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PAYROLL BULLETIN
(8-94)

TO: All State Agencies, Departments, Boards, Commissions
and Universities

SUBJECT: Advance Earned Income Credit

The Form W-5, Earned Income Credit Payment Certificate, furnished by employees to receive the advance payment of the earned income credit, will have to be renewed for wages paid in 1995.

Attached to this bulletin is a copy of the 1995 Form W-5 with instructions. You may duplicate this form to distribute to employees who wish to receive this credit. You can also order Forms W-5 from the Internal Revenue Service by calling 1-800-TAX FORM (1-800-829-3676).

Questions regarding this bulletin should be referred to Dan Steven or Nancy Smith at (217) 782-4758.

Earned Income Credit Advance Payment Certificate

1995

Instructions

Purpose

Use Form W-5 if you are eligible to get part of the earned income credit (EIC) in advance with your pay and choose to do so. If you choose not to get advance payments, you can still claim the EIC on your 1995 tax return.

Caution: At the time this form went to print, Congress was considering legislation that would (1) allow certain members of the Armed Forces stationed outside the United States to claim the EIC and get advance payment of the EIC for 1995, (2) require the reporting of social security numbers for qualifying children born before November 1, 1995, and (3) make most nonresident aliens ineligible to claim the EIC for 1995. For later information about this legislation, get Pub. 553, Highlights of 1994 Tax Law Changes.

What is the EIC?

The EIC is a special credit for certain workers. It reduces tax you owe. It may give you a refund even if you don't owe any tax. For 1995, the EIC can be as much as \$2,094 if you have one qualifying child; \$3,110 if you have more than one qualifying child; \$314 if you do not have a qualifying child. See **Who is a Qualifying Child?** later. But you **cannot** get advance EIC payments unless you have a qualifying child.

Who is Eligible To Get Advance EIC Payments?

You are eligible to get advance EIC payments if **all three** of the following apply:

1. You have at least one qualifying child.

2. You expect that your 1995 earned income and adjusted gross income will each be less than \$24,396 (including your spouse's income if you expect to file a joint return).

3. You expect to be able to claim the EIC for 1995. To find out if you may be able to claim the EIC, answer the questions on page 2. If you expect to file Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion, for 1995, you **cannot** claim the EIC.

How Do I Get Advance EIC Payments?

If you are eligible to get advance EIC payments for 1995, you may be able to get up to \$105 a month added to your take-home pay. To get advance EIC payments, fill in the Form W-5 at the bottom of this page. Then, detach it and give it to your employer. If you get advance payments, you **must** file a 1995 Form 1040A or Form 1040.

You may have only **one** Form W-5 in effect with a current employer at one time. If you and your spouse are both employed, you should file separate Forms W-5.

This Form W-5 expires on December 31, 1995. If you are eligible to get advance EIC payments for 1996, you must file a new Form W-5 next year.

Note: You may be able to get a larger credit when you file your 1995 return. For details, see **Additional Credit** on page 2.

Who is a Qualifying Child?

Any child who meets **all three** of the following conditions is a **qualifying child**:

1. The child is your son, daughter, adopted child, stepchild, foster child, or a

descendant (for example, your grandchild) of your son, daughter, or adopted child.

Note: An **adopted child** includes a child placed with you by an authorized placement agency for legal adoption even if the adoption isn't final. A **foster child** is any child you cared for as your own child.

2. The child is under age 19 or a full-time student under age 24 at the end of 1995, or is permanently and totally disabled.

3. The child lives with you in the United States for more than half of 1995 (for all of 1995 if a foster child). If the child does not live with you for the required time because the child was born or died in 1995, the child is considered to have lived with you for all of 1995 if your home in the United States was the child's home for the entire time he or she was alive in 1995.

Note: Temporary absences such as for school, medical care, or vacation count as time lived with you.

Married child.—If the child is married at the end of 1995, the child is a qualifying child only if you may claim the child as your dependent or the following **Exception** applies to you.

Exception. You are the custodial parent and would be able to claim the child as your dependent, but the noncustodial parent claims the child as a dependent because—

- You signed Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents, or a similar statement, agreeing not to claim the child for 1995, or

(Continued on page 2)

Give the lower part to your employer; keep the top part for your records.

Detach along this line

Type or print your full name

Earned Income Credit Advance Payment Certificate

► Give this certificate to your employer.
► This certificate expires on December 31, 1995.

OMB No. 1545-1342

1995

Your social security number

Note: If you get advance payments of the earned income credit for 1995, you must file a 1995 Form 1040A or Form 1040. To get advance payments, you must have a qualifying child and your filing status must be any status **except** married filing a separate return.

	Yes	No
1 I expect to be able to claim the earned income credit for 1995, I do not have another Form W-5 in effect with any other current employer, and I choose to get advance EIC payments.		
2 Do you have a qualifying child?		
3 Are you married?		
4 If you are married, does your spouse have a Form W-5 in effect for 1995 with any employer?		

Under penalties of perjury, I declare that the information I have furnished above is, to the best of my knowledge, true, correct, and complete.

Signature ►

Date ►

Questions To See If You May Be Able To Claim the EIC for 1995

- 1 Do you have a qualifying child? Read **Who Is a Qualifying Child?** on page 1 before you answer this question. If the child is married, be sure you also read **Married child** on page 1.
- No. Stop here.** You may be able to claim the EIC but you cannot get advance EIC payments.
- Yes. Continue.**
- Caution: If the child is a qualifying child for both you and another person, the child is your qualifying child only if you expect your 1995 adjusted gross income to be higher than the other person's adjusted gross income. If the other person is your spouse and you expect to file a joint return for 1995, this rule doesn't apply.*
- 2 Do you expect your 1995 filing status to be Married filing a separate return?
- Yes. Stop here.** You cannot claim the EIC.
- No. Continue.**
- 3 Do you expect that your 1995 earned income and adjusted gross income will each be less than \$24,396 (less than \$26,873 if you have more than one qualifying child)? If you expect to file a joint return for 1995, include your spouse's income when answering this question.
- TIP:** To find out what is included in adjusted gross income, you can look at page 1 of your 1994 Form 1040EZ, Form 1040A, or Form 1040.
- No. Stop here.** You cannot claim the EIC.
- Yes. Continue.** But remember, you cannot get advance EIC payments if you expect your 1995 earned income or adjusted gross income will be \$24,396 or more.
- 4 Do you expect to be a qualifying child of another person for 1995?
- No.** You may be able to claim the EIC.
- Yes.** You cannot claim the EIC.

• You have a pre-1985 divorce decree or separation agreement that allows the noncustodial parent to claim the child and he or she gives at least \$600 for the child's support in 1995.

Qualifying child of more than one person.—If the child is a qualifying child of more than one person, only the person with the highest adjusted gross income for 1995 may treat that child as a qualifying child. If the other person is your spouse and you expect to file a joint return for 1995, this rule doesn't apply.

Reminder.—You must get a social security number for a qualifying child born before 1995.

What If My Situation Changes?

If your situation changes after you give Form W-5 to your employer, you usually will need to file a new Form W-5. For example, you should file a new Form W-5 if any of the following applies for 1995:

- You no longer have a qualifying child. Check "No" on line 2 of your new Form W-5.
- You expect your filing status to be Married filing separately, you expect to be a qualifying child of another person, or you expect your earned income or adjusted gross income to be \$24,396 or more. Check "No" on line 1 of your new Form W-5.
- You no longer want advance payments. Check "No" on line 1 of your new Form W-5.

• Your spouse files Form W-5 with his or her employer. Check "Yes" on line 4 of your new Form W-5.

Note: If you get the EIC with your pay and find you are not eligible, you must pay it back when you file your 1995 Federal income tax return.

Additional Information

How To Claim the EIC

If you have at least one qualifying child, fill in and attach **Schedule EIC** to your 1995 Form 1040 or Form 1040A. In addition to other information, the social security number of your qualifying child born before 1995 must be shown on Schedule EIC. To figure your EIC, use the worksheet in your 1995 Form 1040 or Form 1040A instruction booklet.

Additional Credit

You may be able to claim a larger credit when you file your 1995 tax return because your employer is not permitted to give you more than \$1,257 of the EIC in advance with your pay. You may also be able to claim a larger credit if you have more than one qualifying child. But you must file your 1995 tax return to claim any additional credit.

Privacy Act and Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the

United States. Internal Revenue Code sections 3507 and 6109 and their regulations require you to provide the information requested on Form W-5 and give the form to your employer if you want advance payment of the EIC. As provided by law, we may give the information to the Department of Justice and other Federal agencies. In addition, we may give it to cities, states, and the District of Columbia so they may carry out their tax laws.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 7 min.; **Learning about the law or the form**, 9 min.; and **Preparing the form**, 28 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to both the **Internal Revenue Service, Attention: Tax Forms Committee, PC:FP, Washington, DC 20224**; and the **Office of Management and Budget, Paperwork Reduction Project (1545-1342), Washington, DC 20503**. **DO NOT** send this form to either of these offices. Instead, give it to your employer.