

DEPARTMENT OF SOCIAL SERVICES

744 P Street, Sacramento, CA 95814  
(916) 322-5387

May 4, 1981



ALL-COUNTY INFORMATION NOTICE I- 56-81

DHS LETTER 81-18

TO: ALL COUNTY WELFARE DIRECTORS

SUBJECT: EARNED INCOME CREDIT (EIC) (FORMERLY ENTITLED EITC)

REFERENCE:

This letter is in response to numerous questions from counties concerning the treatment of Earned Income Credit (EIC) payments for taxable year 1980 and thereafter in the Aid to Families with Dependent Children (AFDC) and Medi-Cal programs.

A recent amendment to federal law (Public Law 96-222) provides that EIC payments for taxable year 1980 and thereafter be treated as earned income in the AFDC program. This applies to EICs received as both advance payments and/or refunds. For AFDC, EIC payments meet the definition of Earned Income pursuant to EAS Section 44-105.5. For Medi-Cal, EIC payments are earned income under California Administrative Code, Title 22, Section 50503.

When the advance payments have exceeded the EIC amount allowable at the end of the taxable year, the individual must repay the excess amount. The payment is made to the Internal Revenue Service (IRS) either as an offset against the income tax refund or through payment to IRS. This law also provides that when an individual is liable for a tax equal to such excess, the individual's AFDC benefits must be adjusted so as to provide payment of an amount equal to the amount of the benefits which were lost on account of such excess advance payments. We are developing AFDC regulations to implement this provision. They likely will be effective in October, 1981. You may wish to flag all cases which received advance EIC payments in taxable year 1980 and 1981 to facilitate implementation of these regulations.

We hope this information will be helpful. If you have any questions, please call your AFDC Management Consultant at (916) 445-4458 or your Medi-Cal Program Consultant.

Original signed by

Kyle S. MCKinsey, Deputy Director

Original signed by

Barbara V. Carr, Acting Chief  
Eligibility Branch  
Health Care Policy and Standards Division  
Department of Health Services

cc: Medi-Cal Liaisons  
Medi-Cal Program Consultants  
Expiration Date: November 30, 1981