



Tax Credits for Low-Income Families: Glossary of Terms

Earned Income Tax Credit (EITC): A refundable tax credit for low-income workers designed to bridge the gap between their earnings and the costs of meeting their basic needs. The more wages people earn, the more benefits their families receive until they reach a certain income threshold. At that point, families see a decrease in their credit but not a complete loss. In 2010, the EITC lifted 5.4 million people out of poverty.

Child Tax Credit (CTC): A partially refundable tax credit that assists working parents with the costs of raising a child. Parents must currently earn at least \$3,000 in a given year to receive the CTC and may receive up to \$1,000 in benefits per child.

Refundable Tax Credit: A type of tax credit that allows recipients to receive its full benefit even if their tax liability has been reduced to zero. While credits that offset families' tax burdens help millions of families meet basic needs every year, low-income families are ineligible for many because they already owe little to no taxes. But with a \$500 refundable credit, an eligible worker owing zero dollars in taxes would still be refunded \$500.

Partially Refundable Tax Credit: A type of tax credit that, if the recipient's tax liability has been reduced to zero, will still refund part of the remaining credit. Lower-income households with little to no tax liability can then receive some benefit from the credit, though not as much as if the credit was fully refundable.

Income Threshold: The amount a person must earn to be eligible for certain tax credits. For example, in order to be eligible for the Child Tax Credit, families must earn at least \$3,000. The benefit received then grows with a family's income, up to a point.

Volunteer Income Tax Assistance (VITA): VITA sites provide low-income workers with free tax preparation assistance as well as financial education and information about a variety of asset-building opportunities and federal programs they may not know they're eligible for. The Internal Revenue Service partners with local government, nonprofits, and businesses to offer free tax preparation services that allow people to keep a larger share of their tax refund. Because many EITC filers rely on commercial tax-preparation services that charge significant fees and encourage high interest loans, VITA sites provide an important alternative that help low-income workers keep more of the benefits they've earned.

