

What is the Earned income Tax Credit?

This credit is called the “earned income” credit because, to qualify, you must work and have earned income. If you are married and file a joint return, you meet this rule if at least one spouse works and has earned income. If you are an employee, earned income includes all the taxable income you get from your employer.

What is Earned Income?

Earned income includes all of the following types of income.

1. Wages, salaries, tips, and other taxable employee pay. Employee pay is earned income only if it is taxable. Nontaxable employee pay, such as certain dependent care benefits and adoption benefits, is not earned income. But there is an exception for nontaxable combat pay, which you can choose to include in earned income, as explained later in this chapter.
2. Net earnings from self-employment.
3. Gross income received as a statutory employee.

Wages, salaries, and tips. Wages, salaries, and tips you receive for working are reported to you on Form W-2, in box 1. You should report these on line 1 (Form 1040EZ) or line 7 (Forms 1040A and 1040).

Nontaxable combat pay election. You can elect to include your nontaxable combat pay in earned income for the earned income credit. The amount of your nontaxable combat pay should be shown on your Form W-2, in box 12, with code Q. Electing to include nontaxable combat pay in earned income may increase or decrease your EIC.

Net earnings from self-employment. You may have net earnings from self-employment if:

- ♦ You own your business, or
- ♦ You are a minister or member of a religious order.

Minister's housing. The rental value of a home or a housing allowance provided to a minister as part of the minister's pay generally is not subject to income tax but is included in net earnings from self-employment. For that reason, it is included in earned income for the EIC (except in the cases described in *Approved Form 4361 or Form 4029*, below). See *Example 4* in chapter 6.

Statutory employee. You are a statutory employee if you receive a Form W-2 on which the “Statutory employee” box (box 13) is checked. You report your income and expenses as a statutory employee on Schedule C or C-EZ (Form 1040).

Strike benefits. Strike benefits paid by a union to its members are earned income.

How much could I qualify for?

Earned Income and adjusted gross income (AGI) must each be less than:

- ♦ \$45,060 (\$50,270 married filing jointly) with three or more qualifying children
- ♦ \$41,952 (\$47,162 married filing jointly) with two qualifying children
- ♦ \$36,920 (\$42,130 married filing jointly) with one qualifying child
- ♦ \$13,980 (\$19,190 married filing jointly) with no qualifying children

Tax Year 2012 maximum credit:

- ♦ \$5,891 with three or more qualifying children
- ♦ \$5,236 with two qualifying children
- ♦ \$3,169 with one qualifying child
- ♦ \$475 with no qualifying children
- ♦ **Investment income** must be \$3,200 or less for the year