

# Federal Earned Income Tax Credit

## 1 What Is It?

The **Earned Income Tax Credit (EITC)** is part of the federal income tax code. It is designed to supplement wages, and to reduce the tax burden on low or moderate-income workers. In 2003, 609,376 working families in Michigan claimed a total of more than \$1 billion in tax credit through the EITC.

## 2 Who Qualifies?

The EITC is available to low- and moderate-income married or single workers (with or without children) who meet the income requirements. You may qualify if you worked full- or part-time in 2004. **A qualifying child is a child who is under age 19 at the end of 2004, or under age 24 if a full time student.** (This requirement is different from that of the Federal Child Tax Credit.)

## 3 How Does It Work?

Depending on eligibility and income level, workers eligible for the EITC either get money back or pay less in taxes:

- ✧ Eligible workers raising one qualifying child in the home with adjusted growth income of less than \$30,388 (single) or \$31,388 (married) in 2004 can get an EITC of up to \$2,604.
- ✧ Eligible workers raising more than one qualifying child in the home with adjusted growth income of less than \$34,458 (single) \$35,458 (married) in 2004 can get an EITC of up to \$4,300.
- ✧ Eligible workers who were not raising children in their home but who were at least age 25 and under age 65 on December 31, 2004 and had an adjusted gross income of less than \$11,490

(single) or \$12,490 (married) can get an EITC up to \$390.

(Note: The amount of investment income you can have and still receive the credit has increased to \$2,650).

## 4 How Do You Get the Credit?

- ✧ Workers raising children in 2004 must file Form 1040 or 1040A and **must** fill out and attach Schedule EIC; married workers must file a joint return to get the EITC. Workers with children cannot get the EITC if they file Form 1040 EZ, known as the “Easy Return”, or fail to attach Schedule EIC.
- ✧ Workers not raising children in 2004 can file any tax form, including Form 1040 EZ.
- ✧ Workers raising children can get part of their EITC in their paychecks throughout the year with the advance payment option by completing Form W-5.

## 5 Precertification

The IRS will select 25,000 families nationwide for precertification. Such families will have received a notice in December 2004. The vast majority of Michigan’s low-income tax filers will not be affected by this requirement. Information on the process can be found on the web site for the Center on Budget and Policy Priorities at <http://www.cbpp.org>

## 6 Do You Need Help With Your Claim?

Call the IRS at **1 (800) 829 3676** to request Form 1040. For information call **1 (800) 829-1040**. Be patient—the 24-hour line is often busy.



### Remember...

Avoid commercial tax preparers offering “rapid refund” packages. They often charge a high fee, taking a large percentage of your EITC refund. Try to locate a free VITA program near you if you need assistance with your income taxes.

# Federal Child Tax Credit

## 1 What Is It?

The **Federal Child Tax Credit (CTC)** is for taxpayers raising dependent children under age 17. This federal tax credit can give a worker back some or all of any additional income tax still owed at the end of the year.

## 2 Who Qualifies?

The Federal Child Tax Credit is available for families whose children meet the following criteria:

- ✧ A qualifying child must be the worker's own child, a relative cared for as the worker's own child, or a foster child placed by an agency.
- ✧ The child must be **under age 17** for the entire 2004 tax year.
- ✧ The child must be a U.S. citizen or resident alien (there is an exception for certain adopted children).

## 3 How Does It Work?

- ✧ Taxpayers must earn over \$10,750 in 2004 to qualify for a refund. Single parents with income up to \$75,000 and married parents with incomes up to \$110,000 (filing jointly) first apply a Federal Child Tax Credit of \$1,000 per child to reduce or eliminate their tax liability. Families who still have CTC remaining after their tax liability has been eliminated may receive a refund in the lesser of two amounts: 1) the amount of CTC that remains, or 2) 15 percent of the family's earned income over \$10,750.
- ✧ Workers with children who receive the Earned Income Tax Credit (EITC), and who owe income tax, may also receive the CTC. The Child Tax Credit will not reduce benefits from the EITC.

- ✧ Many workers received an advance payment on their Child Tax Credit during 2004. If a worker received an advance payment on his/her Child Tax Credit, the worker must deduct this amount on his/her tax form. Taxpayers who received a credit that is smaller than the amount they received in advance, or who no longer qualify for the credit, are not required to pay back the refund.

## 4 How Do You Get the Credit?

- ✧ To claim the credit, you must file Form 1040 or 1040A, which include a detailed Child Tax Credit Worksheet. Since the worksheet is fairly complicated, taxpayers should be encouraged to seek free assistance from a free Volunteer Income Tax Assistance (VITA) site near them. Workers claiming the Child Tax Credit cannot use the 1040 EZ.
- ✧ Filers with three or more children, and some other filers, are eligible to take the "Additional Child Tax Credit." To see if you are eligible, fill out the CTC worksheet. Filers claiming the additional credit must also complete IRS Form 8812.

## 5 Do You Need Help With Your Claim?

Call **1 (800) 829-3676** to receive a copy of the IRS Form 8812, or contact a local Volunteer Income Tax Assistance (VITA) site near you, or call **1 (800) 829-1040** for assistance. Be patient—the 24-hour line is often busy.



### Remember...

Workers who know they will be eligible for the Federal Child Tax Credit in 2005 can arrange to have less income tax withheld from their pay, since the credit reduces their income tax. This can increase their take-home pay throughout the year.

# Federal Child & Dependent Care Credit

## 1 What Is It?

The **Child and Dependent Care Credit** is a federal tax benefit designed to assist families with the cost of care for children or other dependent relatives.

## 2 Who Qualifies?

Families can claim this credit if:

- ✧ They paid for care in 2004 for a child under 13 or a disabled adult; **AND**
- ✧ They needed the child or dependent care to work or look for work; **AND**
- ✧ They paid over half the cost of keeping up their home (rent, food, etc.); **AND**
- ✧ They paid less for dependent care than their 2004 income.

## 3 How Does It Work?

Families can claim only a limited amount of their care expenses. Eligible families will receive a credit worth between 20% and 35% of these expenses, depending upon income.

- ✧ Families with one child or dependent can claim up to \$3,000 and receive a credit of up to \$1,050.
- ✧ Families with more than one child can claim up to \$6,000 and receive a credit of up to \$2,100.
- ✧ The credit will reduce the amount of taxes owed.

(Note: Families earning too little to pay federal income taxes cannot use this credit).

## 4 How Do You Get the Credit?

In order to receive the tax credit, you must use federal Form 2441 and attach it to the federal Form 1040 or 1040A (Schedule 2).

## 5 Do You Need Help With Your Claim?

Call the IRS at **1 (800) 829-3676** to request Form 2441. For information call **1 (800) 829-1040** or The National Women's Law Center at **(202) 588-5180**.



### **Remember...**

The Child and Dependent Care Credit is available to any family that pays for the care of a child or other dependent, regardless of income.

# State Homestead Property Tax Credit

## 1 What Is It?

The **Homestead Property Tax Credit** is a state benefit available to eligible Michigan residents who pay high property taxes in relation to their income.

## 2 Who Qualifies?

You may qualify for a Homestead Property Tax Credit if:

- ✧ Your homestead (i.e., the place you reside) is in Michigan;
- ✧ You lived in Michigan for at least 6 months in 2004;
- ✧ You pay property taxes or rent on your Michigan homestead; and
- ✧ Your income is below \$82,650.

## 3 How Much is the Credit?

The credit you receive depends on your income. The maximum credit is \$1,200. The computed credit is reduced by 10 percent for every \$1,000 (or part of \$1,000) that the household income exceeds \$73,650. The Homestead Property Tax Credit can be used to reduce the amount of taxes owed or it can be issued as a refund.

## 4 How Do You Get the Credit?

- ✧ Applicants must use Form MI-1040CR.
- ✧ If you are:
  - blind and own your homestead,
  - are active in the military, are an eligible veteran, or
  - the surviving spouse of a veteran,you should complete Form MI-1040CR-2, as well as MI-1040CR. Return whichever gives you a larger credit.

## 5 Do You Need Help With Your Claim?

Call the Michigan Department of Treasury at **1 (800) 367-6263** to request Form MI-1040CR or MI-1040CR-2, or call from a fax phone 1 (517) 241-8730 and receive forms by fax. Call **1 (800) 487-7000** for help filling out the form or to check on the status of your refund or claim. Call **Michigan Tele-Help System 1 (800) 827-4000** (ext. 311 for the Property Tax Credit) for an automated system of information anytime. Fillable forms are also available on the web site: [www.treasury.state.mi.us](http://www.treasury.state.mi.us).



### Remember...

You do not have to file a Michigan income tax return in order to qualify for the credit. If you do not have to file, you can file a credit claim as soon as you know your 2004 household income and property taxes levied for 2004.

# State Home Heating Tax Credit

## 1 What Is It?

The **Home Heating Tax Credit (HHTC)** is a state benefit available to eligible low-income households to help offset the cost of heating their homes. Cash Assistance recipients and persons who receive other public assistance may be eligible for the credit if they owned or rented a homestead in 2004. (Form MI-1040CR-7 must be used to claim the credit.)

## 2 Who Qualifies?

You may qualify if you own or rent a homestead in Michigan and your income is below the income limit. Residents of congregate care facilities are ineligible (i.e. adult foster care homes, nursing homes, homes for the aged and substance abuse treatment centers.)

## 3 How Does the Credit Work?

The credit is based on: 1) household income; 2) the number of exemptions claimed; and 3) the actual home heating costs. Use the tables below to see if you qualify for this credit. If you are eligible under both methods, claim the largest amount.

Table A

### Standard Allowance Using the Standard Credit Computation

<i>Your Exemptions</i>	<i>Maximum Credit</i>	<i>Income Limit</i>
0 or 1	\$359	\$10,257
2	482	13,771
3	604	17,257
4	727	20,771
5	849	24,257
6	972	27,771
	+ \$122 for each exemption over 6	+\$3,498 for each exemption over 6

Table B

### Exemptions and Maximum Income Using the Alternative Credit Computation

<i>Your Exemptions (from line 1.1)</i>	<i>Maximum Income</i>
0 or 1	\$11,360
2	\$15,287
3 or more	\$16,757



### Remember...

You do not have to pay income tax or file a regular MI-1040 income tax form in order to get a Home Heating Tax Credit for 2004. Applications (MI-1040CR-7) can be filed as early as January 1, 2005 for tax year 2004, but you must file before September 30, 2005.

## 4 What Are The Available Exemptions?

You may claim one exemption each for:

- ✧ Yourself, unless you are claimed as a dependent on someone else's return;
- ✧ Your spouse;
- ✧ Your children who live with you;
- ✧ Any other dependent of which you have custody and for whom you furnish more than half the support; and
- ✧ Seniors (age 65+) and disabled individuals may be eligible for an additional exemption.

## 5 How Do You Receive Your Credit?

- ✧ If you pay your heating bill yourself, under your own name, you will be sent an energy draft (voucher) that you will send to your energy provider, who will apply the draft amount to your outstanding balance.
- ✧ If you are a renter who has heat included in the rent or in someone else's name, you will be sent a check for one-half of your credit amount.
- ✧ If your heating payments are vendored through FIA, the credit will go directly to the energy provider and you will not receive a draft or a check in the mail.

(Note: If the draft amount exceeds the balance, you may choose to receive a check from your energy provider for the difference by checking the appropriate box on the draft. If you do not check the box the difference will be applied to future energy bills. If you have received home heating assistance from FIA or another public or nonprofit agency within the last twelve months, the difference will be applied to future bills for up to nine months before you can receive a refund check for the difference.)

## 6 Do You Need Help With Your Claim?

Obtain Form MI-1040CR-7 by calling **1 (800) 367-6263**, or fax phone **1 (517) 241-8730** to receive it by fax. Call **1 (800) 827-4000** to check the status of your claim. Call **1 (800) 487-7000** for preparation assistance. Call **1 (800) 373-3742** for questions about your energy draft. See [www.michigan.gov/iit](http://www.michigan.gov/iit) for forms and information.

# State Child Deduction

## ① *What Is It?*

The **State Child Deduction** is a deduction for Michigan taxpayers raising children under 18 years of age.

## ② *Who Qualifies?*

Taxpayers who claim children as dependents on their federal income tax form qualify if the children are under age 18 as of December 31, 2004.

## ③ *How Does It Work?*

A deduction of \$600 can be claimed for each child up to 18 years of age whom you can claim as an exemption.

## ④ *How Do You Get the Deduction?*

Families must fill out a MI-1040 income tax form. The MI-1040 EZ form cannot be used.

The State Child Deduction is not a deduction for the cost of child care. It is available to taxpayers raising children, regardless of whether they have child care costs.



### ***Remember...***

This is referred to as an exemption on the tax form MI-1040, line 9 (g) for tax year 2004.