Earned Income Tax Credit

The Earned Income Tax Credit (EITC) sometimes called the Earned Income Credit (EIC), is a refundable federal income tax credit for low-income working individuals and families. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of social security taxes and to provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit. If you think you might be eligible for the Earned Income Tax Credit, look over the requirements below and keep them handy.

2007 E.I.T.C Requirements

- Must work and have earned income
- Must have a valid Social Security number
- Investment income limited to $2,800
- Generally must be a US citizen or resident alien all year
- Filing status can not be "married filing separately"
- Cannot be a qualifying child of another person
- Cannot file Form 2555 or 2555-EZ

Proper Income Reporting

- Income must be less than:
- $12,120 ($14,120 if married filing jointly) with no qualifying child
- $32,001 ($34,001 if married filing jointly) with one qualifying child
- $36,348 ($38,348 if married filing jointly) with more than one qualifying child

Federal Child Tax Credit (CTC)

With the Child Tax Credit, you may be able to reduce the federal income tax you owe by up to $1,000 for each qualifying child under the age of 17.

A qualifying child for this credit is someone who meets the following criteria:

- Age Was under age 17 at the end of 2006
- Relationship Is your son, daughter, adopted child, stepchild or eligible foster child, sibling, or stepsibling or a descendant of any of these individuals
- Citizenship Is a U.S. citizen or resident alien
- Support Did not provide over half of his or her support and did live with you for more than half of 2006 (note that some exceptions to this criteria exist)

The credit is limited if your modified adjusted gross income is above a certain amount. The amount at which this phase-out begins varies depending on your filing status:

- Married Filing Jointly $110,000
- Married Filing Separately $ 55,000
- All others $ 75,000

Federal Child and Dependent Care Tax Credits

If you paid someone to care for a child under age 13 or a qualifying spouse or dependent so you could work or look for work, you may be able to reduce your tax by claiming the Child and Dependent Care Credit on your federal income tax return. To qualify, your spouse, children over the age of 13, and other dependents must be physically or mentally incapable of self-care.

The credit is a percentage of the amount of work-related child and dependent care expenses you paid to a care provider. The credit can be up to 35 percent of your qualifying expenses, depending upon your income.

For 2006, you may use up to $3,000 of the expenses paid in a year for one qualifying individual, or $6,000 for two or more qualifying individuals. These dollar limits must be reduced by the amount of any dependent care benefits provided by your employer that you exclude from your income.

To claim the credit for child and dependent care expenses, you must meet the following conditions:

- Income You must have earned income from wages, salaries, tips or other taxable employee compensation, or net earnings from self-employment
- Payee The payments for care cannot be paid to someone you can claim as your dependent on your return or to your child who is under age 19, even if they are not your dependents
- Filing Status Your filing status must be single, married filing jointly, head of household, or qualifying widow(er) with a dependent child
- Care The care must have been provided for one or more qualifying persons
- Home The qualifying person must have lived with you for more than half of 2006

There are some limitations on the amount of credit you can claim. If you received dependent care benefits from your employer, other rules apply.

State Earned Income and Dependent Care Tax Credits

GA Child and Dependent Care Expense Credit provides taxpayers with a credit for qualified child & dependent care expenses. Such credit is determined by applying a percentage to the amount of the credit allowed under Internal Revenue Code and claimed by the taxpayer on the taxpayer's Federal income tax return.

Dependent Care Assistance Programs (DCAPs)

Your employer may offer a Dependent Care Assistance Program, which allows you to have money (up to $5,000 a year) taken out of your paycheck tax-free and put into a special account to be used for child care tuition reimbursement.

The main purpose of this type of program is to help you lower the amount of taxes you have to pay during the year. You should never put more money into this account than you will actually spend, because in most cases you will lose any leftover at the end of year. You also can't claim any money you put in a DCAP for the Child and Dependent Care Tax Credit.