

DEPARTMENT OF SOCIAL SERVICES

744 P Street, Sacramento, CA 95814



June 25, 1981

ALL-COUNTY INFORMATION NOTICE I-80-81

TO: ALL COUNTY WELFARE DIRECTORS

ATTENTION: AFDC QUALITY CONTROL STAFF

SUBJECT: QUALITY CONTROL REVIEW PROCEDURES FOR THE TREATMENT OF EARNED
INCOME CREDIT AND INCOME TAX REFUNDS

REFERENCE:

The expiration of the Earned Income Credit (EIC) exemption referenced in ACIN I-56-81, and the extension of the preliminary injunction issued in the Vaessen vs Woods case (ACL No 81-21) make it necessary to revise the Quality Control (QC) review procedures for these elements. The review procedures for treatment of the EIC supersede those instructions contained in ACL No 80-78, dated December 12, 1980.

Earned Income Credit (EIC) Element 310

Beginning with July 1981 reviews, EIC payments (EAS 44-111.3L(3)) received for the tax year beginning January 1, 1980 will be considered earned income in the month received whether they are received as advance payments or as a portion of the federal income tax refund.

Recipients may choose to receive advance payments of the EIC through their employer or elect to have it included as part of their income tax refund check. Since the EIC is considered earned income, regardless of the manner in which it is disbursed, it must be added to other gross earned income and the 30 and 1/3 exemption applied. EIC payments should be recorded and verified in Element 310.

Verification -

Where the recipient receives the EIC as advance payments, the amount of the EIC should be verified by the paystub or through a collateral contact with the employer.

The EIC payment and any federal income tax refund will be combined in one check, and the EIC portion will be identified on the check. If the refund check or a photocopy is not available, the amount of the EIC should be verified through collateral contact with the IRS or other means (e.g., Form 1040 or 1040A).

EXAMPLE #1: The recipient is employed, paid twice monthly and receives the EIC as an advance payment in the paycheck. The recipient received the following on the fifth and twentieth of the budget month: \$310 gross earnings; \$5 EIC; \$45 mandatory deductions.

The recipient pays \$15 for a bus pass and \$80 per month child care expense. The computation is as follows:

620	earned income
<u>10</u>	EIC
630	gross earnings
399	non-exempt earnings
<u>-185</u>	total deductions
214	net non-exempt income

EXAMPLE #2: The recipient is employed and paid twice monthly. The recipient received the following on the fifth and twentieth of the budget month: \$310 gross earnings; \$45 mandatory deductions.

Additionally the recipient received a federal income tax refund of \$650 of which \$150 is identified as the EIC.

The recipient pays \$15 for a bus pass and \$80 per month child care expense. The computation is as follows:

620	earned income
<u>150</u>	EIC
770	gross earnings
493	non-exempt earnings
<u>-185</u>	total deductions
308	net non-exempt income

Income Tax Refunds, Element 239

Income tax refunds for the 1980 tax year, received in 1981, will continue to be considered property for grant and eligibility determinations as stated in All County Letter 81-21, dated March 4, 1981.

If you have any questions regarding these procedures, please contact the appropriate quality control regional or district manager per All County Information Notice I-133-79.

Sincerely,



R. E. RUTCH

Deputy Director
Planning and Review Division

cc: CWDA