



Improving Family,  
Resources & Health

## CLOSE TO HOME

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### What to do with a large tax refund

*Most people think this money should be spent on something special or frivolous. Below are four “not so frivolous” suggestions for your refund:*

1. Pay off high interest credit cards.
2. Create an emergency fund.
3. Save for retirement.
4. Adjust your withholding so your refund is less.

## Are you eligible for Earned Income Credit?

You or someone you know may be eligible for one or more government credits. Share this information with someone you know who recently got divorced, had a baby in 2004 or for whatever reason cut their work hours. You each may qualify for the Earned Income Credit (EIC) and/or the Child Tax Credit (CTC).

**What is the Earned Income Credit?** The EIC is a special tax benefit for working people who earn low or moderate incomes. Its purpose is to reduce the tax burden on these workers and to supplement wages.

Workers who qualify for the EIC and file a federal tax return can get back some or all of the federal income tax that was taken out of their pay during the year. They may also get extra cash back from the IRS. Even workers whose earnings are too small to have paid taxes can get the EIC. **The maximum amount of income you can earn and still get the credit has increased.** You may be able to take the credit if:

- You have more than one qualifying child and your earned income was less than \$34,458 (\$35,458 if married filing jointly).
- You have one qualifying child and your earned income was less than \$30,338 (\$31,338 if married filing jointly).
- You do not have a qualifying child and your earned income was less than \$11,490 (\$12,490 if married filing jointly).

**Investment income amount is also more.** The maximum amount of investment income you can have and still get the credit has increased to \$2,650.

**Nontaxable combat pay election.** You can now elect to have your nontaxable combat pay included in earned income for the EIC.

### How Much Can You Get?

Example: If you were a single, head of household or qualifying widow and earned less than \$25,050 and lived with one child, you could get up to \$849 EIC (two children, \$1,987).

If you were married filing jointly and lived with one child in 2004, you can get up to \$1,009 EIC (two children, \$2,197).

### Child Tax Credit

The child tax credit is a reduction in actual taxes, not just a deduction from taxable income. As long as you are within the income threshold for your filing status, the Child Tax Credit is \$1,000 for each qualifying child. If your credit is more than your tax liability, you may be able to claim the difference as a refund. To calculate your additional credit, use Form 8812, *Additional Child Tax Credit*.