

INFORMATION BULLETIN #92

INCOME TAX

MAY 2012

(Replaces Bulletin #92 dated June 2008)

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SUBJECT: Individual Earned Income Tax Credit (EITC) Procedures

DIGEST OF CHANGES: Reflects Indiana's changes to EITC. Specifically, no differential between single and joint returns, and maximum of two children instead of three that are allowed for the federal EITC.

REFERENCES: IC 6-3.1-21

EFFECTIVE DATE: Upon Publication

INTRODUCTION

HEA 1001-2011 changed the calculation of the earned income tax credit (EITC). HEA 1125-2008 provides that the amount of the earned income tax credit shall be apportioned for partial-year residents.

I. PRIOR CALCULATION OF THE EARNED INCOME TAX CREDIT

Prior to 2011, an individual was eligible for the Indiana EITC if the person was eligible for the federal EITC under Section 32 of the Internal Revenue Code. The Indiana credit amount was equal to 9 percent of the amount of the federal ITC that the individual was eligible to receive and claim for the taxable year.

II. CURRENT CALCULATION OF THE EARNED INCOME TAX CREDIT

HEA 1001-2011 provided that the EITC for tax years beginning after Dec. 31, 2010, was to be calculated based on Section 32 of the Internal Revenue Code as it existed before being amended by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312). P.L. 111-312 extended expiring provisions that were contained in Section 32 of the Internal Revenue Code. Indiana is not recognizing extensions contained in P.L. 111-312. Those provisions include the following: only two or more children instead of three or more children will be considered when calculating the maximum credit; there is no longer a differentiation between a single and joint return when calculating the amount of the credit; modified adjusted gross income will be considered in addition to earned income; and the alternative minimum tax subtract-off that had been removed will be reinstated for purposes of calculating the Indiana EITC. More information concerning the calculation of the credit can be found in the 2011 IT-40 individual income tax instruction booklet. To access the current-year booklet online, click on the Individual Income Tax Forms link at <http://www.in.gov/dor/3489.htm> and then select IT-40 Booklet.

III. PART-YEAR RESIDENT

A taxpayer residing in Indiana for less than the taxpayer's entire taxable year is entitled to an apportioned earned income tax credit. The amount of the credit is figured the same way a full-year resident's credit is figured; then it is multiplied by the result of the taxpayer's Indiana income divided by the taxpayer's total income.

If the credit amount exceeds the taxpayer's actual tax liability for the taxable year, the excess credit shall be refunded to the taxpayer.



John Eckart
Commissioner