income

FEDERAL EITC

Requirements for taxpayers with qualifying children

- Child must meet relationship, age, residency, and joint return tests.
- Child cannot be used by more than one person to claim the EITC.
- Taxpayer cannot be a qualifying child of another person.

Requirements for taxpayers without qualifying children

- Taxpayer must be at least 25 but under 65.* (*ARPA changed age limits)
- Taxpayer cannot be a dependent of another person.
- Taxpayer must have lived in the U.S. more than half of the year.

FEDERAL EITC

Who is a qualifying child?

- Relationship
 - A son or daughter (including adopted child or child lawfully placed for adoption), stepchild, foster child placed by an authorized agency or court.
 - Brother, sister, half brother, half sister, stepbrother, stepsister, or their descendant.
- Age
 - At end of filing year, child was younger than worker (or worker's spouse if married filing jointly); and either younger than 19 or younger than 24 and a full-time student.
 - Any age if permanently and totally disabled.
- Residency
 - Child must live with worker, or worker's spouse if filing a joint return, in the U.S. for more than half of year.
- Joint Return
 - Child cannot have filed a joint return, unless child and child's spouse did not have a filing requirement and only filed to claim a refund.

FEDERAL EITC

Credit calculation

- Credit amount is taxpayer's earned income up to an inflation-adjusted level, multiplied by a credit percentage based on number of qualifying children (0 to 3 or more).
- Phaseout as AGI increases (or earned income, if greater than AGI).

Maximum credit amounts for tax year 2021

- No qualifying children: \$1,502
- 1 qualifying child: \$3,618
- 2 qualifying children: \$5,980
- 3 or more qualifying children: \$6,728

FEDERAL EITC

Number of Qualifying Children Claimed	Maximum AGI (filing as Single, Head of Household, Widowed or Married Filing Separately*)	Maximum AGI (filing as Married Filing Jointly)
Zero	\$21,430	\$27,380
One	\$42,158	\$48,108
Two	\$47,915	\$53,865
Three	\$51,464	\$57,414

*Previously, taxpayers who filed under the married filing separately status were ineligible. ARPA, however, permanently allowed married filing separately taxpayers to be eligible for the credit, but only if they do not file a joint return.

FEDERAL EITC

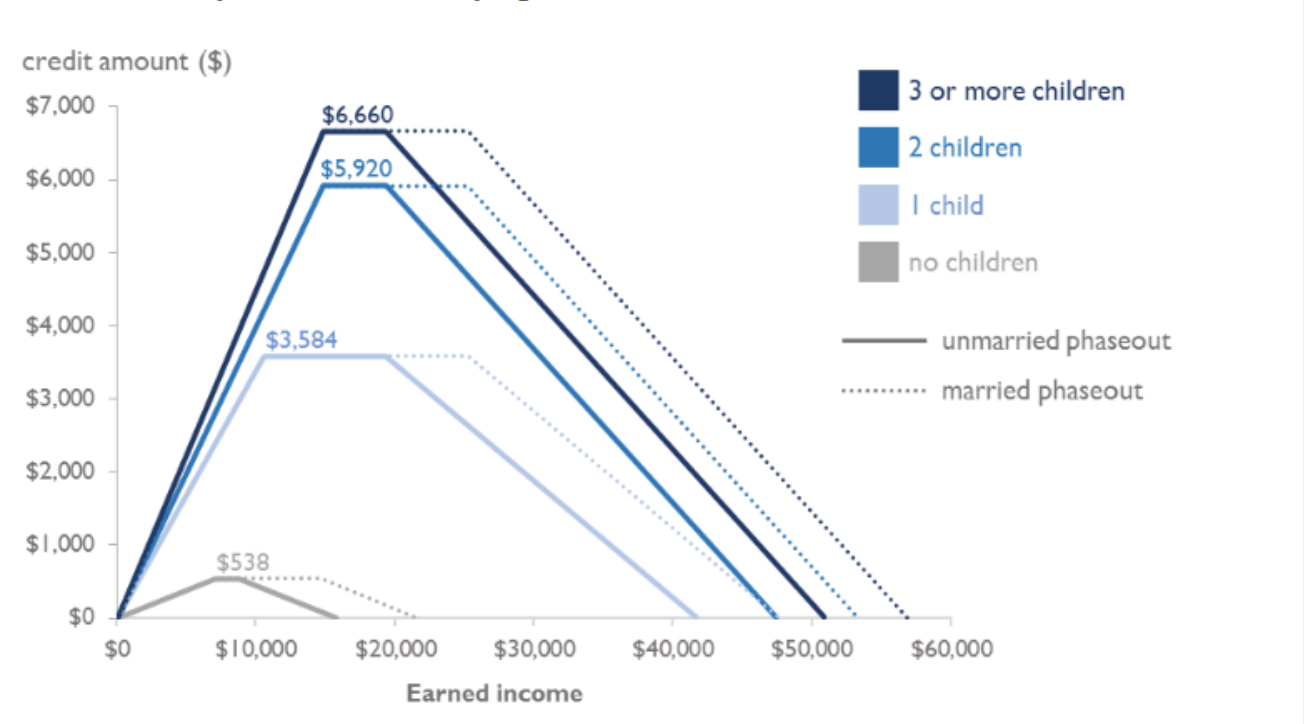
- In most cases, the IRS completes the calculation for the EITC for the taxpayer.
- The formula considers earned income, number of qualifying children, marital status, and AGI. The credit phases in, hits a maximum, and then phases out depending upon income ranges. The following table shows these parameters for TY2020:

Number of Qualifying Children	0	1	2	3 or more
income where credit = 0	\$15,820	\$41,756	\$47,440	\$50,954
married taxpayers (married filing jointly)				
credit rate	7.65%	34%	40%	45%
earned income amount	\$7,030	\$10,540	\$14,800	\$14,800
maximum credit amount	\$538	\$3,584	\$5,920	\$6,660
phaseout amount threshold	\$14,680	\$25,220	\$25,220	\$25,220
phaseout rate	7.65%	15.98%	21.06%	21.06%
income where credit = 0	\$21,710	\$47,646	\$53,330	\$56,844

Source: IRS Revenue Procedure 2019-44 and Internal Revenue Code (IRC) §32.

FEDERAL EITC

EITC Amount by Number of Qualifying Children, Marital Status, and Income, 2020



FEDERAL EITC

Types of Earned Income

- Wages, salary, or tips where federal income taxes are withheld on Form W-2
- Income from a job where employer didn't withhold tax
- Self-employment income
- Earnings as minister or member of a religious order
- Income as a statutory employee
- Benefits from a union strike
- Certain disability benefits received before minimum retirement age
- Nontaxable combat pay

Earned income *does not* include:

- Pay received by for work when an inmate in a penal institution
- Interest and dividends
- Employee compensation excluded from gross income, like dependent care
- Pensions or annuities or Social Security or railroad retirement benefits
- Unemployment or workers compensation benefits
- Alimony or child support
- State TANF program payments

FEDERAL EITC

Notable American Rescue Plan Act of 2021 changes

Effective TY2021 only:

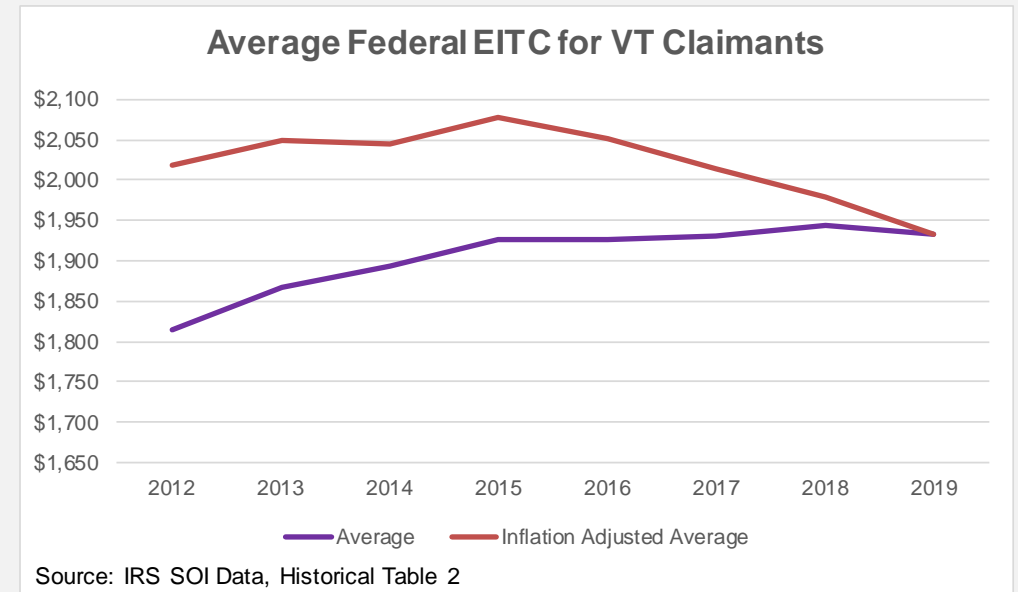
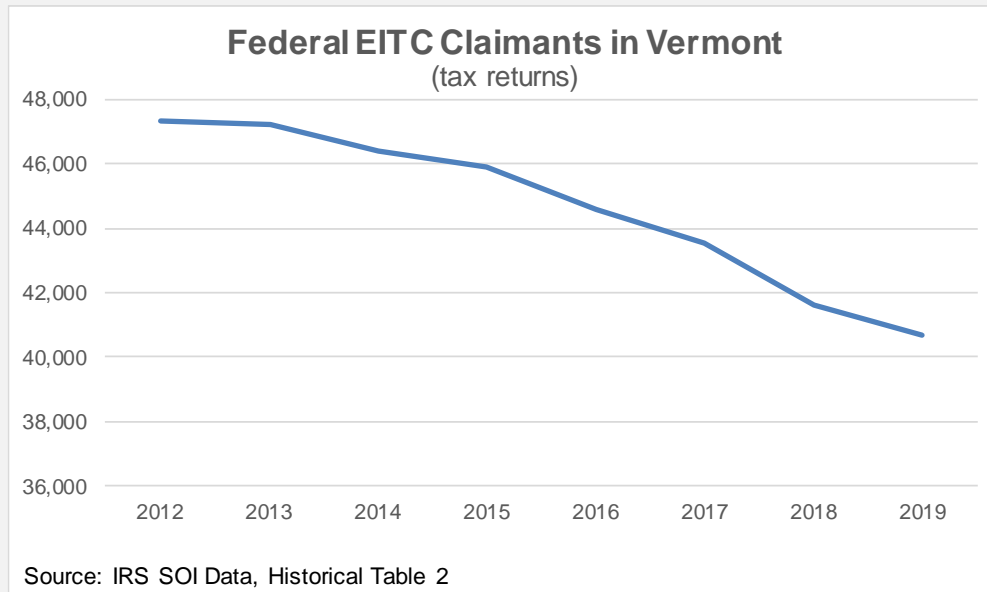
- Expands eligibility for credit and amount of credit for taxpayers without qualifying children:
 - Age: younger and older taxpayers eligible (19 instead of 25 and no age limit instead of 64).
 - Amount: maximum, phaseouts, and earned income amount all increased.
- Like in tax year 2020, taxpayers may elect to calculate their tax year 2021 credit using the higher of earned income from tax year 2019 or 2021.
- Excessive investment income limit increased to \$10,000.

For tax year 2021 and after:

- Married filing separately eligible for credit, but only if they do not file a joint return.
- Taxpayers who fail to provide SSN for children get EITC without children.

FEDERAL EITC

- In tax year 2019: IRS received 331,630 tax returns from Vermont
 - 40,700 received the federal Earned Income credit
 - Average credit was \$1,933



VERMONT EITC

- Vermont law provides for a refundable State EITC that is 36% of the federal credit amount. See, 32 V.S.A. § 5828b.
- Vermont's conformity to federal income tax as amended by the ARPA means that the expanded eligibility requirements enacted at the federal level also apply in Vermont for tax year 2021 and after. See, 2021 Acts and Resolves No. 73, Secs. 23 and 27(5).

VERMONT EITC

Who is eligible?

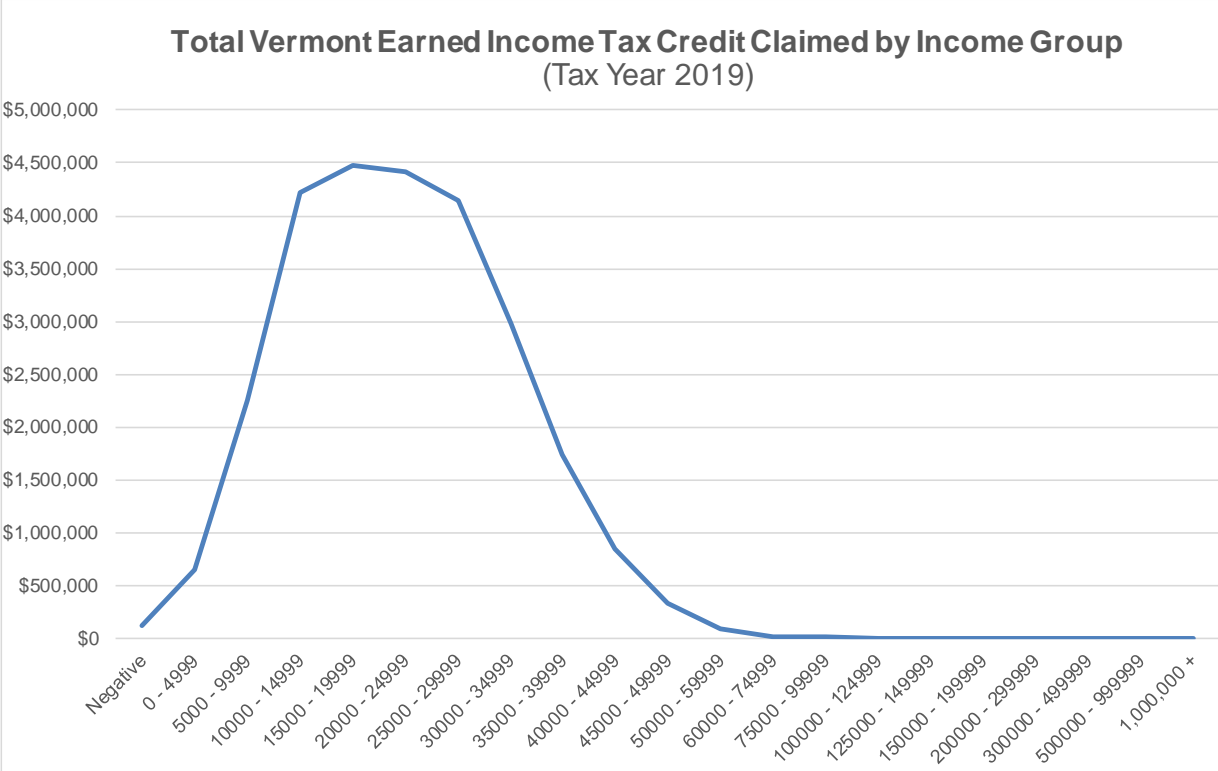
- A resident individual or part-year resident individual who is entitled to EITC under federal law.

Credit calculation

- 36% of EITC granted to individual under federal law
- Pro rated by the individual's earned income that is earned or received outside of Vermont
- Refundable (available even if taxpayer does not have a tax liability)

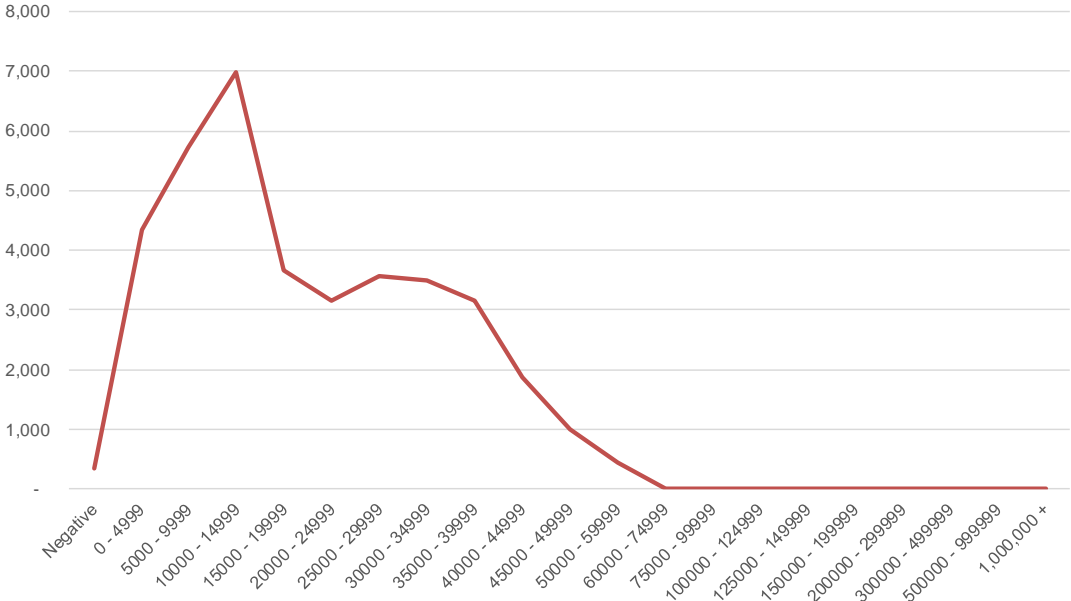
VERMONT EITC

- In 2019: 40,212 VT tax returns claimed the VT EITC for a total tax expenditure of \$27.7 million
 - Average EITC: \$689
- Tax year 2017, before VT increased EITC: \$25 million tax expenditure
 - Average EITC: \$619

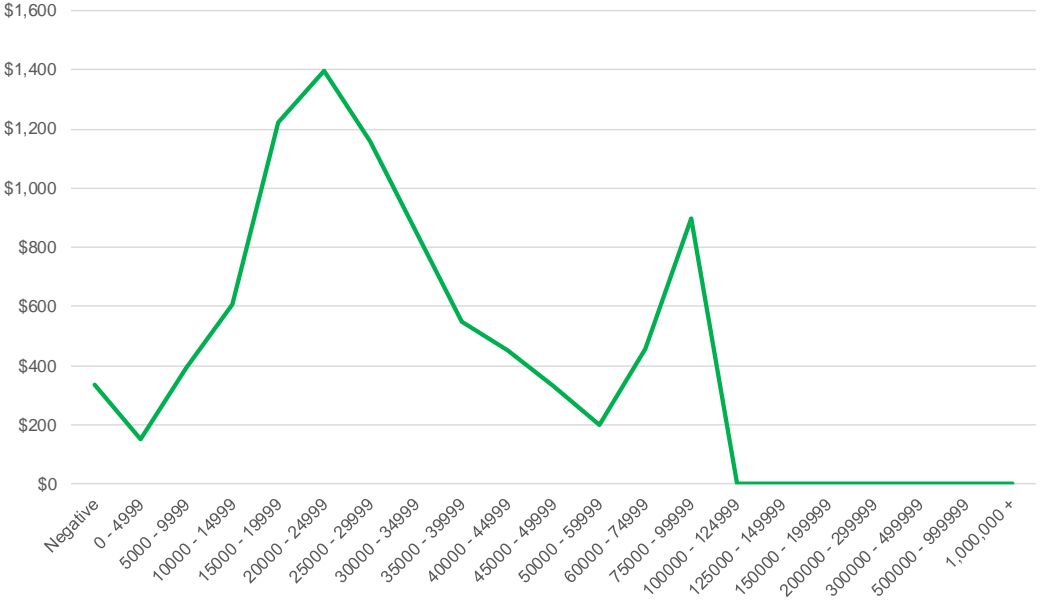


VERMONT EITC

Number of VT Tax Returns Claiming EITC by Income Group
(Tax Year 2019)

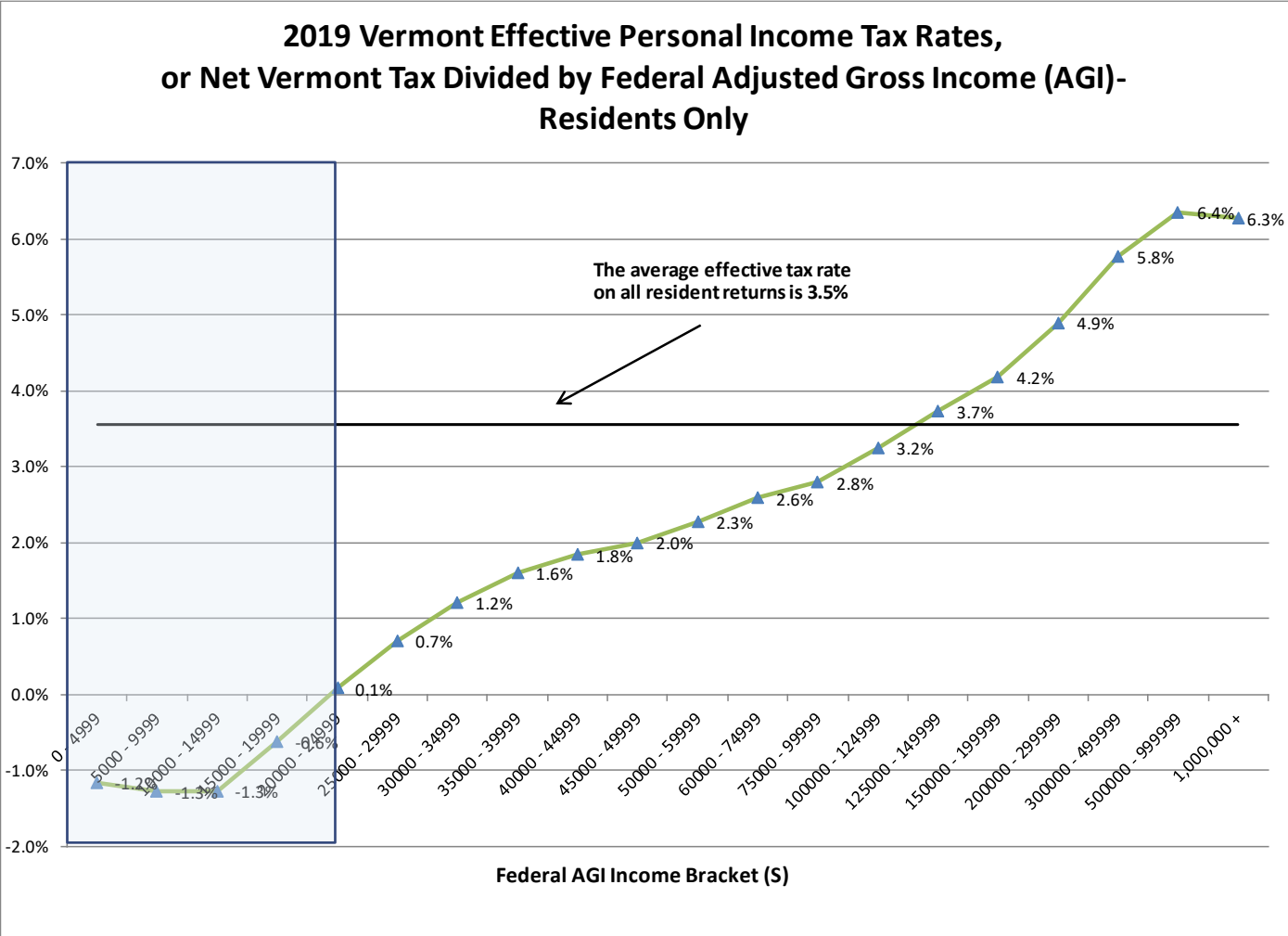


Average Vermont Earned Income Tax Credit by Income Group
(Tax Year 2019)



VERMONT EITC

- Vermont EITC erases tax liability for most lower income Vermonters who can claim it.



CHILD TAX CREDIT

- Federal law provides a child tax credit for taxpayers who have a qualifying child or other dependent and whose adjusted gross income is under a certain threshold. See, I.R.C. §§ 24 and 152.
- Seven states also provide a state-level child tax credit, but Vermont is not one of them. The states with a child tax credit are: California, Colorado, Idaho, Maine, Maryland, New York, and Oklahoma.

CHILD TAX CREDIT: OTHER STATES

State Child Tax Credits and Personal Exemptions				
State	How much?	Who gets it?	Refundable?	State Personal Exemption
Colorado	Depends upon income and status: 30% of Federal CTC for incomes \$25,000 or below (\$35,000 MFJ) 15% of Federal CTC for incomes up to \$50,000 (\$60,000 MFJ) 5% of Federal CTC for incomes up to \$75,000 (\$85,000 MFJ)	Only for children under 6	Yes	None, but income tax starts with FTI, so used to include Federal personal exemption
California	\$1,000 to each qualifying family with earnings under \$25,000, reduced credit of less than \$1,000 to each qualifying family with earnings between \$25,000 to \$30,000.	Only for children under 6 and parents must qualify for EIC	Yes	\$124 for singles, \$244 for couples
Maryland	\$500 per child	Parents AGI must be less than \$6000	Yes	\$3200, phases out if AGI is greater than \$100,000 (\$150,000 MFJ). Phased out completely after \$150,000
New York	The greater of \$100 child or 33% of Federal CTC	Children over 4, all NY taxpayers with qualifying children	Yes	No personal exemption for taxpayer, but \$1000 for each dependent
Idaho	\$205 per qualifying child	Qualifying child is same as Federal CTC	No	None, but income tax starts with FTI, so used to include Federal personal exemption
Maine	\$300 per qualifying child	Qualifying child is same as Federal CTC. Eligible for residents, nonresidents and part-time residents (apportioned)	No	\$4300 per taxpayer and dependents. Additional amounts for blind or over 65.
Oklahoma	5% of the Federal CTC	Qualifying child is same as Federal CTC	No	\$1000 for taxpayer, spouse. Additional exemption for over 65.

FEDERAL CHILD TAX CREDIT

Who is a qualifying child?

- Child claimed as a dependent by taxpayer. Relationship:
 - A son or daughter (including adopted child or child lawfully placed for adoption), stepchild, foster child placed by an authorized agency or court.
 - A brother, sister, half brother, half sister, stepbrother, stepsister, or their descendant.
- U.S. citizen, national, or resident
- 16* years of age or under (*ARPA changed for tax year 2021)
- Support
 - Qualifying child must live in same household as taxpayer for more than half the tax year and cannot be self-supporting.
- Child cannot have filed a joint return, unless child and child's spouse did not have a filing requirement and only filed to claim a refund.

FEDERAL CHILD TAX CREDIT

Who is a qualifying other dependent?

- Any other qualifying relative claimed as a dependent by taxpayer.
- Support
 - Relative is not required to live with taxpayer trying to claim exemption, but relative cannot be self-supporting.
 - Taxpayer must provide more than half of relative's support.

Maximum credit when taxpayers have modified AGI of:

- \$75,000 or less for single filers;
- \$112,500 or less for heads of household; and
- \$150,000 for married couples filing a joint return and qualified widows and widowers.
- When modified AGI exceeds thresholds, amount of credit phases out.

Available tax years 2018-2025 under TCJA; \$500 per qualifying relative.

FEDERAL CHILD TAX CREDIT

Pre-ARPA law

- American Taxpayer Relief Act of 2012: set value of federal child tax credit at \$1,000 per child and increased income threshold to correspond with EITC.
- Tax Cuts and Jobs Act of 2017:
 - doubled federal child tax credit to \$2,000 and limited refundable amount of credit to \$1,400 per child.
 - Created \$500 nonrefundable credit for other qualifying dependents.
 - Imposed income phaseout thresholds and rates for higher-income taxpayers.
 - TCJA changes are temporary and sunset on December 31, 2025.

FEDERAL CHILD TAX CREDIT

Notable American Rescue Plan Act of 2021 changes for tax year 2021 only

- Increased maximum credit to:
 - \$3,000 per qualifying child aged 6-17
 - \$3,600 per qualifying child aged 5 and under.
 - Previously, maximum credit was \$2,000 per qualifying child up to aged 16 and under.
- Makes credit fully refundable.
- Paid out half of total credit in monthly payments from July-December 2021, instead of once per year at time of filing tax return. See, I.R.C. § 7527A.
- For taxpayers whose modified AGI exceeds the thresholds, the extra amount above original \$2,000 credit — \$1,000 or \$1,600 per child — is reduced by \$50 for every \$1,000 in modified AGI.

FEDERAL CHILD TAX CREDIT

- In tax year 2019: IRS received 331,630 tax returns from Vermont
 - 66,890 received some amount of federal child tax credit
 - Average credit was \$2,186

