



New Law Requires Employers to Notify Employees of Federal Earned Income Tax Credit Eligibility

AB650, the new law authored by Assemblywoman Carol Lieu promotes awareness of the Earned Income Tax Credit (EITC). As an SHCC member and small business owner, this law could have an effect on the way you run and manage your business. Under AB650, the EITC could reduce low income taxpayers' federal taxes and may result in federal tax refunds. The law requires you, as an employer, to notify your employees of their EITC eligibility one week before, one week after or at the same time you give them their W-2, 1099 or similar wage statement form.

As an employer, you must provide notification either by hand or through the U.S. mail. Posting the notice on an employee bulletin board or sending the notice through office mail is not sufficient. In addition, employers shall provide and process, in accordance with federal law, form W-5 for advance payments of the EITC upon an employee's request.

According to the IRS, more than 2.2 million Californians received nearly \$4.3 billion through the EITC in the 2005 tax year. However, according to the Franchise Tax Board, nearly 460,000 families did not claim the EITC in 2005 and, therefore, did not receive \$850 million in refunds because they were unaware of the credit.

The amount of the credit is based on income and is phased out as income increases. The amount of the credit varies based on the number of qualifying children the taxpayer claims and increases if the taxpayer is married and filing jointly. To qualify for the tax credit in the current year, an individual's earned income and adjusted gross income (AGI) must each be less than \$37,783 if there is more than one qualifying child (up from \$36,348 in tax year 2006). If there is one qualifying child, they must earn less than \$33,241 (up from \$32,001 in tax year 2006). Without a qualifying child, they must earn less than \$12,590 (up from \$12,120 in tax year 2006). The tax year 2007 maximum credit is \$4,716 for taxpayers with two or more qualifying children, \$2,853 with one qualifying child and \$428 for taxpayers with no qualifying children. You can visit the official IRS website to obtain further information at www.irs.gov.