The earned income tax credit was enacted in 1975 as a means of targeting tax relief to working low-income taxpayers with children, providing relief from the social security tax for such taxpayers, and improving incentives to work. The amount of the credit an eligible taxpayer may claim depends upon whether the taxpayer has one, more than one, or no qualifying children and is determined by multiplying the credit rate by the taxpayer's earned income up to an earned income threshold. The credit is phased out for taxpayers with earned income in excess of the phase out threshold.

To claim the credit, a taxpayer must be an "eligible individual." There are two classes of eligible individuals: those with a "qualified child" and those without a qualified child. In addition, certain exclusions apply.

Individuals With a Qualifying Child

An individual who has a "qualifying child" for the taxable year is an eligible individual. To be a qualifying child, an individual must meet four tests concerning relationship, abode, age, and identification.

The Relationship Test

The relationship test is satisfied for years after 2001 if the individual is the taxpayer's son or daughter, stepson or stepdaughter or a descendant of any such individual; a brother, sister, stepbrother, stepsister, or a descendant of any such individual, who the taxpayer cares for as the taxpayer's own child; or the taxpayer's eligible foster child. An adopted child is treated as a blood relation. An individual who is married as of the end of the taxable year is disqualified unless the taxpayer is entitled to claim an exemption for the child.

The Abode Test

The abode test is satisfied if the individual has the same principal place of abode as the taxpayer for more than one-half of the taxpayer's taxable year. This place of abode must be in the United States.

The Age Test

The age test is satisfied if the individual meets one of three tests: (i) The individual is under age 19 as of the close of the calendar year in which the taxpayer's taxable year begins; (ii) the individual is a student who is under age 24 as of the close of the same year; or (iii) the individual is permanently and totally disabled at any time during the taxpayer's taxable year.

The Identification Requirement

The identification requirement is satisfied if the taxpayer includes on his or her return the name, age and taxpayer identification number of each qualifying child. An individual's taxpayer identification number generally is the individual's social security number.

Individuals Without a Qualifying Child

An individual who does not have a qualifying child for the taxable year is eligible for the credit if the individual's principal place of abode is in the United States for more than half of the taxable year, the individual (or, if married, his or her spouse) has reached age 25, but not 65, by the end of the taxable year, and the individual may not be claimed as a dependent by another taxpayer for a taxable year beginning in the same calendar year in which the taxpayer's year begins.

Amount of Credit

Generally, the earned income credit is the amount determined by applying a specified percentage to the portion of the taxpayer's "earned income" that does exceed a specified amount. However, the credit is phased out if the taxpayer's adjusted gross income (or, if greater, the taxpayer's earned income) exceeds a specified phase out amount. As a practical matter, the IRS provides tables to determine the amount of the credit. These tables can be found in the individual income tax instruction booklet.

The income phase out range, beyond which no credit is allowed, is as follows:

Type of Taxpayer	2001	2002
No children	$10,710	$11,060
1 child	$28,281	$29,201
2 or more children	$32,121	$33,178

An individual who is married at the close of the taxable year may not claim the credit unless the individual and the individual's spouse file a joint return.

No earned income credit is allowed for the taxable year for a taxpayer whose aggregate amount of "disqualified income" for the taxable year exceeds $2,450 (adjusted for inflation). "Disqualified income" consists of interest and dividends includible in gross income for the taxable year; tax-exempt interest received or accrued in the taxable year; net income (if greater than zero) from rents and royalties not derived in the ordinary course of business; capital gain net income; and net passive income (if greater than zero) that is not self-employment income.