The Earned Income Tax Credit (EITC): Changes for 2012 and 2013

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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 will be higher in 2012 and 2013 than it was in 2011. 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. The increases reflect the inflation adjustment.

For tax year 2012, the maximum EITC for tax filers without children was $475, and it will increase to $487 in 2013. For families with one child, the maximum credit was $3,169 in tax year 2012, and it will increase to $3,250 in 2013. For families with two children, in tax year 2012 the maximum was $5,236, and it will increase to $5,372 in 2013.

The American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5) created a new credit category, for families with three or more children for tax years 2009 and 2010.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312) extended the new category for three or more children to tax years 2011 and 2012. The American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240) extended the ARRA provisions for families with three or more children and marriage penalty relief for five years (through tax year 2017). For families with three or more children, the maximum credit was $5,751 in tax year 2011, $5,891 in tax year 2012, and will be $6,044 in tax year 2013.

Beginning in tax year 2008, the phase-out level for married couples filing a joint tax return was $3,000 higher than the level for other filers. ARRA increased the $3,000 differential for married couples to $5,000 for tax year 2009, and inflation adjusted the amount for tax year 2010.

P.L. 111-312 extended the higher phase-out level to tax years 2011 and 2012. In tax year 2011, the phase-out level for married couples was $5,080 higher than for unmarried taxpayers, $5,210 higher in tax year 2012, and in tax year 2013, it will be $5,340 higher than for unmarried taxpayers.

This report will be updated when new information becomes available.

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Calculation of the EITC

Qualifications for, and the amount of, the earned income tax credit (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 the age of 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 was $3,000 higher. The American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5) increased this differential to $5,000 for tax year 2009, and adjusted for inflation in 2010. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312) extended the ARRA provisions for marriage penalty relief through tax year 2012. The American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240) extends the ARRA provisions for five years (through tax year 2017). The phase-out level for married couples filing a joint tax return was $5,210 higher than for other tax filers in tax year 2012, and will be $5,340 higher than for other tax filers in tax year 2013.

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 2010, 2011, and 2012.

Table 1. EITC Parameters for Tax Years 2011-2013

	2011 ($)	2012 ($)	2013 ($)	Credit rate (%)	Phase-out rate (%)
No children				7.65%	7.65%
Maximum earned income amount	6,070	6,210	6,370		
Maximum credit	464	475	487		
Phase-out income level	7,590	7,770	7,970		
Phase-out income level for married filing joint	12,670	12,980	13,310		
Income where EITC = 0	13,660	13,980	14,340		
Income where EITC = 0 for married filing joint	18,740	19,190	19,680		
One child				34.00%	15.98%
Maximum earned income amount	9,100	9,320	9,560		
Maximum credit	3,094	3,169	3,250		
Phase-out income level	16,690	17,090	17,530		
Phase-out income level for married filing joint	21,770	22,300	22,870		
Income where EITC = 0	36,052	36,920	37,870		
Income where EITC = 0 for married filing joint	41,132	42,130	43,210		
Two children				40.00%	21.06%
Maximum earned income amount	12,780	13,090	13,430		
Maximum credit	5,112	5,236	5,372		
Phase-out income level	16,690	17,090	17,530		
Phase-out income level for married filing joint	21,770	22,300	22,870		
Income where EITC = 0	40,964	41,952	43,038		
Income where EITC = 0 for married filing joint	46,044	47,162	48,378		
Three or more children				45.00%	21.06%
Maximum earned income amount	12,780	13,090	13,430		
Maximum credit	5,751	5,891	6,044		
Phase-out income level	16,690	17,090	17,530		
Phase-out income level for married filing joint	21,770	22,300	22,870		
Income where EITC = 0	43,998	45,060	46,227		
Income where EITC = 0 for married filing joint	49,078	50,270	51,567		
Disqualifying investment income level	3,150	3,200	3,300		

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 2011 and 2013, there are 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 2011 and 2013 will be for higher-income EITC-eligible tax filers. A limited number of taxpayers not eligible for the EITC in tax year 2011 will, because of indexing, be eligible for a small EITC in tax years 2012 and 2013.

Legislative Changes Affecting the EITC in 2011, 2012, and 2013

P.L. 111-5 (ARRA) created a new credit category, for families with three or more children, for tax years 2009 and 2010 only. For families with three or more children, the credit rate in tax years 2009 and 2010 was 45%. The ARRA also increased the phase-in amount for married couples filing joint tax returns so that it was $5,000 higher than for unmarried taxpayers in tax year 2009. In tax year 2010, the differential was adjusted for inflation.

P.L. 111-226, the FAA Air Transportation Modernization and Safety Improvement Act, eliminated the option to receive the credit during the tax year (the Advance Earned Income Credit), for tax years beginning after December 31, 2010.

P.L. 111-312 extended the ARRA provisions for marriage penalty relief and the category for three or more children through tax year 2012.

P.L. 111-312 also extended through tax year 2012, the changes to the credit made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) that were scheduled to expire after December 31, 2010. The EGTRRA changes that were extended through tax year 2012 include (1) changing the definition of earned income for the EITC so that it does not include nontaxable employee compensation; (2) eliminating the reduction in the EITC for the alternative minimum tax; (3) simplifying the calculation of the credit through use of AGI rather than modified adjusted gross income; and (4) providing marriage penalty relief through a higher phase-out income level for taxpayers filing married joint tax returns.

P.L. 112-240 (ATRA) made the EGTRRA changes permanent and extended the ARRA provisions for families with three or more children and marriage penalty relief for five years (through tax year 2017).

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