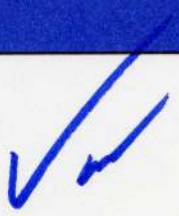


U.S. Congressman
Nick Rahall
WORKING FOR WEST VIRGINIANS

FOR IMMEDIATE RELEASE

FEBRUARY 19, 1991



CONTACT: STEVE SPINA

PHONE: (202) 225-3452

RAHALL URGES FAMILIES TO APPLY FOR EIC BENEFITS

WASHINGTON, D.C. -- Representative Rahall (D-WV), announced today that 88,000 West Virginia families received \$46.6 million of federal funds in 1989 from the Earned Income Credit program (EIC). Rahall is urging families to apply for this program, which will continue to expand its benefits to individuals by approximately 70% by the year 1994.

The Earned Income Credit program was established by Congress in 1975 to financially assist low income working families while serving as an incentive to work and earn income. Eligibility requires that families have both an earned and adjusted gross income in 1990 of less than \$20,264 and support at least one child living at home for at least one half of the year. In addition, a family must file a federal income tax return, even if they do not owe any taxes, in order to receive the EIC benefits.

"The EIC not only assists families' incomes, but promotes state and local economies as well," declared Rahall. "With more families receiving EIC benefits," Rahall described, "their poverty level will be lessened, enabling more money to be funneled into the local economy, and reducing somewhat the need for increased public services."

"There could be several thousand West Virginia families that may qualify for these federal benefits, but may be unaware of the program," said Rahall. "I want to make sure these families become aware of and apply for the EIC program."

Families with questions about the Earned Income Credit can receive free help from the IRS by calling: 1-800-829-1040.

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Congressional Sunbelt Caucus
U.S. House of Representatives

Hon. Lindsay Thomas
Co-Chairman

Joseph W. Westphal
Executive Director

Hon. E. Clay Shaw, Jr.
Co-Chairman

February 14, 1990

Dear Press Secretary:

In 1989 constituents in your district, and throughout the Sunbelt region, received some \$2.8 billion from a federally funded program. West Virginia alone garnered \$46.6 million. This same program will be expanding its benefits by approximately 70% by the year 1994. I would like to take this opportunity to provide you with information concerning this federal program, and what it means to constituents in your district.

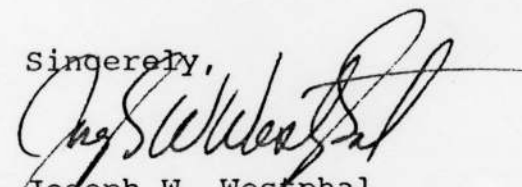
The Earned Income Credit was created by Congress in 1975 to help assist low income working families. Legislation enacted in the fall of 1990 will provide impressive expansion for the program through 1994.

In order for constituents in your district to benefit from the expansion of this program they must be made aware of the fact that it is available.

You will find attached a sample press release, general information concerning the Earned Income Credit program, telephone numbers and basic instructions for your constituents.

We at the Sunbelt Caucus feel this is an excellent program with potential to create a positive impact for the communities in your district.

Sincerely,



Joseph W. Westphal
Executive Director

For Immediate Release: (Date)
Contact: (Press Secretary)

EIC GEARED UP TO BOOST STATE AND LOCAL ECONOMY

Tax filing time is drawing near and with the economy in a state of recession the EARNED INCOME CREDIT program looks to boost the state and local economies. In 1989 \$ 46.6 million of federal EIC funds flowed into the State of West Virginia , assisting over 88,000 families.

The EARNED INCOME CREDIT is designed to financially assist working families that have both earned and adjusted gross income in 1990 of less than \$20,264 and have at least one child living at home for at least one half of the year.

It appears that ~~there~~ ^{there} could be several thousand families in West Virginia who may qualify for the federal benefits but are unaware of the program. Recent estimates show that as many as 3 to 4 million families, nationally, or one in every five families eligible for the EIC do not receive it. As the program expands, increasing benefits by approximately 70% by the tax year 1994, so should the growth in public awareness.

Remember that it is important to file a federal income tax return even if you do not owe any taxes. Also, when filing the 1040 or 1040a form, families should fill out the line on EARNED INCOME CREDIT. Eligible families have the option of claiming their benefits upon filing their tax returns or receiving their EIC throughout the year in their regular paychecks.

Families with questions about the EARNED INCOME CREDIT can receive free help from the IRS by telephone. In West Virginia the telephone number is: 1-800-829-1040 .

Lets help families move from welfare to work with the EARNED INCOME CREDIT program.

EARNED INCOME CREDIT FACT SHEET

Eligibility Requirements for the Earned Income Credit

The Earned Income Credit, or EIC, is a tax credit for working families that have both earned and adjusted gross income in 1990 of less than \$20,264 and that have at least one child living at home for at least half of the year.

The credit is "refundable." This means that eligible low income working families can benefit from the EIC **even if they owe no federal income tax or have no income tax withheld**. Eligible families that owe no income tax receive a check from the Internal Revenue Service in the amount of their credit.

But to receive this check, eligible families **must file a federal income tax return**. Those who do not owe any taxes can file their tax return at any time. They will not be penalized if they miss the April 15th deadline.

If a family does owe federal income tax, the EIC reduces the amount it owes. If the family is entitled to an EIC benefit that is larger than the amount of income tax it owes, the family's tax will be reduced to zero—and the IRS will issue the family a check for the remaining amount of its EIC.

To receive the EIC, families must file a 1040 or 1040A federal income tax form. Families that file the 1040EZ form (the shortest of the forms) do not get the EIC.

When filing the 1040 or 1040A form, families should attempt to fill out the line on the Earned Income Credit.¹ While the IRS will compute the credit automatically for some eligible families that fail to fill out the EIC line, the IRS now limits the circumstances in which it will perform this service. Also, a parent filing as a "single" tax filer rather than a "head of household" cannot get the EIC. To be eligible, parents must file as a "married couple filing a joint return," a "head of household," or a "qualifying widow (or widower) with dependent child."

Eligible families may choose to receive their EIC throughout the year in their regular paychecks, rather than waiting to claim it on their tax return. Employees who wish to have the EIC payments added to their paychecks should ask their employer for a W-5 form, complete the form, and file it with their employer. If an eligible employee does file the W-5, the employer is required to add the employee's EIC payments into the paychecks during the course of the year. The employer simply subtracts this amount from the amount of income and payroll tax it would otherwise deposit with the IRS. For more information on how to receive the EIC in regular paychecks, see the enclosed fact sheet titled "Receiving EIC By Paycheck: The Advance Payment Option."

Eligible families may also file for retroactive EIC payments from the last three years—tax years 1987, 1988 and 1989—if they have not already filed income tax returns for those years.

More than 11.1 million low income families received the EIC for tax year 1988.

Why the Need for a Campaign on the Earned Income Credit?

Informing low income families about the credit—and the need to file a federal tax return to receive it—is very important. This is true for two reasons. First, the federal Tax Reform Act of 1986 eliminated federal income tax liabilities for millions of low income working families. As a result, many low income working families no longer owe any federal income taxes. A substantial number of these families may think there is no reason to file a tax return, especially if they receive a W-2 form from their employer that shows no federal income tax was withheld during the past year. If they fail to file a return, however, they lose the EIC benefits to which they are entitled.

¹This is line 57 on the 1040 form and line 28c on the 1040A form.

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Also, the Tax Reform Act of 1986 enlarged the EIC. Most working families earning between \$6,000 and \$12,000 in 1990 now qualify for a credit of more than \$800. The maximum EIC benefit for tax year 1990 is \$953.

Legislative History of the EIC

Created by Congress in 1975, the Earned Income Credit was designed to offset the regressive impact that Social Security payroll taxes have on low income working families. The EIC also serves as an incentive to work and earn income. The EIC was enlarged by the Tax Reform Act of 1986.

In the fall of 1990, legislation was enacted to expand the EIC further. Beginning with tax year 1991, EIC payments to eligible families will increase substantially. However, these expansions in the Earned Income Credit are **not** effective for tax year 1990. For more information on how the new legislation will affect future EIC benefits—and its relevance to this and future campaigns—see the fact sheet titled "New Law Greatly Expands EIC Benefits."

The Benefits of the EIC

To State and Local Governments and Residents

- Increased receipt of the EIC boosts state and local economies. In 1989, nearly \$6 billion in federal EIC funds flowed into the 50 states, assisting more than 11 million American families. Most EIC benefits are spent locally.
- If more working poor families file federal income tax returns and receive EIC benefits, the poverty of these families will be lessened. This can reduce somewhat the need for increased public services and therefore can benefit state and local governments from a fiscal standpoint.
- The EIC is a work incentive. It helps ensure that the benefits of work surpass the benefits of public assistance.

To Corporations and Businesses

- EIC benefits boost the effective return that employees receive for their work, at no additional cost to employers.
- EIC benefits increase the purchasing power of low income consumers.

To Rural and Heavily Hispanic Areas

- The proportion of families that work and earn low wages is particularly high in rural areas and among Hispanics. Increased use of the EIC can be especially important for these families and for the communities in which they reside.

How Can Eligible Families Find Out More about the EIC?

The Center on Budget and Policy Priorities is spearheading a national public education campaign. Many social service organizations, labor unions, employers, churches, charities, community and neighborhood organizations, and government entities are part of this effort.

Low income families are encouraged to ask their employer about the EIC, to call their local Internal Revenue Service office, or to call the toll-free IRS hotline at **1-800-829-1040**. (For local IRS phone numbers, see the flyer titled "Phone Numbers To Call For EIC Information Or Tax Help" in this kit.) Families may also visit local volunteer IRS tax clinics (Volunteer Information Tax Assistance, or VITA offices) for assistance in filling out their tax forms during the tax filing season. For the phone number of the nearest VITA office, call your local IRS office or call the toll-free IRS 800 number.

SOUTHERN STATES LIKELY TO GAIN FROM EIC OUTREACH

EIC outreach campaigns are likely to be especially important in Southern states because wages tend to be much lower in the South than elsewhere in the nation. Labor Department data indicate that the average hourly earnings of workers paid by the hour were 12 percent lower in the South than in the rest of the nation in 1989. Southern workers were much more likely to be low-wage workers than were people employed outside the South.

- In 1989, some 14 percent of workers in Southern states — one in every seven — earned less than \$4 an hour. Some 29 percent — or more than one in every four — earned less than \$5 an hour.
- By comparison, nine percent of workers in non-Southern states earned less than \$4 an hour; 21 percent earned less than \$5 an hour.

One consequence of the lower wages paid to Southern workers is that there is a greater chance they will be poor. The poverty rate among working families is significantly higher in the South than in the rest of the nation.

Because Southern workers earn significantly lower wages than workers in other regions, they are also much more likely to be eligible for the EIC. This conclusion is supported by data on EIC receipt.

IRS data for 1988 show that the of the 13 states in which the proportion of tax filers receiving EIC benefits is the highest, 12 are Southern states. (See Table on the back of this page.)

When *all* Southern states are considered, the importance of the EIC to the South is evident.

- On average, 17 percent of the tax filers in the Southern states — or one in every six — received the EIC in 1988. This is well above the average of 10 percent in non-Southern states.
- While 32 percent of tax filers reside in the South, a much higher proportion of families receiving the EIC — 44 percent — live there.

The larger number of families receiving the EIC in the South does not appear to be due to more effective outreach there. To the contrary, Southern working families are more likely to receive the EIC because they are much more likely to have low incomes and to be eligible for the EIC. In fact, since a disproportionate number of the families eligible for EIC benefits live in the South, it is also likely that a disproportionate share of those who are eligible for the credit but do *not* receive it also live in the South. This underscores the importance of outreach campaigns targeted at Southern families.

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**The 13 States with the Highest Proportion
of Taxpayers Receiving the EIC**

<u>State</u>	<u>Percentage of Tax Filers Receiving the EIC, 1988</u>	<u>Rank (1 = highest)</u>
Mississippi	32.5%	1
Louisiana	24.4	2
New Mexico	22.3	3
Arkansas	22.0	4
Alabama	21.8	5
Texas	19.2	6
South Carolina	19.1	7
Tennessee	17.6	8
Georgia	17.2	9
Oklahoma	16.8	10
Kentucky	16.8	11
West Virginia	16.3	12
North Carolina	16.2	13

Source: Center on Budget and Policy Priorities compilation of Internal Revenue Service data.

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AND FISCAL AFFAIRS
WASHINGTON, DC 20540

1988-1989

THE EARNED INCOME

1988-1989

RECEIVING EIC BY PAYCHECK: THE ADVANCE PAYMENT OPTION

Most low income working families receive their EIC payment in a lump sum by filing a federal income tax return and receiving a check back from the IRS. However, there is an alternative way that families can receive their EIC payment: these payments can be added to their regular paychecks throughout the year.

This aspect of the Earned Income Credit is not well known. But federal law requires that if an eligible worker requests that EIC benefits be added into his or her paycheck—and makes this request by filing a W-5 form with his or her employer—the employer **must** honor this request.

When EIC benefits are added into an employee's paycheck throughout the year, the employee is said to be receiving EIC "advance payments." The term "advance payment" is used because the employee is receiving the Earned Income Credit in advance of filing an income tax return for the year.

For many families, the EIC may be most effective when it supplements their earnings throughout the year and helps them meet the cost of ongoing necessities. In fact, the advance payment option is now more valuable than ever, due to recent legislation that substantially increases the EIC beginning with tax year 1991. (For more information on this legislation and its effects, see the separate fact sheet titled "New Law Greatly Expands EIC Benefits.")

Unfortunately, many families are effectively denied the option to receive EIC advance payments—because they do not know the option exists.

INFORMATION FOR EMPLOYEES

How does an employee obtain EIC advance payments?

It is not difficult for employees who qualify for the EIC to receive it through their regular paycheck. They simply fill out a W-5 form, called the "Earned Income Credit Advance Payment Certificate." It is available from employers or can be ordered free from the IRS by calling (toll free) **1-800-829-3676**. Eligible employees can file a W-5 form any time during the year but should file as early as possible to begin receiving their benefits. Eligible employees must file a **new** W-5 form at the beginning of each calendar year to continue receiving the EIC in their paycheck.

The bottom portion of the W-5 form is given to the employer. The top portion should be kept for the employee's records. An employee who has more than one employer can file a W-5 with only **one** employer. If an employee has a working spouse, each may file a separate W-5 form, but both employers must be told that their employee's spouse has filed a separate W-5.

Employees who receive the EIC in their paycheck **must** file a federal income tax return (1040 or 1040A) after the end of the year.

Note: EIC advance payments—as an advance on a tax refund—do not constitute wages and are **not** subject to income or payroll taxes.

What should an employee do if the employer is unaware of the option to receive EIC advance payments?

Some employers may not be aware of the EIC advance payment procedure or of the existence of the W-5 form and related instructions. Any eligible employee who wishes to receive the EIC in his or her paycheck—and files a W-5 form with the employer—must be provided EIC advance payments. If an employer is unaware of

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these procedures and requirements, the employee can ask the employer to consult the IRS' Employer's Tax Guide, Circular E, for detailed instructions. In addition, employers may call the IRS toll-free at 1-800-829-3676 to order W-5 forms or IRS publication 596, which provides further detailed information about the EIC.

Note: Employers also are required to notify employees who had no federal income tax withheld during a year about the EIC—and about the employees' right to receive it in their paychecks or in a lump sum by filing a tax return. Employers must provide this information around the time when W-2 forms are distributed to employees in January. The information may either be printed on the W-2 form or provided as a separate notice.

What happens if an employee receives EIC advance payments, but these payments exceed or fall short of the employee's EIC entitlement for the year?

Employees receiving the EIC advance payments must file a federal income tax return after the end of the year. Receipt of too much or too little in EIC advance payments is treated in the same manner as having too much or too little income tax withheld from regular paychecks during the year. Those employees who received advance payments that were too small either will be sent a check for the remainder of the EIC they are due or can use the remainder to reduce the income tax they otherwise owe. Those who received advance payments that were too large either have an income tax refund they would otherwise receive reduced by the excess amount or pay the excess amount back by sending a check to the IRS.

INFORMATION FOR EMPLOYERS

How does an employer find out about the EIC advance payment procedures?

Employers seeking instructions on making EIC advance payments should consult the IRS' Employer's Tax Guide, Circular E.

Why should employers provide EIC advance payments to their employees?

The law requires employers to provide EIC advance payments to eligible employees who file a W-5 and request such payments. Doing so may also produce a benefit for some employers: adding the EIC to the regular paycheck may help reduce staff turnover and stabilize the workforce by making it a little easier for low wage workers with children to make ends meet.

Are employers required to notify their employees about the EIC?

Employers are required to notify one group of employees—those who had no income tax withheld during the year—about the EIC and the need to file a federal tax return to receive it. The notice must also inform these employees about the option to receive the EIC in their paycheck. The notice must be provided at about the same time that the employer provides his or her other employees with their W-2 forms.

Of course, employers can go beyond this narrow requirement and can elect to inform all of their low wage employees who have children about the EIC and how to receive it.

How are the EIC advance payments made and how do they affect withholding obligations?

EIC advance payments are added to the wages of eligible employees who file a W-5 with their employer. Generally, the employers provide the EIC advance payments by taking the funds from the income tax and Social Security withholdings they would deposit with the IRS. The employer simply subtracts the amount of the EIC advance payments being added to workers' paychecks from the withholding taxes the employer otherwise would deposit. If the EIC advance payments should exceed the total amount that an employer has withheld for income tax and Social Security tax purposes—a highly unusual situation—there are special procedures for the employer to follow; see the IRS' Employer's Tax Guide, Circular E, for details.

EIC PARTICIPATION BY STATE

The latest data available from the IRS on the number of EIC beneficiaries in each state are printed below. Please note these data are for **tax year 1988** and reflect, in most cases, EIC benefits that were received in 1989 for the 1988 tax year.

The table indicates that over 11.1 million families nationwide received the EIC for tax year 1988, an increase of 24 percent over the previous year. These families obtained total EIC benefits of \$5.9 billion.

<u>State</u>	<u>Number of Returns</u>	<u>Amount</u>
Alabama	276,555	\$156,275,000
Alaska	15,635	7,204,000
Arizona	179,792	96,526,000
Arkansas	158,641	87,371,000
California	1,375,678	754,415,000
Colorado	135,613	70,746,000
Connecticut	70,144	33,810,000
Delaware	26,856	14,291,000
District of Columbia	40,104	20,420,000
Florida	636,376	349,276,000
Georgia	382,423	210,378,000
Hawaii	38,014	18,349,000
Idaho	48,734	25,450,000
Illinois	446,453	231,069,000
Indiana	227,070	118,971,000
Iowa	94,865	47,544,000
Kansas	93,926	47,414,000
Kentucky	197,167	106,466,000
Louisiana	300,045	168,052,000
Maine	49,245	24,820,000
Maryland	178,170	91,590,000
Massachusetts	139,659	68,151,000
Michigan	291,467	147,176,000
Minnesota	122,226	60,193,000
Mississippi	227,381	131,110,000
Missouri	232,142	122,113,000
Montana	40,124	20,856,000
Nebraska	63,049	32,034,000
Nevada	49,379	25,840,000
New Hampshire	29,387	14,430,000
New Jersey	277,038	141,900,000
New Mexico	105,367	56,536,000
New York	710,531	371,120,000
North Carolina	389,037	214,080,000
North Dakota	27,920	13,922,000
Ohio	397,824	203,503,000
Oklahoma	170,047	91,095,000
Oregon	115,402	59,953,000
Pennsylvania	413,340	210,361,000
Rhode Island	30,966	15,630,000
South Carolina	222,372	123,444,000
South Dakota	33,350	16,983,000
Tennessee	295,669	160,502,000
Texas	1,052,374	576,551,000
Utah	62,843	32,028,000
Vermont	19,853	9,872,000
Virginia	240,019	127,356,000
Washington	164,165	83,199,000
West Virginia	88,501	46,610,000
Wisconsin	144,322	72,626,000
Wyoming	19,658	10,191,000
Other	2,046	1,079,000
U.S. Total	11,148,994	\$5,940,882,000

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