

# Lines 39a and 39b— Earned Income Credit (EIC)

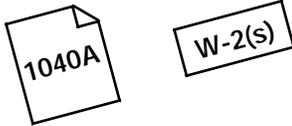
## What Is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

## To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you **or** let the IRS figure the credit for you.
- If you have a qualifying child, complete and attach Schedule EIC.

You Will Need:



If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

## Step 1 All Filers

1. Is the amount on Form 1040A, line 20, less than \$32,121 (or \$10,710 if a child did not live with you in 2001)?
  - Yes.** *Continue* →
  - No.** You cannot take the credit.
2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 42)?
  - Yes.** *Continue* →
  - No.** You cannot take the credit. Put "No" directly to the right of line 39a.
3. Is your filing status married filing separately?
  - Yes.** You cannot take the credit.
  - No.** *Continue* →
4. Were you a nonresident alien for any part of 2001?
  - Yes.** *See Nonresident Aliens on page 42.*
  - No.** *Go to Step 2.*

## Step 2 Investment Income

1. Add the amounts from Form 1040A:
 

Line 8a	_____			
Line 8b	+			
Line 9	+			
Line 10	+			
<b>Investment Income</b>			=	

2. Is your investment income more than \$2,450?
  - Yes.** You cannot take the credit.
  - No.** *Go to Step 3.*

## Step 3 Who Must Use Pub. 596



Some people must use Pub. 596, Earned Income Credit, to see if they can take the credit and how to figure it. To see if you must use Pub. 596, answer the following questions.

1. Did you, or your spouse if filing a joint return, receive a distribution from a pension, annuity, IRA, or Coverdell ESA that is not fully taxable?
  - No.** *Continue* →
  - Yes.** You must use Pub. 596 to see if you can take the credit and how to figure it. To get Pub. 596, see page 7.
2. Does the amount on Form 1040A, line 26, include the alternative minimum tax?
  - No.** *Continue* →
  - Yes.** You must use Pub. 596 to see if you can take the credit and how to figure it. To get Pub. 596, see page 7.
3. Did a child live with you in 2001?
  - Yes.** *Go to Step 4 on page 40.*
  - No.** *Go to Step 5 on page 40.*

(Continued on page 40)



Continued from page 40

### Step 7 Nontaxable and Taxable Earned Income

- Add all your nontaxable earned income, including your spouse's if filing a joint return. This includes anything of value (money, goods, or services) that is not taxable that you received from your employer for your work. Types of nontaxable earned income are listed below.
  - Salary deferrals, such as a 401(k) plan or the Federal Thrift Savings Plan, shown in box 12 of your W-2 form. See page 42.
  - Salary reductions, such as under a cafeteria plan, unless they are included in box 1 of your W-2 form. See page 42.
  - Mandatory contributions to a state or local retirement plan.
  - Military employee basic housing, subsistence, and combat zone compensation. These amounts are shown in box 12 of your W-2 form with code Q.
  - Meals and lodging provided for the convenience of your employer.
  - Housing allowances or rental value of a parsonage for clergy members.
  - Excludable dependent care benefits from Schedule 2, line 18, employer-provided adoption benefits from Form 8839, line 26, and educational assistance benefits (these benefits may be shown in box 14 of your W-2 form).
  - Certain amounts received by Native Americans. See Pub. 596.

**Note.** Nontaxable earned income does not include welfare benefits or workfare payments (see page 42), or qualified foster care payments.

Nontaxable Earned Income = Box B

Enter this amount on Form 1040A, line 39b.



2. Figure taxable earned income:  
Form 1040A, line 7 \_\_\_\_\_

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a W-2 form
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted in the space to the left of line 7 of Form 1040A)
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a section 457 plan (put "DFC" and the amount subtracted in the space to the left of line 7 of Form 1040A). This amount may be shown in box 11 of your W-2 form. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

Taxable Earned Income = Box C

Go to Step 8.

### Step 8 Total Earned Income

- Nontaxable Earned Income (Step 7, Box B) \_\_\_\_\_  
Taxable Earned Income (Step 7, Box C) + \_\_\_\_\_

Total Earned Income = Box D

- If you have:
  - 2 or more qualifying children, is Box D less than \$32,121?
  - 1 qualifying child, is Box D less than \$28,281?
  - No qualifying children, is Box D less than \$10,710?

Yes. Go to Step 9.       No. You cannot take the credit. Put "No" directly to the right of line 39a.

### Step 9 How To Figure the Credit

- Do you want the IRS to figure the credit for you?
 

Yes. See Credit Figured by the IRS below.       No. Go to the worksheet on page 43.

### Definitions and Special Rules

(listed in alphabetical order)

**Adopted Child.** Any child placed with you by an authorized placement agency for legal adoption. An authorized placement agency includes any person authorized by state law to place children for legal adoption. The adoption does not have to be final.

**Credit Figured by the IRS.** To have the IRS figure the credit for you:

- Put "EIC" directly to the right of line 39a of Form 1040A.
- Be sure you entered the amount of any nontaxable earned income (Step 7, Box B, on this page) on Form 1040A, line 39b.
- If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see Form 8862, Who Must File, on page 42.

(Continued on page 42)

**Continued from page 41**

**Exception to “Time Lived With You” Condition.** A child is considered to have lived with you for all of 2001 if the child was born or died in 2001 and your home was this child’s home for the entire time he or she was alive in 2001. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see Members of the Military below.

**Form 8862, Who Must File.** You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But do not file Form 8862 if, after your EIC was reduced or disallowed in an earlier year:

- You filed Form 8862 (or other documents) and your EIC was then allowed and
- Your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.

Also, do not file Form 8862 or take the credit if it was determined that your error was due to reckless or intentional disregard of the EIC rules or fraud.

**Foster Child.** Any child you cared for as your own child **and** who is (a) your brother, sister, stepbrother, or stepsister; (b) a descendant (such as a child, including an adopted child) of your brother, sister, stepbrother, or stepsister; **or** (c) a child placed with you by an authorized placement agency. For example, if you acted as the parent of your niece or nephew, this child is considered your foster child.

**Grandchild.** Any descendant of your son, daughter, or adopted child. For example, a grandchild includes your great-grandchild, great-great-grandchild, etc.

**Married Child.** A child who was married at the end of 2001 is a qualifying child only if (a) you can claim him or her as your dependent on Form 1040A, line 6c, or (b) this child’s other parent claims him or her as a dependent under the rules on page 23 for Children of Divorced or Separated Parents.

**Members of the Military.** If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.

**Nonresident Aliens.** If your filing status is married filing jointly, go to Step 2 on page 39. Otherwise, stop; you cannot take the EIC.

**Permanently and Totally Disabled Child.** A child who cannot engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition:

- Has lasted or can be expected to last continuously for at least a year or
- Can lead to death.

**Qualifying Child of More Than One Person.** If the child meets the conditions to be a qualifying child of more than one person, only the person who had the **highest** modified adjusted gross income (AGI) for 2001 may treat that child as a qualifying child. The other person(s) cannot take the EIC for people who do not have a qualifying child. If the other person is your spouse and you are filing a joint return, this rule does not apply. If you have the highest modified AGI, this child is

your qualifying child. The child must have a social security number as defined on this page unless the child was born and died in 2001. Skip Step 5; go to Step 6 on page 40. If you do not have the highest modified AGI, stop; you cannot take the EIC. Put “No” directly to the right of line 39a.

**Modified AGI** is the total of the amounts on Form 1040A, lines 8b and 20, plus certain nontaxable distributions from a pension, annuity, or IRA. See Pub. 596 for details. If the other person filed Form 1040, see Pub. 596 to find out what is included in modified AGI.

**Example.** You and your 5-year-old daughter moved in with your mother in April 2001. You are not a qualifying child of your mother. Your daughter meets the conditions to be a qualifying child for both you and your mother. Your modified AGI for 2001 was \$8,000 and your mother’s was \$14,000. Because your mother’s modified AGI was higher, your daughter is your mother’s qualifying child. You **cannot** take any EIC even if your mother does not claim the credit. You would put “No” directly to the right of line 39a.

**Salary Deferrals.** Contributions from your pay to certain retirement plans, such as a 401(k) plan or the Federal Thrift Savings Plan, shown in box 12 of your W-2 form. The “Retirement plan” box in box 13 of your W-2 form should be checked.

**Salary Reductions.** Amounts you could have been paid but you chose instead to have your employer contribute to certain benefit plans, such as a cafeteria plan. A cafeteria plan is a plan that allows you to choose to receive either cash or certain benefits that are not taxed (such as accident and health insurance).

**Social Security Number (SSN).** For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless “Not Valid for Employment” is printed on the social security card and the number was issued solely to apply for or receive a Federally funded benefit.

To find out how to get an SSN, see page 20. If you will not have an SSN by April 15, 2002, see What if You Cannot File on Time? on page 14.

**Student.** A child who during any 5 months of 2001:

- Was enrolled as a full-time student at a school or
- Took a full-time, on-farm training course given by a school or a state, county, or local government agency.

A **school** includes technical, trade, and mechanical schools. It does not include on-the-job training courses, correspondence schools, or night schools.

**Welfare Benefits, Effect of Credit on.** Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs, or how much you can receive from them.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

**Workfare Payments.** Cash payments certain people receive from a state or local agency that administers public assistance programs funded under the Federal Temporary Assistance for Needy Families (TANF) program in return for certain work activities such as:

- Work experience activities (including work associated with remodeling or repairing publicly assisted housing) if sufficient private sector employment is not available or
- Community service program activities.

Earned Income Credit (EIC) Worksheet—Lines 39a and 39b

Keep for Your Records



**Part 1**

All Filers

1. Enter your total earned income from Step 8, Box D, on page 41. 1

2. Look up the amount on line 1 above in the EIC Table on pages 44–46 to find the credit. Enter the credit here. 2

If line 2 is zero, You cannot take the credit. Put “No” directly to the right of line 39a.

3. Enter your modified adjusted gross income from Step 6, Box A, on page 40. 3

4. Are the amounts on lines 3 and 1 the same?  
 **Yes.** Skip line 5; enter the amount from line 2 on line 6.  
 **No.** Go to line 5.

**Part 2**

Filers Who Answered “No” on Line 4

5. Is the amount on line 3 less than:  
 • \$5,950 if you do not have a qualifying child **or**  
 • \$13,100 if you have one or more qualifying children?  
 **Yes.** Leave line 5 blank; enter the amount from line 2 on line 6.  
 **No.** Look up the amount on line 3 in the EIC Table on pages 44–46 to find the credit. Enter the credit here. 5  
 Look at the amounts on lines 5 and 2. Then, enter the **smaller** amount on line 6.

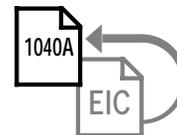
**Part 3**

Your Earned Income Credit

6. **This is your earned income credit.** 6

**Reminder—**

- ✓ Be sure you entered the amount of any nontaxable earned income (Step 7, Box B, on page 41) on Form 1040A, line 39b.
- ✓ If you have a qualifying child, complete and attach Schedule EIC.



Enter this amount on Form 1040A, line 39a.



If your EIC for a year after 1996 was reduced or disallowed, see page 42 to find out if you must file Form 8862 to take the credit for 2001.