

Accounting Aid Society
Guidance for Earned Income Look-Back Provision
for 2020 Earned Income Credit and 2020 Additional Child Tax Credit

Background

Taxpayers may elect to use their 2019 earned income to figure their 2020 earned income credit (EIC) and 2020 additional child tax credit (ACTC) if 2019 earned income is **more** than 2020 earned income.

General information on earned income for EIC and ACTC

- See the Earned Income Table on page I-1 of Publication 4012 for a list of what is, and is not, included as earned income for the EIC and ACTC.
- For clients of Accounting Aid Society, earned income will typically be wages and self-employment income. Please note the following:
 - Taxable scholarships -- Included as earned income *only* if reported on a W-2
 - Self-employment income – The deduction for ½ of the self-employment tax is subtracted from the net profit to determine earned income from self-employment income
- Use the earned income amount from the 2019 EIC applicable worksheet or 2019 Schedule 8812, Additional Child Tax Credit, instead of calculating it yourself

2019 Earned Income

A copy of the 2019 tax return is necessary in order to determine the amount of 2019 earned income. (Note: For carryforward returns prepared in TaxSlayer, the software will **not** carryforward or populate the field for 2019 earned income.)

2019 Tax Return – Find the earned income amounts for 2019 on the following worksheet and/or form:

- If EIC was taken in 2019 and no self-employment income in 2019 – Use the amount from 2019 EIC Worksheet A, line 1
- If EIC was taken in 2019 and there was self-employment income in 2019 – Use the amount from 2019 EIC Worksheet B, line 4b
- If ACTC was taken in 2019 – Use the amount from line 6a of the 2019 Schedule 8812, Additional Child Tax Credit

If the 2019 tax return isn't available, we can't do the look-back comparison. In this situation, the taxpayer has two choices after they are carefully explained:

- 1) Request a transcript of the 2019 tax return from the IRS. Once the transcript is available, determine the amount of 2019 earned income using the 2019 EIC instructions, steps, and worksheet. If 2019 earned income is more than 2020 earned income, the 2019 amount can then be used to see if it will result in a higher EIC and/or ACTC. Or,
- 2) File their 2020 tax return without doing an earned income look-back for the EIC and/or ACTC. You **MUST** include a Note in TaxSlayer and a note on the Intake/Interview Sheet that the taxpayer is choosing not to look back at their 2019 earned income for purposes of calculating 2020 EIC and/or ACTC, and that we explained the possible affect of this decision on their 2020 return, i.e., possible lower refund or higher tax due.

TaxSlayer

There is a checkbox on the federal *Personal Information* page where the taxpayer makes the election, “Taxpayer wishes to elect to use their 2019 earned income to figure their 2020 earned income credit and/or child tax credit”. An entry field will then appear for the amount of 2019 earned income.

Recommended Procedure

1. Determine if taxpayer is eligible for the 2020 earned income credit and/or additional child tax credit. If possible, do this during the Intake & Interview so we could tell the client at this point we need to see a copy of their complete 2019 federal tax return.

To determine eligibility for the EIC and/or ACTC, you will need to know the following: Filing status, dependency exemptions, qualifying children for each credit, earned income, and adjusted gross income.

For the rules and eligibility to claim each credit, see Pub 4012, pages I-2—I-5 for the Earned Income Credit and pages G-2—G-3 for the Child Tax Credit/Additional Child Tax Credit.

2. If taxpayer is not eligible for the 2020 EIC and/or ACTC, they cannot use the earned income look-back provision.
3. If taxpayer is eligible for the 2020 EIC and/or ACTC, determine if 2019 earned income is more than 2020 earned income.
 - a. If the taxpayer tells us it was higher or if they are unsure, determine the amount of 2019 earned income. See instruction above for 2019 Earned Income.
 - b. If 2019 earned income is less than 2020 earned income; stop, the earned income look-back cannot be used.
4. **TaxSlayer** – If 2019 earned income is more than the 2020 earned income:
 - a. Go to Basic Information >> Personal Information and select the checkbox for “Taxpayer wishes to elect to use their 2019 earned income to figure their 2020 earned income credit and/or child tax credit”.
 - b. Enter the amount of 2019 earned income.
5. The software will calculate each credit, EIC and ACTC, using both earned income amounts and will select the earned income amount that results in the higher credit. (The tax preparer will not have to make the determination as to which earned income amount to use to figure the 2020 EIC and/or ACTC.)
6. If the 2019 earned income amount is used for the 2020 credit(s), the PDF of the tax return will have a notation on it:
 - Form 1040, line 27, Earned income credit (EIC) – The letters “PYEI” and the amount of the 2019 earned income should be on the dotted line next to line 27
 - Form 1040, line 28, Additional child tax credit – The letters “PYEI” and the amount of the 2019 earned income should be on the dotted line next to line 28
7. Note: The IRS provision is a taxpayer may look back at 2019 earned income if it is higher than 2020 earned income; therefore, TaxSlayer will “ignore” a 2019 earned income entry if it is lower than 2020 and will not perform comparative calculations.