



CRS Report for Congress

The Earned Income Tax Credit (EITC): Changes for 2008 and 2009

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Summary

The earned income tax credit (EITC), established in the tax code in 1975, provides cash assistance to lower income working parents and individuals through the tax system. The EITC for some earned income credit recipients will be higher in 2009 than it was in 2008. An increase in the size of the EITC will occur because the maximum amount of earned income used to calculate the credit and the phase-out income level are indexed for inflation.

For tax year 2008, the maximum EITC for tax filers without children is \$438, and it will increase to \$457 for 2009. For families with one child, the maximum credit is \$2,917 in tax year 2008, and it will increase to \$3,043 in 2009. For families with two or more children, in tax year 2008 the maximum is \$4,824, and it will increase to \$5,028 in 2009.

Beginning in tax year 2008, the phase-out level for married couples filing a joint tax return is \$3,000 higher than the level for other filers. Beginning in tax year 2009, this provision (\$3,000) is adjusted for inflation.

This report will be updated when new information becomes available.

Calculation of the EITC

Qualifications for, and the amount of, the EITC depend on the amount of earned income, adjusted gross income (AGI), and whether the tax filer has a qualified child. For the EITC, a qualified child is determined by the definition of a qualified child for the personal exemption. In general, for the personal exemption for a dependent, an individual is either a qualifying relative or a qualifying child. A qualified child for the EITC must meet the following three criteria for the personal exemption:

- relationship — the child must be a son, daughter, stepson, stepdaughter, or descendent of such a relative; a brother, sister, stepbrother, stepsister, or descendent of such a relative; an adopted child; or a foster child placed with the taxpayer;
- residence — the child must live with the tax filer for more than half the year; and
- age — the child must be under age 19 (or age 24, if a full-time student) or be permanently and totally disabled.

For the EITC, a qualified child cannot be married and must have a principal place of abode (where the child lives with the tax filer) within the United States (an exception exists for military personnel stationed overseas). A custodial parent may have a qualified child for the EITC without using other tax benefits associated with the child (such as the personal exemption) because the EITC disregards a waiver of the personal exemption and the child tax credit to a noncustodial parent.

In general, the EITC amount increases with earnings up to a point (the maximum earned income amount), then remains unchanged (at the maximum credit) for a certain bracket of income, and then, beginning at the phase-out income level, gradually decreases to zero as earnings continue to increase. A family will be disqualified from receiving the earned income credit if investment income exceeds a specified level.

The maximum earned income amount, the phase-out income level, and the disqualifying investment income amount are indexed for inflation. For married couples filing a joint tax return, in tax years 2002 through 2004 the phase-out level was \$1,000 higher than for other filers, in tax years 2005 through 2007 the phase-out level was \$2,000 higher, and beginning in tax year 2008 the phase-out level is \$3,000 higher. Beginning in tax year 2009, the provision to the phase-out income level for married couples filing a joint tax return (\$3,000) is adjusted for inflation.

To make it easier for tax filers to determine the correct amount of the credit, a table for the earned income credit is included in the income tax booklet based on \$50 increments of income. **Table 1** shows the parameters for the EITC (credit rates, phase-out rates, maximum earned income amount, maximum credit, phase-out income level, and disqualifying investment income level) for tax years 2007, 2008, and 2009.

Table 1. EITC Parameters for Tax Years 2007-2009

	2007 (\$)	2008 (\$)	2009 (\$)	Credit Rate %	Phase-Out Rate %
No Children				7.65	7.65
Maximum earned income amount	5,590	5,720	5,970	—	—
Maximum credit	428	438	457	—	—
Phase-out income level	7,000	7,160	7,470	—	—
Phase-out income level for married filing joint	9,000	10,160	10,590	—	—
Income where EITC = 0	12,590	12,880	13,440	—	—
Income where EITC = 0 for married filing joint	14,590	15,880	16,560	—	—
One Child				34.00	15.98
Maximum earned income amount	8,390	8,580	8,950	—	—
Maximum credit	2,853	2,917	3,043	—	—
Phase-out income level	15,390	15,740	16,420	—	—
Phase-out income level for married filing joint	17,390	18,740	19,540	—	—
Income where EITC = 0	33,241	33,995	35,463	—	—
Income where EITC = 0 for married filing joint	35,241	36,995	38,583	—	—
Two or More Children				40.00	21.06
Maximum earned income amount	11,790	12,060	12,570	—	—
Maximum credit	4,716	4,824	5,028	—	—
Phase-out income level	15,390	15,740	16,420	—	—
Phase-out income level for married filing joint	17,390	18,740	19,540	—	—
Income where EITC = 0	37,783	38,646	40,295	—	—
Income where EITC = 0 for married filing joint	39,783	41,646	43,415	—	—
Disqualifying investment income level	2,900	2,950	3,100	—	—

Source: Table prepared by the Congressional Research Service (CRS).

Notes: To reflect the statutory language for calculating the inflation adjusted EITC parameters, the maximum earned income amount and the phase-out income level are rounded to the nearest \$10, whereas the disqualifying interest income level is rounded to the nearest \$50. In preparing their tax returns, tax filers will use a table with \$50 increments of income to look up their EITC amount.

EITC Changes

As shown in **Table 1**, between tax years 2008 and 2009, there are small increases in the maximum earned income, maximum credit, and phase-out income levels associated with indexing for inflation. The effect of the indexing is that the largest percentage increases in EITC between 2008 and 2009 will be for higher income EITC eligible tax filers. A limited number of taxpayers not eligible for the EITC in tax year 2008 will, because of indexing, be eligible for a small EITC in tax year 2009.

Beginning in tax year 2009, the \$3,000 provision for married couples is adjusted for inflation. This results in this provision in 2009 being \$120 higher than in 2008.

Legislative Changes Affecting the EITC in 2008 and 2009

The Working Families Tax Relief Act of 2004 (P.L. 108-311) provided that for tax years 2004 and 2005, taxpayers in the military have the option of including combat pay (which is generally nontaxable) in computing earned income for the EITC. The Gulf Opportunity Zone Act of 2005 (P.L. 109-135) extended through tax year 2006 the option to include combat pay in calculating the EITC, and the Tax Relief and Health Care Act of 2006 (P.L. 109-432) extended the option through tax year 2007. The Heroes Earnings Assistance and Tax Relief Act of 2008 (P.L. 110-245) made the option to include combat pay for computing the EITC permanent.

The Fostering Connections to Success and Increasing Adoptions Act of 2008 (P.L. 110-351) clarified the definition of a qualified child for tax purposes. P.L. 110-351 provided that the qualified child must be younger than the taxpayer claiming the qualified child for a tax benefit (including the EITC) and that the qualified child must be unmarried (unless the qualified child is filing a tax return as married solely for the purpose of obtaining a refund).