

DISCLAIMER: This publication is intended to provide nontechnical assistance to the general public. Every attempt has been made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is inconsistent with current law, regulations, or court decisions is not binding on either the Department or the taxpayer. Therefore, information provided in this publication should serve only as a foundation for further investigation and study of the current law and procedures related to its subject matter.

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Introduction

What is the Earned Income Credit?

The earned income credit (EIC) is a tax credit for certain people who work and have earned income under \$40,950. A tax credit usually means more money in your pocket. It reduces the amount of tax you owe. The EIC may also give you a refund.

Can I Claim Indiana’s EIC?

To claim Indiana’s EIC, you must meet certain rules. These rules are summarized in Table 1.

Table 1. Indiana Earned Income Credit in a Nutshell

First, you must meet all the rules in this column.	Second, you must meet all the rules in this column if claiming a child.	Third, you must meet the rules in this column.
Rules for everyone	Rules if you have a qualifying child	Figuring and claiming the EIC
<ol style="list-style-type: none"> 1. You must have a valid federal earned income credit. 2. Your federal AGI, earned income AND modified AGI each must be less than: <ul style="list-style-type: none"> • \$40,950 if you have two or more qualifying children. • \$36,050 if you have one qualifying child. • \$13,550 if you do not have a qualifying child. 	<ol style="list-style-type: none"> 3. Your child must meet the federal EIC qualifying child age, residency, joint return and relationship tests. 4. Your child must meet two additional relationship tests (which may supersede certain federal relationship tests). 	<ol style="list-style-type: none"> 5. Your Indiana EIC must be reduced by 9 percent (.09) of any alternative minimum tax (AMT). 6. Your Indiana EIC cannot be greater than 9% of your federal EIC.

This publication contains:

- Rules to determine if you have a qualifying child for Indiana EIC purposes
- Worksheet 1: Investment Income
- Worksheet 2: Worksheet For Line 4 of Worksheet 1
- Worksheet 3: Modified AGI
- Definitions

How do I figure Indiana’s EIC?

The instructions to figure Indiana’s EIC are located in the IT-40 and IT-40PNR instruction booklets. They begin on page 27 of the [2011 IT-40 instruction booklet](#) (page 31 of the [2011 IT-40PNR instruction booklet](#)).

Do I Need This Publication?

If you were sent here from the EIC instructions found in the IT-40/IT-40PNR instruction booklets, you will need to complete Worksheet 1 if:

- your investment income is more than \$3,150,
- you filed federal Form 4797 (Sale of Business property), and
- you were sent here from Step 2 of the IT-40 (IT-40PNR) Indiana EIC instructions.

If you were sent here from the EIC instructions found in the IT-40/IT-40PNR instruction booklets, you will need to complete Worksheet 3 if any of the following apply for 2011:

- You filed federal Schedule E.
- You are claiming a loss on federal Form 1040 line, 12, 13 and/or 18.
- You are reporting income or a loss from the rental of personal property not used in a trade or business.
- You and and/or spouse if married filing jointly received a distribution from a pension, annuity, IRA or Coverdell ESA that is not fully taxable.
- You reported income on federal Form 1040, line 21, from federal Form 8814 (relating to election to report child's interest and dividends).

Chapter 1. Rules If You Have a Qualifying Child

Your child is a qualifying child if your child meets four tests. The four tests are:

1. Age,
2. Residency,
3. Joint return, and
4. Relationship.

The first three requirements (age, residency and joint return) are identical to the requirements used for federal EIC qualifying child determination purposes.

As a rule, for Indiana EIC purposes, you will be able to claim as a qualifying dependent a child who meets the age, residency, joint federal return, and relationship EIC tests for federal EIC purposes as long as the child *also* meets the Indiana relationship tests.

How to determine if you have a qualifying child for Indiana EIC purposes

First, review the age, residency, joint federal return and relationship requirements for federal EIC purposes in either:

- the federal tax instruction booklet for federal Forms [1040](#) or [1040A](#) (depending on which federal form you filed), or
- as found in the federal [Publication 596](#).

If your child does not meet all of these requirements, **STOP**. You cannot claim this child as a qualifying child for Indiana EIC purposes.

If your child meets these requirements, continue.

Additional Indiana Relationship Tests

In general, most qualifying child relationship requirements for Indiana EIC purposes match the federal EIC relationship requirements. However, there are two differences. Read the following carefully to see if your child qualifies for Indiana.

Difference 1. Indiana foster child definition.

The following definition is different than the federal foster child definition, so please read it carefully.

- 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, step-brother, 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.

AND

- The qualifying foster child must live with you for the entire year (except for temporary absences).

Example 1. Your 12 year-old brother lived with you the entire year. If you are eligible to claim him as a qualifying child for federal EIC purposes, then you are eligible to claim him for Indiana EIC purposes.

Example 2. The facts are the same as in *Example 1*, but your brother lived with you for seven months during the year. Even though you may be eligible to claim him as a qualifying child for federal EIC purposes, you are not eligible to claim him for Indiana EIC purposes as he did not live with you the entire year.

Difference 2. Qualifying child of more than one person.

Sometimes a child meets the tests to be a qualifying child of more than one person. However, only one person can claim the EIC using that child. The paragraphs that follow will help you decide who can claim Indiana's EIC when more than one person has the same qualifying child.

Tiebreaker Rules. The following tiebreaker rules do not apply if the other person is your spouse and you file a joint return.

Important. For Indiana EIC purposes, your qualifying child cannot be the qualifying child of another person who has a higher **modified AGI**.

Which person can claim the EIC. If you and someone else have the same qualifying child, the person with the higher modified adjusted gross income (AGI) is the only one who may be able to claim Indiana's EIC using that child. The person with the lower modified AGI cannot use that child to claim the EIC. This is true even if the person with the higher modified AGI does not claim the EIC or meet all of the rules to claim the EIC. If the other person is your spouse and you file a joint return, this rule does not apply. If three or more persons have the same qualifying child, the person with the highest modified AGI is the only one who may be able to claim the EIC using that child.

Note. For most people modified AGI is the same as federal AGI (line 37, Form 1040; line 21, Form 1040A; or line 4, Form 1040EZ). Modified AGI is explained in detail in Chapter 3. If your qualifying child meets the tests to be a qualifying child of both you and any other person and you have the higher modified AGI, you meet this rule. If you do not have the higher modified AGI, you cannot claim the qualifying child for Indiana EIC purposes.

Examples. The following examples may help you in determining whether you can claim Indiana's EIC when you and someone else have the same qualifying child.

Example 1. You and your child lived with your parent.

You and your son lived with your mother all year. You are 25 years old. Your only income was \$9,300 from a part-time job. Your mother's only income was \$15,000 from her job. Initially, your son is a qualifying child of both you and your mother because he meets the age, joint federal return and residency tests for both you and your mother. However, because you both have the same qualifying child, only one of you can claim the child for Indiana EIC purposes. Because your mother's modified AGI (\$15,000) is more than your modified AGI (\$9,300), only your mother may be able to claim your son as a qualifying child for the Indiana EIC.

Example 2. The facts are the same as in *Example 1*, but your mother had investment income of \$3,500. Your mother cannot claim the EIC because her investment income is more than \$3,150. Even though your mother cannot claim the EIC, you cannot claim your son as a qualifying child for Indiana EIC purposes because your mother's modified AGI is more than yours.

Examples 3 – 5. You and your child lived with another relative.

Example 3.

You and your sister shared a household for the entire year. You have three young children who lived in the household. Your sister does not have any children; however, she cares for your children as if they were her own. Your earned income is \$15,000; your sister's earned income is \$20,000. Neither of you had any other income. The children meet the age and residency tests for both you and your sister. They meet the relationship test for you because they are your children. They also meet the relationship test for your sister because they lived with her the whole year, she cared for them as if they were her own, and they are her sister's children. Therefore, they qualify as her eligible foster children. Your children are qualifying children of both you and your sister. However, because your sister's modified AGI is higher than yours, she is the only one who may claim them for Indiana EIC purposes.

Important. You and your sister cannot split the three qualifying children between you. You cannot claim the EIC even though your sister enters the names of only two of the children on her Schedule EIC. (Schedule IN-EIC has spaces for the names of only two qualifying children because the EIC is the same amount for two or more qualifying children.)

Example 4. You, your spouse, and your 10-year-old son lived together until July 15, 2011, when your spouse moved out of the household. In November 2011, you and your spouse were divorced. Your modified AGI is \$14,000. Your former spouse's modified AGI is \$18,000. Your son is a qualifying child of both you and your former spouse because your son lived with each of you for more than half the year and because he met the relationship and age tests for both of you. However, because your former spouse's modified AGI (\$18,000) is more than your modified AGI (\$14,000), your former spouse is the only one who may be able to claim the EIC for 2011. You cannot claim the EIC for persons without a qualifying child because your modified AGI is more than \$13,550.

Example 5. You and your sister lived together all year. You have a 22-year-old son who lives with you, but is currently away from home attending college full time. Your sister has a 4-year-old daughter who lives with you and your sister. You care for your niece as you would your own child. Your modified AGI is \$16,000. Your sister's modified AGI is \$14,000. Both children meet the age and residency tests for both you and your sister. Your son meets the age test because he is under 24 and a full-time student. He meets the residency test because he is only temporarily away from home while attending college. Your niece meets the relationship test for both you and your sister. She meets the test for you as your eligible foster child because she is your sister's child, she lived with you all year, and you cared for her as your own child. Your son meets the relationship test for you but not for your sister because she does not care for him as her own child. Your son is a qualifying child for you but not for your sister. Your niece could be a qualifying child for both you and your sister. Because your modified AGI is higher than your sister's, only you can claim the EIC using your niece. You can claim the EIC for two children. If your sister's modified AGI were higher than yours, she could claim the EIC using your niece, and you could claim the credit using your son. This is so even though you and your sister have the same address and share the same household.

Example 6. You and your child lives with someone not related to you.

You, your 2-year-old son, and your son's father lived together all year. You and your son's father are not married. Your modified AGI is \$18,000. Your son's father's modified AGI is \$20,000. Your son is a qualifying child of both

you and his father because he meets the relationship, age, and residency tests for both you and his father. Because the father's modified AGI was more than yours, only he may be able to claim your son for Indiana EIC purposes.

What if the person with the highest modified AGI cannot claim the EIC? If you and someone else have the same qualifying child, and the other person has the higher modified AGI, then the child is the other person's qualifying child for Indiana's EIC purposes. You cannot treat the child as a qualifying child to claim Indiana's EIC even if the other person cannot claim Indiana's EIC.

Example. You and your 8-year-old daughter moved in with your mother two years ago. 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 2011 was \$8,000, and your mother's was \$54,000. Because your mother's modified AGI was higher, your daughter is your mother's qualifying child for Indiana EIC purposes. Since your mother's modified AGI is greater than \$40,950, she is not eligible to claim Indiana's EIC. You **cannot** claim an Indiana EIC using your child as a qualifying child even though your mother cannot claim the credit.

Chapter 2. Worksheet 1: Investment Income If You Are Filing Federal Form 1040

Use this worksheet to figure investment income if you were went here from Step 2 of the EIC instructions found in the IT-40/IT-40PNR instruction booklets.

Interest and Dividends

1. Enter any amount from Form 1040, line 8a. 1. _____
2. Enter any amount from Form 1040, line 8b, plus any amount on Form 8814, line 1b. 2. _____
3. Enter any amount from Form 1040, line 9a. 3. _____
4. Enter the amount from Form 1040, line 21, that is from Form 8814 if you are filing that form to report your child's interest and dividend income on your return. (If your child received an Alaska Permanent Fund dividend, use Worksheet 2, on the next page, to figure the amount to enter on this line.) 4. _____

Capital Gain Net Income

5. Enter the amount from Form 1040, line 13. If the amount on that line is a loss, enter 0. 5. _____
6. Enter any gain from Form 4797, Sales of Business Property, line 7. If the amount on that line is a loss, enter 0. (But, if you completed lines 8 and 9 of Form 4797, enter the amount from line 9 instead.) 6. _____
7. Subtract line 6 of this worksheet from line 5 of this worksheet. (If the result is less than zero, enter 0.) 7. _____

Royalties and Rental Income from Personal Property

8. Enter any royalty income included on federal Schedule E, line 4, plus any income from the rental of personal property shown on Form 1040, line 21. 8. _____
9. Enter any expenses from Schedule E, line 20, related to royalty income, plus any expenses from the rental of personal property deducted on Form 1040, line 36. 9. _____
10. Subtract the amount on line 9 of this worksheet from the amount on line 8. (If the result is less than zero, enter 0.) 10. _____

Passive Activities

11. Enter the total of all net income or losses from qualified joint ventures that are passive activities with rental real estate income reported on your (and your spouse's) Schedule C, line 31, or Schedule C-EZ, line 3, but not included in net earnings from self-employment. Do not include this amount on line 12 or 13 below. 11. _____
12. Enter the total of any net income from passive activities (such as income included on Schedule E, line 26, 29a (col. (g)), 34a (col. (d)), or 40). (See instructions below for lines 12 and 13.) Do not include any amount you included on line 11 above. 12. _____
13. Enter the total of any losses from passive activities (such as losses included on Schedule E, line 26, 29b (col. (f)), 34b (col. (c)), or 40). (See instructions below for lines 12 and 13.) Do not include any amount you included on line 11 above. 13. _____
14. Combine the amounts on lines 11, 12, and 13 of this worksheet. (If the result is less than zero, enter 0.) 14. _____
15. Add the amounts on lines 1, 2, 3, 4, 7, 10, and 14. Enter the total. **This is your Investment Income.** 15. _____

16. Is the amount on line 15 more than **\$3,150**?

Yes. STOP. You cannot take the credit.

No. Go to the Form IT-40 or IT-40PNR instruction booklet (www.in.gov/dor/4546.htm). Find the instructions for line 5 of Schedule 5: Credits (IT-40PNR Schedule F); go to Step 3 to find out if you can take the credit.

Instructions for lines 12 and 13. In figuring the amount to enter on lines 12 and 13, do not take into account any royalty income (or loss) included on line 26 of Schedule E or any amount included in your earned income.

Worksheet 2: Worksheet for Line 4 of Worksheet 1

Complete this worksheet only if federal Form 8814 includes an Alaska Permanent Fund dividend.

Note. Fill out a separate Worksheet 2 for each Form 8814.

- | | |
|---|-----------|
| 1. Enter the amount from Form 8814, line 2a. | 1. _____ |
| 2. Enter the amount from Form 8814, line 2b. | 2. _____ |
| 3. Subtract line 2 from line 1. | 3. _____ |
| 4. Enter the amount from Form 8814, line 1a. | 4. _____ |
| 5. Add lines 3 and 4. | 5. _____ |
| 6. Enter the amount of the child's Alaska Permanent Fund dividend. | 6. _____ |
| 7. Divide line 6 by line 5. Enter the result as a decimal (rounded to at least three places). | 7. _____ |
| 8. Enter the amount from Form 8814, line 12. | 8. _____ |
| 9. Multiply line 7 by line 8. | 9. _____ |
| 10. Subtract line 9 from line 8. Enter the result on line 4 of Worksheet 1. | 10. _____ |

(If filing more than one Form 8814, enter on line 4 of Worksheet 1 the total of the amounts on line 10 of all Worksheets 2.)

Example. Your 10-year-old child has taxable interest income of \$400, an Alaska Permanent Fund dividend of \$1,000, and ordinary dividends of \$1,100, of which \$500 are qualified dividends. You choose to report this income on your federal return. You enter \$400 on line 1a of federal Form 8814, \$2,100 (\$1,000 plus \$1,100) on line 2a, and \$500 on line 2b. After completing lines 4 through 11, you enter \$480 on line 12 of Form 8814 and line 21 of federal Form 1040. On Worksheet 2, you enter \$2,100 on line 1, \$500 on line 2, \$1,600 on line 3, \$400 on line 4, \$2,000 on line 5, \$1,000 on line 6, 0.500 on line 7, \$480 on line 8, \$240 on line 9, and \$240 on line 10. You then enter \$240 on line 4 of Worksheet 1.

Chapter 3. Modified Adjusted Gross Income (AGI)

Your modified AGI must be less than:

- \$40,950 if you have more than one qualifying child,
- \$36,050 if you have one qualifying child, or
- \$13,550 if you do not have a qualifying child.

Before you begin...

You must have with you your completed federal tax return, Form 1040, Form 1040A or Form 1040EZ, including any federal schedules you completed.

Modified adjusted gross income (AGI). Modified AGI for most people is the same as the federal AGI. AGI is the amount on line 37 of federal Form 1040, line 21 of federal Form 1040A, or line 4 of federal Form 1040EZ.

To find your modified AGI, you must add certain amounts to your AGI if you:

- Claim a loss on federal Schedule C, C-EZ, D, E, or F,
- Claim a loss from the rental of personal property not used in a trade or business,
- Received any tax-exempt interest, or
- Received certain pension, annuity, or individual retirement arrangement (IRA) distributions that were partly nontaxable.

How to figure your modified AGI

If you file federal Form 1040EZ:

Your modified AGI is the amount on line 4 of that form plus the amount of any tax-exempt interest you wrote in the space to the right of the words "Form 1040EZ" on line 2.

If you file federal Form 1040A:

Your AGI is the amount on line 21 of that form. To find your modified AGI, add to your AGI any amount on line 9b of federal Form 1040A. Also, add the nontaxable part of any pension, annuity, or individual retirement arrangement (IRA) distribution, except any amount that is nontaxable because it was a trustee-to-trustee transfer or a rollover distribution. This is any part of the distribution that you did **not** report on lines 11b or 12b of federal Form 1040A (except any part that was nontaxable because you rolled it over into another account within 60 days or transferred it from one trustee to another). See Publication 590, *Individual Retirement Arrangements (IRAs)*, for more information about IRAs, and Publication 575, *Pension and Annuity Income*, for more information about pensions and annuities. (Do not enter any amount that was from a Coverdell ESA. See *Special instructions for clergy, prison inmates, and deferred compensation plans*, later.)

If you file federal Form 1040:

Your AGI is the amount on line 37 of that form. To find your modified AGI, you must add certain amounts to your AGI, including all or part of certain losses (such as 75% of certain business losses) you are claiming on your return. Use *Worksheet 3*, next, to figure your modified AGI.

Worksheet 3: Modified AGI if you are filing federal Form 1040

Enter losses as **positive amounts** (except for lines 7, 8, and 9). For example, if your AGI (federal Form 1040, line 37) is \$10,000 and you have a \$1,000 capital loss from the sale of stock (federal Form 1040, line 13), you will enter \$10,000 on line 1 of this worksheet and \$1,000 on line 3. If you do not have to enter any other amounts, your modified AGI is \$11,000 (\$10,000 + \$1,000).

1. Enter the amount from federal Form 1040, line 37.		1. _____
2. Enter any amount from federal Form 1040, line 8b, plus any amount on Form 8814, line 1b.		2. _____
3. Enter the amount of any loss claimed on federal Form 1040, line 13. (If the amount on Form 1040, line 13, is a gain, enter zero.)		3. _____
4. Enter the nontaxable part of a pension, annuity, or individual retirement arrangement (IRA) distribution (any part of the distribution that you did not report on lines 15b or 16b of federal Form 1040), except any amount that is nontaxable because it was a trustee-to-trustee transfer or a roll-over distribution. (Do not enter any amount that was from a Coverdell ESA. See Special instructions for clergy, prison inmates, deferred compensation plans, and Coverdell ESAs, later.)		4. _____
5. Enter the amount of any loss claimed on federal Form 1040, line 12. (If the amount on Form 1040, line 12, is a gain, enter zero.) (See instructions below for line 5.)	5. _____	
6. Enter the amount of any loss claimed on federal Form 1040, line 18. (If the amount on Form 1040, line 18, is a gain, enter zero.)	6. _____	
7. Enter the amount of any rental real estate income (or loss) included on federal Schedule E, line 26. (See instructions below for lines 7, 8, and 9.)	7. _____	
8. Enter the amount from federal Schedule E, line 32. (See instructions below for lines 7, 8, and 9.)	8. _____	
9. Enter the amount from federal Schedule E, line 40. (See instructions below for lines 7, 8, and 9.)	9. _____	
10. Combine the amounts on lines 7, 8, and 9. If the result is a loss, enter it here. If the result is a gain, enter zero. (See instructions below for line 10.)	10. _____	
11. Add the amounts on lines 5, 6, and 10 of this worksheet. Enter the result.	11. _____	
12. Multiply the amount on line 11 of this worksheet by 75% (0.75). Enter the result.		12. _____
13. Enter the amount of any loss claimed on federal Schedule E, line 37.		13. _____
14. Enter any income from the rental of personal property shown on federal Form 1040, line 21, plus any royalty income included on federal Schedule E, line 4.	14. _____	
15. Enter any expenses from the rental of personal property deducted on federal Form 1040, line 36, plus any expenses from federal Schedule E, line 20 related to royalty income.	15. _____	
16. Subtract the amount on line 15 of this worksheet from the amount on line 14. If the result is a loss, enter it here. If the result is a gain, enter zero.		16. _____
17. Add the amounts on lines 1, 2, 3, 4, 12, 13, and 16 of this worksheet. Enter the total.	Modified AGI	17. _____

If you have:

- 2 or more qualifying children, is line 17 less than \$40,950?
- 1 qualifying child, is line 17 less than \$36,050?
- No qualifying children, is line 17 less than \$13,550?

Yes. Go to the Form IT-40 or IT-40PNR instruction booklet (www.in.gov/dor/4546.htm). Find the instructions for line 5 of Schedule 5: Credits (IT-40PNR Schedule F). Enter the amount from line 17 on **Step 5**, line 1, Box A, and continue to Step 6 to find out if you can take the credit.

No. Stop.
You cannot take the credit.

Line 5 instructions. If you have a business loss on line 12 of federal Form 1040, enter the amount of the loss on line 5 of this worksheet. Do this even if that loss amount is the result of combining gains and losses from more than one federal Schedule C.

Example. You have two federal Schedules C. One shows a \$2,000 gain. The other shows a \$10,000 loss. You enter the net loss of \$8,000 on line 12 of federal Form 1040 and on line 5 of this worksheet.

Lines 7, 8, and 9 instructions. These lines are an exception to the rule that all amounts on the worksheet must be positive amounts. On these lines, enter any loss by enclosing it in parentheses.

Line 10 instructions. Combine the amounts on lines 7, 8, and 9 to arrive at the amount on line 10. For example, if you enter \$2,000 on line 7, \$1,000 on line 8, and a loss of (\$3,500) on line 9, enter the loss of \$500 as a positive figure on line 10. But if the result of combining lines 7, 8, and 9 is a gain, enter zero. For example, if you enter \$2,000 on line 7, \$1,000 on line 8, and a loss of (\$2,500) on line 9, enter zero on line 10.

Your modified AGI must be less than:

- \$40,950 if you have more than one qualifying child,
- \$36,050 if you have one qualifying child, or
- \$13,550 if you do not have a qualifying child.

Important. If your modified AGI is too great, STOP. You cannot claim the EIC. You do not need to read the rest of this publication. You can go back and finish the rest of your tax return.

Chapter 4. Definitions and Special Rules (listed in alphabetical order)

Adopted child. An adopted child is always treated as your own child. The term “adopted child” includes a child who was lawfully placed with you for legal adoption, even if the adoption is not final.

Birth or death of child. A child who was born or died in 2011 is treated as having lived with you for all of 2011 if your home was the child’s home the entire time he or she was alive in 2011.

Important. If your child was born and died in 2011, and you do not have an SSN for the child, you cannot file your Indiana tax return electronically. You must enclose a copy of the child’s birth certificate, death certificate and/or hospital records when you file. The document must show the child was born alive.

Children of divorced or parents who lived apart. See *Chapter 1. Rules If You Have a Qualifying Child* for details concerning how to determine you may claim the child for Indiana EIC purposes.

Church employees. A church employee means an employee (other than a minister or member of a religious order) of a church or qualified church-controlled organization that is exempt from employer Social Security and Medicare taxes. Determine how much of the amount on federal Form 1040, line 7, was also reported on federal Schedule SE, Section B, line 5a. Subtract that amount from the amount on federal Form 1040, line 7, and enter the result in the first space of Step 6, line 2. Be sure to answer “Yes” to question 1 in Step 6.

Claim for refund. A claim for refund is a federal return filed only to get a refund of withheld income tax or estimated tax paid. A federal return is not a claim for refund if the EIC or any other similar refundable credit is claimed on it.

Clergy. The following instructions apply to ministers, members of religious orders who have not taken a vow of poverty, and Christian Science practitioners. If you are filing federal Schedule SE and the amount on line 2 of that schedule includes an amount that was also reported on federal Form 1040, line 7;

1. Determine how much of the amount on federal Form 1040, line 7, was also reported on federal Schedule SE, Section A, line 2, or Section B, line 2.
2. Subtract that amount from the amount on federal Form 1040, line 7. Enter the result in the first space of Step 6, line 2.
3. Be sure to answer “yes” to question 1 in Step 6.

Combat pay, nontaxable. If you were a member of the U.S. Armed Forces who served in a combat zone, certain pay is excluded from your income.

- If you included your combat pay when figuring your federal EIC, then enter the same amount in Step 6, line 2.
- If you did not include it when figuring your federal EIC, then do not enter any amount in Step 6, line 2.

Exception to “time lived with you” condition. A child is considered to have lived with you for all of 2011 if the child was born or died in 2011 and your home was this child’s home for the entire time he or she was alive in 2011. 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 Indiana’s Pub. EIC to find out if that child is a qualifying child for the EIC. If you were in the military stationed outside the United States, see *Members of the military*.

Federal Form 4797 filers. If the amount on Form 1040, line 13, includes an amount from federal Form 4797, you must use Worksheet 1 in Indiana’s Pub. EIC to see if you can take the EIC. Otherwise, **STOP**; you cannot take the EIC.

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.
- The qualifying foster child must live with you for the entire year (except for temporary absences).

Grandchild. For the EIC, this means any descendant of your son, daughter, or adopted child. For example, a grandchild includes your great-grandchild, great-great-grand child, etc.

Inmate's income. Amounts received for work performed while an inmate in a penal institution are not earned income for the earned income credit. This includes amounts received for work performed while in a work release program or while in a halfway house. If you received any amount for work done while an inmate in a penal institution and that amount is included in the total on line 7 (Form 1040 or Form 1040A) or line 1 (Form 1040EZ), put "PRI" and the amount on the dotted line next to line 7 (Form 1040), in the space to the left of the entry space for line 7 (Form 1040A), or in the space to the left of line 1 (Form 1040EZ).

Kidnapped child. A kidnapped child is treated as living with you for more than half of the year if the child lived with you for more than half the part of the year before the date of the kidnapping. The child must be presumed by law enforcement authorities to have been kidnapped by someone who is not a member of your family or the child's family. This treatment applies for all years until the child is returned. However, the last year this treatment can apply is the earlier of:

1. The year there is a determination that the child is dead, or
2. The year the child would have reached age 18.

Married child. A child who was married at the end of 2011 is a qualifying child only if (a) you can claim him or her as your dependent on federal Form 1040 or 1040A, line 6c, or (b) you could have claimed him or her as your dependent except for the special rule for *Children of divorced or parents who lived apart*. Get Indiana's Pub. EIC for more information about this special rule.

Members of the military. U.S. military personnel stationed outside the United States on extended active duty are considered to live in the United States during that duty period for purposes of the EIC. Extended active duty is military duty ordered for an indefinite period or 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 do not serve more than 90 days.

Pension or annuity from deferred compensation plans. A pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan is not considered earned income for the earned income credit. If you received such an amount and it was included in the total on line 7 (Form 1040 or Form 1040A) or line 1 (Form 1040EZ), put "DFC" and the amount on the dotted line next to line 7 (Form 1040), in the space to the left of the entry space for line 7 (Form 1040A), or in the space to the left of line 1 (Form 1040EZ). This amount may be reported in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or an annuity.

Permanently and totally disabled. A person is permanently and totally disabled if, at any time during 2011, the person could not engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition (a) has lasted or can be expected to last continuously for at least a year, or (b) can be expected to 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 (MAGI) for 2011 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 MAGI, this child is your qualifying child. The child must have a Social Security number

unless the child was born and died in 2011. Skip Step 4; go to Step 5 on page 28. If you do not have the highest MAGI, **STOP**; you cannot take the EIC. See Step 5 to figure your modified adjusted gross income.

Example. You and your 8-year-old daughter moved in with your mother in 2009. 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 MAGI for 2011 was \$8,000 and your mother's was \$14,000. Because your mother's MAGI was higher, your daughter is your mother's qualifying child for EIC purposes. You **cannot** figure an EIC using your child as a qualifying child, even if your mother does not claim the credit.

Scholarship or fellowship grants not reported on a Form W-2. A scholarship or fellowship grant that was not reported to you on a Form W-2 is not considered earned income for the earned income credit.

School defined. A school can be an elementary school, junior or senior high school, college, university, or technical, trade, or mechanical school. However, on-the-job training courses, correspondence schools, and schools offering courses only through the Internet do not count as schools for the EIC.

Vocational high school students. Students who work in co-op jobs in private industry as a part of a school's regular course of classroom and practical training are considered full-time students.

Student defined. A student is a child who, during any five months of 2011, was enrolled as a full-time student at a school that has a regular teaching staff, course of study, and regular student body at the school, or took a full-time, on-farm training course given by a school or a state, county, or local government agency. A school does not include a technical, trade or mechanical school. It does not include an on-the-job training course, correspondence school, or school offering courses only through the Internet. A full-time student is a student who is enrolled for the number of hours or courses the school considers to be full-time attendance.

Temporary absences. Count time that you or your child is away from home on a temporary absence due to a special circumstance as time the child lived with you. Examples of a special circumstance include illness, school attendance, business, vacation, military service, and detention in a juvenile facility.

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