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**State of Wisconsin  
Governor Jim Doyle**

**TO: W-2 Agencies  
Income Maintenance Supervisors  
Income Maintenance Lead Workers  
Income Maintenance Staff  
Workforce Development Boards  
Job Center Leads and Managers  
Training Staff  
Child Care Coordinators**

**FROM: Janice Peters, Director  
Bureau of Working Families  
Division of Family and Economic Security**

| <b>DFES OPERATIONS MEMO</b> |                                     |            |                                     |              |                                     |
|-----------------------------|-------------------------------------|------------|-------------------------------------|--------------|-------------------------------------|
| <b>No: 10-24</b>            |                                     |            |                                     |              |                                     |
| <b>DATE: MARCH 23, 2010</b> |                                     |            |                                     |              |                                     |
| <b>FS</b>                   | <input type="checkbox"/>            | <b>MA</b>  | <input type="checkbox"/>            | <b>BC+</b>   | <input type="checkbox"/>            |
| <b>SC</b>                   | <input type="checkbox"/>            | <b>CTS</b> | <input type="checkbox"/>            | <b>FSET</b>  | <input type="checkbox"/>            |
| <b>CC</b>                   | <input checked="" type="checkbox"/> | <b>W-2</b> | <input checked="" type="checkbox"/> | <b>EA</b>    | <input checked="" type="checkbox"/> |
| <b>CF</b>                   | <input checked="" type="checkbox"/> | <b>JAL</b> | <input type="checkbox"/>            | <b>JC</b>    | <input type="checkbox"/>            |
| <b>RAP</b>                  | <input checked="" type="checkbox"/> | <b>WIA</b> | <input checked="" type="checkbox"/> | <b>Other</b> | <input type="checkbox"/> *          |
|                             |                                     | <b>EP</b>  |                                     |              |                                     |
| <b>PRIORITY: HIGH</b>       |                                     |            |                                     |              |                                     |

**SUBJECT: Earned Income, Homestead, and Other Tax Related Income**

**CROSS REFERENCE:** None

**EFFECTIVE DATE:** Immediately

**PURPOSE**

This Memo provides Tax Year 2009 information and reminds Wisconsin Works (W-2) Agencies and others of the importance of notifying program participants of the financial advantages of state and federal Earned Income Tax Credits (EITC), the State Homestead Credit (HC), the federal Child Tax Credit (CTC) and other available tax credits for low-income families. This memo also provides information on where low-income, non-English speaking and elderly families can obtain free tax return preparation assistance in Wisconsin.

**BACKGROUND**

Program participants can increase their family income by accessing available tax credits. A quick reference tax credit table is provided below. This table provides a summary of the maximum amounts of tax credits/refunds that can be available to eligible families to help reduce their tax burden and increase income.

**Summary Table of 2009 Maximum Tax Credits with Income Eligibility Limits**

| Number of Qualifying Children | Federal EITC  | Wisconsin EIC (EITC) | EITC Income Limits (state and federal) | Wisconsin Homestead (HC) | WI HC Income Limits | Federal Child Tax Credit |
|-------------------------------|---------------|----------------------|--|--------------------------|---------------------|--------------------------|
| Zero                          | Up to \$457   | \$0                  | < \$13,440<br>< \$18,440<br>(Married)  | Up to \$1,450            | \$24,500            | \$0                      |
| One                           | Up to \$3,043 | Up to \$122          | < \$35,463<br>< \$40,463<br>(Married)  | Up to \$1,450            | \$24,500            | Up to \$1,000            |
| Two                           | Up to \$5,028 | Up to \$704          | < \$40,295<br>< \$45,295<br>(Married)  | Up to \$1,450            | \$24,500            | Up to \$2,000            |
| Three or More                 | Up to \$5,657 | Up to \$2,433        | < \$43,279<br>< \$48,279<br>(Married)  | Up to \$1,450            | \$24,500            | Up to \$1,000 per child  |

### **RELATED INCOME POLICIES**

Wisconsin Works (W-2) agencies and case managers should be aware that certain W-2 paid placement benefits (i.e. CSJ, W-2 T, or CMC payments) are not considered earned income subject to income tax credits. However, employment outside of W-2 and any pay received from an employer by a W-2 Trial Job or Real Work Real Pay participant during 2009 should be applicable for earned income credits.

Any refunds received as a result of taking the EIC will not be used to determine an individual's eligibility for or benefit amount for W-2, Medicaid, Supplemental Security Income, FoodShare or low-income housing. But, if the tax refund received is not spent within a certain period of time, it may count as an asset (or resource) and affect continued eligibility. As a general guide, disregard the refund as an asset in the month received and the following two months.

It is important to inform program participants that any person receiving a tax refund who owes back taxes, unpaid child support, unpaid parking tickets, unpaid Job Access Loans, or other government fees could have their tax refunds reduced or eliminated due to these outstanding debts.

### **AVAILABLE TAX CREDITS**

#### Federal and Wisconsin Earned Income Tax Credits

The most significant tax credit for eligible families is the earned income tax credit (EITC). For example, the maximum federal EITC is \$5,657 and the maximum state earned income credit is \$2,433 (See above table).

The IRS has a federal earned income tax credit assistant in English and Spanish for Tax Year 2009 at: IRS Tax Credit Assistant (<http://www.irs.gov/individuals/article/0,,id=130102,00.html>.) This on-line worksheet can be used to help taxpayers roughly determine how much EITC they may be able to receive for 2009 before having to fill out related tax forms.

For detailed information and forms for the federal EITC and advanced federal EITC, please go to: IRS Info and Forms <http://www.irs.gov/individuals/article/0,,id=118888,00.html>.

For detailed information in English or Spanish for the Wisconsin Earned Income Credit (EIC), click on the Wisconsin Department of Revenue (DOR) "Earned Income Credit" title listed under "Tax Benefits" on the DOR "Individual" tax website at: [DOR - EIC](http://www.dor.state.wi.us/html/indiv.html)  
(<http://www.dor.state.wi.us/html/indiv.html>)

#### Federal Advance Earned Income Tax Credit

Working families with at least one qualifying child who expect to be eligible for the federal EITC in tax year 2010 may be able to receive part of this income as an advance tax credit in their 2010 paychecks. For many working parents, receiving this additional amount of money in their paychecks can make a difference in paying the rent, buying groceries and meeting other day-to-day needs. The maximum Advanced Earned Income Credit for tax year 2010 the employer is allowed to provide throughout the year with the employee's pay is \$1,750.

Individuals who want the advanced EITC need to fill out a federal W-5 form, the Earned Income Credit Advance Payment Certificate, and give it to their employer. This allows a portion of the tax credit income to be obtained in pay checks versus having to wait until the end of the year to obtain the entire EITC at one time. Those obtaining the advance EITC payment are still required to complete EITC tax return information at the end of the tax year. For more information on AEITC see IRS website at:  
<http://www.irs.gov/individuals/article/0,,id=96515,00.html>.

If the income is from self-employment one will not qualify for EITC.

#### Wisconsin Advanced Earned Income Credit

A provision in the recently enacted 2009 Wisconsin Act 28 provides for a Wisconsin Advance EIC (WAEIC) payment. Wisconsin will allow a full-year legal resident of Wisconsin to request that his or her employer add to his or her paycheck a WAEIC. The amount of the WAEIC is a percentage of the federal advance EIC. The amount is based on the anticipated number of qualifying children of the individual (4% for one child, 14% for two children, and 43% for three or more children). Individuals who want to claim WAEIC must file Form WT-5, Wisconsin Earned Income Credit Advance Payment Certificate.

An individual claiming the WAEIC is required to file a Wisconsin individual income tax return for the year. An employer, when completing Form WT-6, Withholding Tax Deposit Report and Form WT-7, Employers Annual Reconciliation of Wisconsin Tax Withheld from Wages, may deduct the total WAEIC payments from the aggregate amount that the employer was required to withhold from employee wages. Earned Income Credit Advance Payment Certificate and instructions are available at: <http://www.revenue.wi.gov/forms/with/index.html>.

#### Federal Child Tax Credit

The Federal Child Tax Credit (CTC) is a credit for taxpayers raising a qualifying child(ren). A qualifying child for purposes of the CTC is a child who:

- Is your son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendent of any of them (for example, your grand child, niece, or nephew);
- Was age 17 or younger at the end of 2009;
- Did not provide over half of his or her own support for 2009;
- Lived with you for more than half of 2009. A child is considered to have lived with you for all of 2009 if the child was born or died in 2009 and your home was the child's home for the entire time he or she was alive. Temporary absences by you or the child for special circumstances, such as, school, vacation, business, medical care, military service, or detention in a juvenile facility, count as time the child lived with you;
- Is claimed as a dependent on your return;

- Was a US. Citizen, a US. national, or a US resident alien. If you are a US citizen or US national and your adopted child lived with you all year as a member of your household in 2009 he/she will be a qualifying child for the CTC.

The CTC can be worth up to \$1,000 per child. Claiming the CTC on 2009 Federal tax returns will not reduce benefits that may be available to the family under Federal EITC.

Families with no taxes to pay may qualify for the Additional Child Tax Credit (ACTC), which is a special, refundable credit for certain low income tax filers who qualify for less than the full amount of the CTC. The ACTC earnings threshold for 2009 is \$9,000.

More information on how to file for this 2009 tax credit can be found through links starting at IRS Website: [IRS - Child Tax Credit \(http://www.irs.gov/publications/p972/ar02.html\)](http://www.irs.gov/publications/p972/ar02.html)

#### Federal Child and Dependent Care Credit

A family may be able to claim the Child and Dependent Care Credit (CDCC) if the wage earner pays someone to care for a qualifying child dependent that is under age 13 or a spouse or dependent that is not able to care for himself or herself and who lived with the family for more than half of the year. The credit can be up to 35% of allowable care expenses. To claim CDCC, the tax filer must have earned income during the year. In addition, the child care expenses must be work related, in that they are paid to permit the wage earner to work or look for work. Families earning too little to pay Federal income taxes cannot use CDCC.

#### The American Recovery and Reinvestment Act – Working Families Credit

In 2009 and 2010, the Making Work Pay provision of the American Recovery and Reinvestment Act of 2009 provides a refundable tax credit up to \$400 for working individuals and up to \$800 for married tax payers filing joint returns. For people who receive a pay check and are subject to withholding, the credit will be handled by their employers through automated withholding changes in early spring. These changes may result in an increase in take-home pay. The amount of the credit will be computed on the employee's 2009 income tax return filed in 2010. Taxpayers with earned income who do not have taxes withheld by an employer during the year can also claim the credit on their 2009 income tax return. For more information on the Making Work Pay Tax Credit visit: <http://www.irs.gov/recovery>.

#### The Health Coverage Tax Credit

Starting January 2010, the Health Coverage Tax Credit (HCTC) pays 80% of health insurance premiums. Family members can receive the HCTC if they meet the following eligibility requirements:

- Pension Benefit Guaranty Corporation (PBGC) pension recipients who are at least 55 years old;
- Individuals receiving a Trade Readjustment Allowance (TRA) under the Trade Adjustment Assistance (TAA) program and attending TAA approved training;
- Individuals receiving a wage subsidy under the Alternative TAA (ATAA) Trade Adjustment Assistance (RTAA) program for older workers;
- Have a qualified health plan;
- Are not receiving Medicare benefits, or have another form of disqualifying health coverage;
- Are not imprisoned by a federal, state, or local authority;
- Can not be claimed as a dependent on another individual's federal tax return.

One can receive the HCTC on a monthly or yearly basis. The monthly option helps individuals pay for health insurance as they go. They pay 20% of their premiums each month and IRS adds 80% and sends the full payment to the health plan. The yearly option, the individual will

pay the health plan premiums in full and then claim the credit on the tax return. The individual pays 100% of the premiums throughout the year directly to the health insurance. The individual will claim the 80% HCTC on the federal tax return. The individual receives the tax credit as a refund or as a credit toward the year-end taxes. For more information on the HCTC visit: <http://www.irs.gov/individuals/article/0,,id=109956,00.html>.

#### Wisconsin Homestead Credit

The Wisconsin homestead credit (HC) is available to eligible low income Wisconsin residents who rent or own their home and have a household income of \$24,500 or less.

Wisconsin Department of Revenue (DOR) has a simple H-EZ form 2009 that taxpayers can use to make filing easier. However, a landlord signed rent certificate or a property tax bill (if home is owned) is required.

More detailed information in English and Spanish plus forms for the Wisconsin HC can be found by clicking on "Homestead Credit" title listed under "Tax Benefits" on the DOR "Individual" tax site at: [DOR - Homestead Credit \(http://www.revenue.wi.gov/faqs/ise/homedef.html\)](http://www.revenue.wi.gov/faqs/ise/homedef.html)

#### Filing Taxes for Previous Years

Individuals who have never filed or have not filed their returns in past years may file for up to the past three years. If applicable to their situation, they would still be eligible to receive EIC and CTC benefits for those previous years.

In addition, individuals and families who missed filing for Economic Stimulus Payments (ESP) either in 2007 or 2008 because they were not sure they were eligible may now have a second opportunity, they may be able to file for payment with their 2009 taxes. The stimulus package provided amounts between \$300 and \$600 for eligible individuals, between \$600 and \$1,200 for joint filers, and an additional \$300 for each qualifying child. Details on who may qualify and how to apply can be found at the following IRS website:

<http://www.irs.gov/newsroom/article/0,,id=177937,00.html>

### **TAX PREPARATION RESOURCES**

#### Free Low Income Tax Return Assistance Sites

The Volunteer Income Tax Assistance (VITA) program is a cooperative effort by the Internal Revenue Service and the Wisconsin Department of Revenue to provide income tax assistance to low income individuals, individuals with disabilities, non-English speaking tax payers, and the elderly. This is a valuable service which allows low-income workers to save the cost of having their returns completed by a commercial tax preparer. The VITA volunteers are trained by the Internal Revenue Service and the Wisconsin Department of Revenue in tax preparation skills that can help determine eligibility for tax credits and prepare basic tax returns at no cost. Many of these sites offer free electronic tax filing which may provide a tax refund within 7 to 10 days after filing, if the taxpayer has a checking or savings account to allow electronic deposits.

The VITA sites are generally located at community and neighborhood centers, libraries, schools, shopping centers, churches, retirement homes and other convenient locations. Most VITA sites are open from February 1 through April 15, 2010. To find the closest VITA site or to obtain assistance with federal tax questions, call 1-800-829-1040 starting February 1, 2010. Wisconsin VITA sites call 800-906-9887, or, "211", or "311". Information can also be found by calling any of local State Department of Revenue (DOR) office located at: [DOR - VITA Site \(http://www.dor.state.wi.us/faqs/ise/address.html\)](http://www.dor.state.wi.us/faqs/ise/address.html), or by going to the main DOR "Individual" tax Website at: [DOR - Individual Tax \(http://www.dor.state.wi.us/html/indiv.html\)](http://www.dor.state.wi.us/html/indiv.html) and clicking on "Volunteer Income Tax Assistance (VITA)" under "Tax Help" starting February 1, 2010.

The American Association of Retired Persons (AARP) also has some free basic tax assistance for low income individuals and the elderly. The nearest AARP Tax-Aide site can be found by clicking on the above DOR VITA Website, by calling AARP at 1 888 227-7669, or by visiting the AARP Website located at: Tax Assistance - AARP (<http://www.aarp.org/money/taxaide.html>) starting February 1, 2010.

Individuals interested to find out information on free tax assistance sites and whether appointment is needed or not and what documents they need to bring for tax return preparation, should call first. It is also important to verify whether the local free tax assistance site will prepare any amended tax returns for previous years, if that should also be needed.

#### Additional Information about Tax Return Preparation Services

Some tax preparation and other companies offer money up-front to customers seeking tax returns, often based only on the last paycheck of 2009. News articles indicate that some of these companies can charge very high interest (e.g. 30% up to 60%) rates and fees. As a result, customers can lose much of the tax refund due them.

Agencies should warn participants of these types of tax preparation services and encourage participants not sign anything without fully understanding the terms and conditions of the contract. Agencies should encourage participants to utilize VITA sites which are free and have free electronic tax filing which can result in a speedy tax return.

### ***ACTION REQUIRED***

W-2 agencies are required to inform their program participants of the advantages of claiming available tax credits and are required to inform program participants of available free tax return preparation assistance in their community. All other work program and IM agencies and their case workers encouraged to do the same.

Information can be provided by any combination of methods including:

- face-to-face contact,
- posting of information in customer service areas,
- handing out information sheets,
- including information in an existing mailing to the participant,
- providing information handouts near job search computers, and/or
- any other suitable means that will provide increased awareness in families requesting or receiving assistance from your organizations/staff.

A sample document, for use in posting in public areas and as a possible handout, is provided as an attachment to this Operations Memo to be of assistance. An information flyer that addresses the 2009 EITC and Homestead Tax credits can be obtained upon request from the Department of Revenue.

### ***CONTACTS***

For Policy Related Questions: BWF Regional Office Staff

For CARES Processing Questions: W-2/CC Help Desk

\*Program Categories – FS – FoodShare, MA – Medicaid, BC+ – BadgerCare Plus, SC – Senior Care, CTS – Caretaker Supplement, CC – Child Care, W-2 – Wisconsin Works, FSET – FoodShare Employment and Training, CF

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– Children First, EA – Emergency Assistance, JAL – Job Access Loan, JC - Job Center Programs, RAP – Refugee Assistance Program, WIA – Workforce Investment Act, \*Other EP – Other Employment Programs.

DCF/DFES/BWF/TM