

EIC Notice

California Employers Must Provide Written Earned Income Tax Credit Notice

Effective January 1, 2008, California employers are required to provide all employees with written notice of their possible right to an Earned Income Tax Credit on their federal income tax returns. Legislative sponsors felt the measure, Assembly Bill 650, was necessary because "hundreds of millions of federal dollars go unclaimed by the working poor in California" since few eligible employees participate in the federal earned income tax credit program.

Earned Income Tax Credit eligibility is based on an individual's adjusted gross income. To qualify for earned income tax credit for the 2007 tax year, an individual's adjusted gross income must be less than \$37,783, with two or more qualifying children, \$32,241, with one qualifying child, or \$12,590, with no qualifying children.

To comply with the statute, an employer must hand-deliver or mail a written notice to all employees (defined as any person who is covered by unemployment insurance by his or her employer, under the California Unemployment Insurance Code). The notice must be provided within one week (whether before, after or at the same time) of when the employer provides the employee with an annual wage summary, such as W-2 or 1099 Forms. The required notice must state:

BASED ON YOUR ANNUAL EARNINGS, YOU MAY BE ELIGIBLE TO RECEIVE THE EARNED INCOME TAX CREDIT FROM THE FEDERAL GOVERNMENT. THE EARNED INCOME TAX CREDIT IS A REFUNDABLE FEDERAL INCOME TAX CREDIT FOR LOW-INCOME WORKING INDIVIDUALS AND FAMILIES. THE EARNED INCOME TAX CREDIT HAS NO EFFECT ON CERTAIN WELFARE BENEFITS. IN MOST CASES, EARNED INCOME TAX CREDIT PAYMENTS WILL NOT BE USED TO DETERMINE ELIGIBILITY FOR MEDICAID, SUPPLEMENTAL SECURITY INCOME, FOOD STAMPS, LOW-INCOME HOUSING OR MOST TEMPORARY ASSISTANCE FOR NEEDY FAMILIES PAYMENTS. EVEN IF YOU DO NOT OWE FEDERAL TAXES, YOU MUST FILE A TAX RETURN TO RECEIVE THE EARNED INCOME TAX CREDIT. BE SURE TO FILL OUT THE EARNED INCOME TAX CREDIT FORM IN THE FEDERAL INCOME TAX RETURN BOOKLET. FOR INFORMATION REGARDING YOUR ELIGIBILITY TO RECEIVE THE EARNED INCOME TAX CREDIT, INCLUDING INFORMATION ON HOW TO OBTAIN THE IRS NOTICE 797 OR FORM W-5, OR ANY OTHER NECESSARY FORMS AND INSTRUCTIONS, CONTACT THE INTERNAL REVENUE SERVICE BY CALLING 1-800-829-3676 OR THROUGH ITS WEB SITE AT WWW.IRS.GOV.

Although the Earned Income Tax Credit is available only to a limited number of employees, all employees must receive the required notice. Employers will likely find it most efficient to enclose a copy of the notice with the W-2 Form, 1099 Form or similar annual income statements issued to employees.

Finally, upon the request of any employee an employer must process, in accordance with federal law, Form W-5 for advance payments of the tax credit.