DESCRIPTION OF THE ADMINISTRATION'S PROPOSALS RELATING TO THE EARNED INCOME CREDIT

Scheduled for a Public Hearing

Before the

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INTRODUCTION

The House Committee on Ways and Means has scheduled a public hearing on May 8, 1997, on the Administration's proposals relating to the earned income credit. On April 23, 1997, the Department of Treasury released eight proposals to reduce errors on tax returns with respect to the earned income credit ("EIC").[1]

This document,[2] prepared by the staff of the Joint Committee on Taxation in connection with the May 8 Committee hearing, provides a description of present-law earned income credit provisions (Part I), a brief legislative background (Part II), a summary description of the April 1997 IRS compliance study (Part III), and a description of the Administration's legislative proposals (Part IV).

[1] The Administration proposals also include two administrative actions to be undertaken relating to EIC compliance. These actions are continued IRS efforts to improve: (1) compliance by providing additional IRS personnel to work on EIC issues and, (2) awareness of, access to, and resources for volunteers in the IRS-sponsored Volunteer Income Tax Assistance ("VITA") program.

[2] This document may be cited as follows: Joint Committee on Taxation, Description of the Administration's Proposals Relating to the Earned Income Credit (JCX-14-97), May 7, 1997.

I. DESCRIPTION OF PRESENT-LAW EARNED INCOME CREDIT PROVISIONS

In general

Certain eligible low-income workers are entitled to claim a refundable earned income credit (EIC) (sec. 32 of the Internal Revenue Code of 1986 ("Code")). A refundable credit is a credit that not only reduces an individual's tax liability but allows refunds to the individual in excess of income tax liability. The amount of the credit an eligible individual may claim depends upon whether the individual has one, more than one, or no qualifying children, and is determined by multiplying the credit rate by the individual's earned income[3] up to an earned income amount. The maximum amount of the credit is the product of the credit rate and the earned income amount. The credit is reduced by the amount of alternative minimum tax ("AMT") the taxpayer owes for the year. The EIC is phased out above certain income levels. For individuals with earned income or modified adjusted gross income ("modified AGI"), in excess of the beginning of the phaseout range, the maximum credit amount is reduced by the phaseout rate multiplied by the amount of earned income (or modified AGI, if greater) in excess of the beginning of the phaseout range. For individuals with earned income (or modified AGI, if greater) in excess of the end of the phaseout range, no credit is allowed. Modified AGI means AGI, but for this purpose does not include the following amounts: (1) net capital losses (if greater than zero); (2) net losses from trusts and estates; (3) net losses from nonbusiness rents and royalties; and (4) 50 percent of the net losses from business, computed separately with respect to sole proprietorships (other than in farming), sole proprietorships in farming, and other businesses. Amounts attributable to a business that consists of the performance of services by the taxpayer as an employee are not taken into account for purposes of (4).

The parameters for the EIC for 1997 are given in the following table:

Earned Income Credit Parameters (1997)

	Two or more qualifying children	One qualifying child	No qualifying children
Credit rate (percent)	40.00	34.00	7.65
Earned income amount	$9,140	$6,500	$4,340
Maximum credit	$3,656	$2,210	$332
Phaseout begins	$11,930	$11,930	$5,430
Phaseout rate (percent)	21.06	15.98	7.65
Phaseout ends	$29,290	$25,760	$9,770

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[3] In the case of a married individual who files a joint return with his or her spouse, the income for purposes of these tests is the combined income of the couple.

Under present law, an individual is not eligible for the earned income credit if the aggregate amount of "disqualified income" of the taxpayer for the taxable year exceeds $2,250. Disqualified income is the sum of: (1) interest (taxable and tax-exempt); (2) dividends; (3) net rent and royalty income (if greater than zero); (4) capital gain net income; and (5) net passive income (if greater than zero) that is not self-employment income. The $2,250 threshold is indexed for inflation.

The earned income amount and the phaseout amount are indexed for inflation.

Earned income

Under present law, earned income means the sum of (1) wages, salaries, tips, and other employee compensation, and (2) the amount of the taxpayer's net earnings from self employment for the taxable year, determined without regard to the deduction for one-half of the taxpayer's self-employment taxes (Code sec. 164(f)). For purposes of this definition, earned income is computed without regard to any community property laws, pension and annuity payments are not treated as earned income, certain amounts relating to nonresident aliens are disregarded, and no amount received by inmates for services in penal institutions is treated as earned income.

Eligible individual

Under present law, an individual is an eligible individual entitled to claim the EIC for a year if

(1) the individual has a qualifying child for the taxable year, or

(2) the individual does not have a qualifying child, but satisfies the following requirements:

(i) the individual's principal place of abode is in the United States for more than 1/2 of the year,
(ii) the individual (or, if the individual is married, either the individual or the individual's spouse) has attained age 25, but has not attained age 65 before the close of the year, and
(iii) the individual is not a dependent for whom a dependency exemption is allowed on another taxpayer's return for a taxable year beginning in the same calendar year as the taxable year of the individual.

An individual is not an eligible individual for the year if the individual (1) is a qualifying child of another taxpayer, (2) claims any exclusion from income under Code section 911 for citizens or residents living abroad, (3) is a nonresident alien individual for any portion of the year unless the individual is treated as a U.S. resident for the year under Code section 6013, or (4) does not include the individual's taxpayer identification number ("TIN") or the individual's spouse's TIN on the tax return.

Qualifying child

A qualifying child must meet a relationship test, an age test, an identification test, and a residence test. Under the relationship and age tests, an individual is eligible for the EIC with respect to another person only if that other person: (1) is a son, daughter, or adopted child (or a descendent of a son, daughter, or adopted child); a stepson or stepdaughter; or a foster child of the taxpayer (a foster child is defined as a person whom the individual cares for as the individual's child; it is not necessary to have a placement through a foster care agency); and (2) is under the age of 19 at the close of the taxable year (or is under the age of 24 at the end of the taxable year and was a full-time student during the taxable year), or is permanently and totally disabled. Also, if the qualifying child is married at the close of the year, the individual may claim the EIC for that child only if the individual may also claim that child as a dependent.

To satisfy the identification test, an individual must include on their tax return the name, age, and TIN of each qualifying child.

The residence test requires that a qualifying child must have the same principal place of abode as the taxpayer for more than one-half of the taxable year (for the entire taxable year in the case of a foster child), and that this principal place of abode must be located in the United States. For purposes of determining whether a qualifying child meets the residence test, the principal place of abode shall be treated as in the United States for any period during which a member of the Armed Forces is stationed outside the United States while serving on extended active duty.

Advance payment

An individual with qualifying children may elect to receive the credit on an advance basis by furnishing an advance payment certificate to his or her employer. For such an individual, the employer makes an advance payment of the credit at the time wages are paid. The amount of advance payment allowable in a taxable year is limited to 60 percent of the maximum credit available to an individual with one qualifying child.

TIN requirement

Under present law, for purposes of determining who is an eligible individual and who is a qualifying child, a TIN means a social security number issued to an individual by the Social Security Administration other than a social security number issued pursuant to clause (II) (or that portion of clause (III) that relates to clause (II)) of section 205(c)(2)(B)(i) of the Social Security Act relating to the issuance of a Social Security number to an individual applying for or receiving Federally funded benefits.

Mathematical or clerical errors

The IRS may summarily assess additional tax due as a result of a mathematical or clerical error without sending the taxpayer a notice of deficiency and giving the taxpayer an opportunity to petition the Tax Court. If an individual fails to provide a correct TIN, such omission is treated as a mathematical or clerical error. Also, if an individual who claims the EIC with respect to net earnings from self employment fails to pay the proper amount of self-employment tax on such net earnings, the failure is treated as a mathematical or clerical error for purposes of the amount of EIC claimed. Where the IRS uses the summary assessment procedure for mathematical or clerical errors, the taxpayer must be given an explanation of the asserted error and a period of 60 days to request that the IRS abate its assessment. The IRS may not proceed to collect the amount of the assessment until the taxpayer has agreed to it or has allowed the 60-day period for objecting to expire. If the taxpayer files a request for abatement of the assessment specified in the notice, the IRS must abate the assessment. Any reassessment of the abated amount is subject to the ordinary deficiency procedures. The request for abatement of the assessment is the only procedure a taxpayer may use prior to paying the assessed amount in order to contest an assessment arising out of a mathematical or clerical error. Once the assessment is satisfied, however, the taxpayer may file a claim for refund if he or she believes the assessment was made in error.

II. LEGISLATIVE BACKGROUND

The EIC was enacted in 1975 as a means of targeting tax relief to working low-income taxpayers with children, providing relief from the Social Security payroll tax for these taxpayers, and improving incentives to work. As originally enacted, the credit equaled 10 percent of the first $4,000 of earned income (i.e., a maximum credit of $400). The credit began to be phased out for taxpayers with earned income (or AGI, if greater) above $4,000, and was entirely phased out for taxpayers with income of $8,000.

The Revenue Act of 1978 increased the maximum credit to $500 (10 percent of the first $5,000 of earned income). Also, the income level at which the phaseout began was raised to $6,000, with a complete phaseout not occurring until an income level of $10,000. The Deficit Reduction Act of 1984 increased the maximum credit to $550 (11 percent of the first $5,000 of earned income) and the credit was phased out beginning at $6,500 of income and ending at $11,000.

The Tax Reform Act of 1986 increased the maximum credit to $800 (14 percent of the first $5,714 of earned income), beginning in 1987. The maximum credit was reduced by 10 cents for each dollar of earned income (or AGI, if greater) in excess of $9,000 ($6,500 in 1987). These $5,714 and $9,000 amounts (stated above in 1985 dollars) were indexed for inflation.

The Omnibus Budget Reconciliation Act of 1990 ("OBRA 1990") substantially increased the maximum amount of the basic credit and added an adjustment to reflect family size. OBRA 1990 also created two additional credits as part of the EIC: the supplemental young child credit and the supplemental health insurance credit. Both of these supplemental credits used the same base as the basic EIC.

OBRA 1990 also modified the definition of taxpayers eligible for the EIC. Under prior law, taxpayers were required to file a joint return or file as a head of household or surviving spouse in order to be eligible for the EIC. OBRA 1990 generally broadened the set of eligible taxpayers and set out uniform requirements for qualifying children. The definition of "qualifying child" enacted in OBRA 1990 is described in the present-law section.

The Omnibus Budget Reconciliation Act of 1993 ("OBRA 1993") expanded the EIC in several ways. For taxpayers with one qualifying child, the EIC was increased to 26.3 percent of the first $7,750 of earned income in 1994. For 1995 and thereafter, the credit rate was increased to 34 percent. In 1995, the maximum amount of earned income on which the credit could be claimed is $6,160 (this is a $6,000 base in 1994, adjusted for inflation). The phaseout rate for 1994 and thereafter is 15.98 percent.

For taxpayers with two or more qualifying children, the EIC was increased to 30 percent of the first $8,425 of earned income in 1994. The maximum credit for 1994 was $2,527 and was reduced by 17.68 percent of earned income (or AGI, if greater) in excess of $11,000. The credit

rate increases over time and equals 36 percent for 1995 and 40 percent for 1996 and thereafter. The phaseout rate is 20.22 percent for 1995 and 21.06 percent for 1996 and thereafter.

OBRA 1993 also extended the EIC to taxpayers with no qualifying children. This credit for taxpayers with no qualifying children is available to taxpayers over age 24 and below age 65. Finally, OBRA 1993 repealed the supplemental young child credit and the supplemental health insurance credit.

The implementing legislation for the General Agreements on Tariffs and Trade, enacted in 1994, made a number of modifications to the EIC. First, it denied the EIC to inmates for any amount received for services provided by the inmate in a penal institution. Second, it generally made nonresident aliens ineligible to claim the EIC. Third, it deemed that a member of the Armed Forces stationed outside the United States while serving on extended active duty would satisfy the test that the principal place of abode be within the United States. Fourth, it required that members of the Armed Forces receive annual reports from the Department of Defense of earned income (which includes nontaxable earned income such as amounts received as basic allowances for housing and subsistence). Fifth, it required a TIN for each qualifying child regardless of the dependent's age. Prior to the legislation, taxpayers had to provide a TIN only for qualifying children who attained the age of one before the close of the taxpayer's taxable year.

Under the Self-Employed Person's Health Care Reduction Extension Act of 1995, effective for taxable years beginning after December 31, 1995, a taxpayer is not eligible for the EIC if the aggregate amount of disqualified income (i.e., taxable and tax-exempt interest, dividends, and (if greater than zero) net rent and royalty income) of the taxpayer for the taxable year exceeds $2,350 ("the disqualified income test").

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 included several changes to the EIC. First, it modified the disqualified income test by adding capital gain net income and net passive income (if greater than zero) that is not self-employment income to the definition of disqualified income, and by reducing the threshold above which an individual is not eligible for the EIC from $2,350 to $2,200 (indexed for inflation). Second, it modified the definition of AGI used for phasing out the earned income credit by disregarding certain losses. The losses disregarded are: (1) net capital losses (if grater than zero); (2) net loses from trusts and estates; (3) net losses from nonbusiness rents and royalties; and (4) 50 percent of the net losses from businesses, computed separately with respect to sole proprietorships (other than in farming), sole proprietorships in farming, and other businesses. Third, it applied mathematical and clerical error treatment to the failure to provide a correct Social Security Number (SSN) or to pay the proper amount of self-employment tax on net self-employment earnings on which an EIC is claimed. Finally, it denied the EIC to individuals whose SSNs were issued solely for purposes of the individual applying for or receiving Federally funded benefits.

III. INTERNAL REVENUE SERVICE COMPLIANCE STUDY

In April 1997, the Internal Revenue Service ("IRS") released a study of EIC filers for tax year 1994. This study based on a final sample of 2046 tax returns examined both paper and electronic returns that were accepted by the IRS through April 21, 1995; this represents about 80 percent of the EIC filing population for that tax year 1994. The study found that the total amount of erroneously overclaimed and accepted EIC amounts for tax year 1994 amounted to $4.44 billion (25.8 percent of the total EIC claimed and accepted for that tax year 1994). The study determined that the overclaim rate should be adjusted down to $4.05 billion (23.5 percent of the total EIC claimed and accepted for tax year), to reflect the full effects of IRS enforcement activities which were in effect during the next tax year 1995, Also, certain EIC legislation enacted after tax year 1994, (i.e., mathematical and clerical error treatment for the failure to provide valid TINs for qualifying children), was estimated to reduce the overclaimed amount by an additional $489 million down to $3.56 billion. This would have lowered the overclaim rate to 20.7 percent for tax year 1994 had the mathematical and clerical error rule been in place for the year.

IV. DESCRIPTION OF ADMINISTRATION PROPSALS

A. Deny EIC Eligibility for Prior Acts of Recklessness or Fraud

Present Law

The accuracy-related penalty, which is imposed at a rate of 20 percent, applies to the portion of any underpayment that is attributable to (1) negligence, (2) any substantial understatement of income tax, (3) any substantial valuation overstatement, (4) any substantial overstatement of pension liabilities, or (5) any substantial estate or gift tax valuation understatement (sec. 6662). Negligence includes any careless, reckless, or intentional disregard of rules or regulations, as well as any failure to make a reasonable attempt to comply with the provisions of the Code.

The fraud penalty, which is imposed at a rate of 75 percent, applies to the portion of any underpayment that is attributable to fraud (sec. 6663).

Neither the accuracy-related penalty nor the fraud penalty is imposed with respect to any portion of an underpayment if it is shown that there was a reasonable cause for that portion and that the taxpayer acted in good faith with respect to that portion.

Description of Proposal

A taxpayer who fraudulently claims the EIC would be ineligible to claim the EIC for a subsequent period of 10 years. In addition, a taxpayer who erroneously claims the EIC due to reckless or intentional disregard of rules or regulations would be ineligible to claim the EIC for a subsequent period of two years. These sanctions would be in addition to any other penalty imposed under present law. The determination of fraud or of reckless or intentional disregard of rules or regulations would be made in a deficiency proceeding (which would provide for judicial review).

Effective Date

The proposal would be effective for taxable years beginning after December 31, 1997.

B. Recertification Required When Taxpayer Found to be Ineligible for EIC in Past

Present law

If an individual fails to provide a correct TIN and claims the EIC, such omission is treated as a mathematical or clerical error. Also, if an individual who claims the EIC with respect to net earnings from self employment fails to pay the proper amount of self-employment tax on such net earnings, the failure is treated as a mathematical or clerical error for purposes of the amount of EIC claimed. Generally, taxpayers have 60 days in which they can either provide a correct TIN or request that the IRS follow the current-law deficiency procedures. If a taxpayer fails to respond within this period, he or she must file an amended return with a correct TIN or clarify that any self-employment tax has been paid in order to obtain the EIC originally claimed.

The IRS must follow deficiency procedures when investigating other types of questionable EIC claims. Under these procedures, contact letters are first sent to the taxpayer. If the necessary information is not provided by the taxpayer, a statutory notice of deficiency is sent by certified mail, notifying the taxpayer that the adjustment will be assessed unless the taxpayer files a petition in Tax Court within 90 days. If a petition is not filed within that time and there is no other response to the statutory notice, the assessment is made and the EIC is denied.

Description of Proposal

A taxpayer who has been denied the EIC as a result of deficiency procedures would be ineligible to claim the EIC in subsequent years unless evidence of eligibility for the credit is provided by the taxpayer. To demonstrate current eligibility, the taxpayer would be required to meet evidentiary requirements established by the Secretary of the Treasury. The evidentiary requirements have not yet been specified. Failure to provide this information when claiming the EIC would be treated as a mathematical or clerical error. If a taxpayer is recertified as eligible for the credit, the taxpayer would not be required to provide this information in the future unless the IRS again denies the EIC as a result of a deficiency procedure. Ineligibility for the EIC under the proposal would be subject to review by the courts.

Effective Date

The proposal would be effective for taxable years beginning after December 31, 1997.

C. Establish IRS Continuous Levy and Improve Debt Collection

1. Continuous levy

Present Law

If any person is liable for any internal revenue tax and does not pay it within 10 days after notice and demand[4] by the IRS, the IRS may then collect the tax by levy upon all property and rights to property belonging to the person,[5] unless there is an explicit statutory restriction on doing so. A levy is the seizure of the person's property or rights to property. Property that is not cash is sold pursuant to statutory requirements.[6]

In general, a levy does not apply to property acquired after the date of the levy,[7] regardless of whether the property is held by the taxpayer or by a third party (such as a bank) on behalf of a taxpayer. Successive seizures may be necessary if the initial seizure is insufficient to satisfy the liability.[8] The only exception to this rule is for salary and wages.[9] A levy on salary and wages is continuous from the date it is first made until the date it is fully paid or becomes unenforceable.

A minimum exemption is provided for salary and wages.[10] It is computed on a weekly basis by adding the value of the standard deduction plus the aggregate value of personal exemptions to which the taxpayer is entitled, divided by 52.[11] For a family of four for taxable year 1996, the weekly minimum exemption is $325.[12]

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[4] Notice and demand is the notice given to a person liable for tax stating that the tax has been assessed and demanding that payment be made. The notice and demand must be mailed to the person's last known address or left at the person's dwelling or usual place of business (sec. 6303).

[5] Sec. 6331.

[6] Secs. 6335-6343.

[7] Sec. 6331(b).

[8] Sec. 6331(c).

[9] Sec. 6331(e).

[10] Sec. 6334(a)(9).

[11] Sec. 6334(d).

[12] Standard deduction of $6,700 plus four personal exemptions at $2,550 each equals $16,900, which when divided by 52 equals $325.

Description of Proposal

The Administration's budget proposal would amend the Code to provide that a continuous levy is also applicable to non-means tested recurring Federal payments. This is defined as a Federal payment for which eligibility is not based on the income and/or assets of a payee. For example, Social Security payments, which are subject to levy under present law, would become subject to continuous levy.

In addition, the Administration's budget proposal would provide that this levy would attach up to 15 percent of any salary or pension payment due the taxpayer. This rule would explicitly replace the other specifically enumerated exemptions from levy in the Code. Under the Administration's budget proposal, the continuous levy could apply to the entire amount of a Federal payment that is not salary or a pension payment. Under the Administration's EIC proposal, a continuous levy of up to 15 percent could also apply to unemployment benefits and means-tested public assistance.

Effective Date

The Administration's budget proposal would be effective for levies issued after the date of enactment. The Administration's EIC proposal would be effective for levies issued after December 31, 1997.

2. Modifications of levy exemptions

Present Law

The Code exempts from levy workmen's compensation payments,[13] annuity or pension payments under the Railroad Retirement Act and benefits under the Railroad Unemployment Insurance Act[14] described above, unemployment benefits[15] and means-tested public assistance.[16]

Description of Proposal

The Administration's budget proposal would provide that the following property is not exempt from levy if the Secretary of the Treasury (or his delegate) approves the levy of such property:

(1) workmen's compensation payments,[17] and

(2) annuity or pension payments under the Railroad Retirement Act and benefits under the Railroad Unemployment Insurance Act.

The Administration's EIC proposal would provide that the following property is not exempt from levy if the Secretary of the Treasury (or his delegate) approves the levy of such property:

(1) unemployment benefits, and

(2) means-tested public assistance.

Effective Date

The Administration's budget proposal would apply to levies issued after the date of enactment. The Administration's EIC proposal would apply to levies issued after December 31, 1997.

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[13] Sec. 6334(a)(7).

[14] Sec. 6334(a)(6).

[15] Sec. 6334(a)(4).

[16] Sec. 6334(a)(11).

[17] Many workmen's compensation payments are made by States. The heading of the new subsection of the Code (but not the text of the subsection itself) refers to "Federal" payments. A clarification of this matter may be desirable.

D. Due Diligence Requirements for Paid Preparers

Present Law

There are several penalties that apply in the case of an understatement of tax that is caused by an income tax return preparer. First, if any part of an understatement of tax on a return or claim for refund is attributable to a position for which there was not a realistic possibility of being sustained on its merits and if any person who is an income tax return preparer with respect to such return or claim for refund knew (or reasonably should have known) of such position and such position was not disclosed or was frivolous, then that return preparer is subject to a penalty of $250 with respect to that return or claim (sec. 6694(a)). The penalty is not imposed if there is reasonable cause for the understatement and the return preparer acted in good faith.

In addition, if any part of an understatement of tax on a return or claim for refund is attributable to a willful attempt by an income tax return preparer to understate the tax liability of another person or to any reckless or intentional disregard of rules or regulations by an income tax return preparer, then the income tax return preparer is subject to a penalty of $1,000 with respect to that return or claim (sec. 6694(b)).

Also, a penalty for aiding and abetting the understatement of tax liability is imposed in cases where any person aids, assists in, procures, or advises with respect to the preparation or presentation of any portion of a return or other document if (1) the person knows or has reason to believe that the return or other document will be used in connection with any material matter arising under the tax laws, and (2) the person knows that if the portion of the return or other document were so used, an understatement of the tax liability of another person would result (sec. 6701).

Additional penalties are imposed on return preparers with respect to each failure to (1) furnish a copy of a return or claim for refund to the taxpayer, (2) sign the return or claim for refund, (3) furnish his or her identifying number, (4) retain a copy or list of the returns prepared, and (5) file a correct information return (sec. 6695). The penalty is $50 for each failure and the total penalties imposed for any single type of failure for any calendar year are limited to $25,000.

Description of Proposal

Return preparers would be required to fulfill certain due diligence requirements with respect to returns they prepare claiming the EIC. The due diligence requirements have not yet been specified. The penalty for failure to meet these requirements would range from $50 to the full amount of the EIC overclaimed. This penalty would be in addition to any other penalty imposed under present law.

Effective Date

The proposal would be effective for taxable years beginning after December 31, 1997.

E. Simplification of Foster Child Definition

Present law

For purposes of the EIC, qualifying children may include foster children who reside with the taxpayer for a full year, if the taxpayer "cares for the foster children as the taxpayer's own children." (Code sec. 32(c)(3)(B)(iii)(I)). All EIC qualifying children (including foster children) must either be under the age of 19 (24 if a full-time student) or permanently and totally disabled. There is no requirement that the foster child either be: (1) placed in the household by a foster care agency or (2) a relative of the taxpayer.

Description of Proposal

A foster child would be defined as a child who (1) is under the age of 19 (24 if a full-time student), (2) is cared for by the taxpayer as if he or she were the taxpayer's own child, and (3) either is the taxpayer's niece, nephew, or sibling or was placed in the taxpayer's home by an agency of a State or one of its political subdivisions or by a tax-exempt child placement agency licensed by a State.

Effective Date

The proposal would be effective for taxable years beginning after December 31, 1997.

F. Advance Payment Demonstration Projects

Present law

Qualifying individuals can claim the EIC when filing their tax returns at the end of the year. Alternatively, qualifying individuals with children have the choice of obtaining a portion of the EIC in advance through their employers, and claiming the balance of the EIC upon filing their income tax returns at the end of the year. The annual advanced EIC payment cannot exceed 60 percent of the maximum full-year EIC for a family with one child ($1,326 for 1997).

Description of Proposal

The Secretary of the Treasury could select four States to provide advance payments of the EIC to wage earners through State agencies rather than employers for a three-year period. The four States would be selected from those States applying for participation in the demonstration project. States would be required to verify eligibility for the EIC before paying out the credit. Effects on advance payment participation and compliance would be studied by the Treasury Department.

Effective Date

Applications would be submitted by the States to the Treasury Department during 1998 for demonstration projects to begin in January 1999.