Tax Year 2022 EITC Credits and Deductions Gap Estimate for Filers Using IRS Administrative Data

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The views expressed in this paper are those of the authors and do not necessarily represent the views of the IRS.

Section 1. Introduction

Over the course of the last several decades, Congress has given the Internal Revenue Service (IRS) responsibility for delivering to individuals and businesses certain tax benefits, including tax credits and tax deductions. The IRS produces a large amount of information describing tax benefits that are available and engages in a number of education and outreach programs designed to help taxpayers claim benefits for which they are eligible, but many taxpayers remain unaware of particular tax benefits or face barriers that deter them from claiming the full amount of tax benefits for which they are eligible. As part of its strategic operating plan, the IRS has pledged to help taxpayers understand and claim appropriate deductions and credits.[1]

Credits and deductions are provisions that reduce the amount of taxes a taxpayer needs to pay or otherwise increases an amount that can be refunded to a U.S. citizen or resident based on certain eligibility criteria. Taxpayers can receive three general types of credits and deductions:

- A tax deduction reduces the amount of income subject to tax.
- A non-refundable tax credit is a credit that reduces the amount of tax liability, but the amount of the credit may not exceed the taxpayer's tax liability. (For example, if a taxpayer is eligible for a non-refundable tax credit of $1,500 and has $1,000 in tax liability, the credit reduces the taxpayer's liability by only $1,000.)
- A refundable tax credit is a credit that reduces the amount of tax liability and, if the amount of the credit exceeds the taxpayer's tax liability, the amount of the credit that exceeds the taxpayer's tax liability can be given as a refund to the taxpayer, even in cases where the taxpayer does not have any tax liability. (For example, if a taxpayer is eligible for a refundable tax credit of $1,500 and has $1,000 in tax liability, the credit reduces the taxpayer's liability by $1,000, and the taxpayer will have an additional $500 refunded.)

To design better strategies to support eligible taxpayers in claiming credits and deductions, the IRS and decision makers first need to understand where taxpayers are not fully claiming credits and deductions and the barriers that may impact claiming behavior. To ground these discussions, the IRS has begun developing approaches to measure uptake by eligible taxpayers and to estimate the share of eligible taxpayers who do not claim credits and deductions for which they are eligible. In the inaugural year of releasing aggregate estimates of the tax benefits gap—the difference between the amount of a tax benefit for which tax units are eligible, irrespective of whether those tax units filed tax returns, and the amount of a tax benefit claimed at the time of filing by those tax units—the IRS focused on a subset of fully or partially refundable credits for individuals. This working paper is part of that series of working papers and focuses on the Earned Income Tax Credit (EITC). The IRS invites comments and recommendations on ways to improve the methodology used to measure the tax benefits gap for these credits.

[1] Internal Revenue Service. "Internal Revenue Service Inflation Reduction Act Strategic Operating Plan, FY2023 – 2031." Page 36 https://www.irs.gov/pub/irs-pdf/p3744.pdf

As this work continues in the coming years, the IRS plans to expand the set of credits and deductions examined and continue to refine the methodologies used to estimate the tax benefit gap. This work will feed into other efforts by the IRS to increase awareness of credits and deductions and remove barriers to claiming. Overall, this will inform and complement other IRS's efforts to prevent inadvertent errors, fraud, and abuse.

Section 2. Background on Earned Income Tax Credit

The EITC is a refundable credit that benefits low- and moderate-income workers. Because the credit is refundable, taxpayers with no income tax liability can still benefit from the credit. The amount of EITC varies with the number of qualifying children of the taxpayer, with a Tax Year 2022 maximum credit of $6,935 for families with qualifying children (QCs) and a maximum credit of up to $560 for taxpayers with no QCs.

This report provides an estimate of the Tax Year 2022 Benefits Gap for apparently EITC-eligible filers who did not claim the credit (nonclaimants) or who claimed a lower credit than the IRS-calculated credit (underclaimants) on a timely filed tax return and whom the IRS has not determined to be ineligible for EITC. Tax Year 2022 was selected for this study because it was the most recent year for which we had complete data at the time the research began. The research in this working paper complements, with no intention to reproduce, the Census EITC participation rate estimate for filers. Unlike the Census estimate, we do not consider potentially invalid claims.

Section 3. TY2022 EITC Eligibility Rules

Rules that apply to all taxpayers

- The taxpayer (and spouse) must have been issued a social security number that is valid for employment on or before the due date for filing the return plus extensions. (IRC §§32(c)(1)(E) and IRC §32(m))
- The return must cover the full 12 months of the year for which it is filed except in the year of death of the taxpayer. (IRC §32(e))
- Neither the taxpayer nor spouse may be a nonresident for any part of the year unless they elect to treat the nonresident spouse be treated as a full year resident under IRC section 6013, subsection (g) or (h) which relates to the treatment of foreign spouses. (IRC §32(c)(1)(D))
- The return cannot include Form 2555 to exclude foreign earned income or housing cost reimbursements under IRC section 911. (IRC §32(c)(1)(C))
- Neither the taxpayer nor spouse is a QC of another taxpayer. See the "Determination of Child as Qualifying Child" section for more information. (IRC §32(c)(1)(B))
- There must be earned income reported on the return. The term "earned income" generally means taxable wages, salaries, tips, and other employee compensation plus net self-employment earnings that are subject to

self-employment tax, reduced by the deduction for one half of the self-employment tax. (IRC §32(c)(2)(A)(ii)) Community property laws are disregarded for purposes of determining earned income. (IRC §32(c)(2)(B)(i))

The taxpayer and spouse may make a separate election to treat nontaxable combat pay as earned income if it is beneficial to do so. (IRC §32(c)(B)(vi)) See "Decision to Make Combat Pay Election" below for more information.

Earned income does not include pension or annuity income (IRC §32(c)(2)(B)(ii)), or income earned as a nonresident (IRC §32(c)(2)(B)(iii)), while an inmate in a penal institution (IRC §32(c)(2)(B)(iv)), or employment in a sheltered workshop (IRC §32(c)(2)(B)(v)).

- Disqualified income, generally defined as net passive investment income, cannot exceed the applicable threshold amount for the year ($10,300 for 2022). This amount is adjusted for inflation. (IRC §32(i)) Investment income includes:
    - All interest and dividends
    - Net rent or royalty *income* not received in the ordinary course of a trade or business
    - Net capital *gain*
    - Net passive active *income*
- Married taxpayers must file a joint return unless the special rule for separated spouses applies. (IRC §32(d)) Generally, in this case a married taxpayer who meets the special rule for separated spouses would qualify to use the head of household filing status.
- The taxpayer and spouse must not be banned from claiming the credit because the IRS determined that one or both individuals made a fraudulent or reckless EITC claim on a prior-year return. The disallowance period when an EITC claim on a prior-year return is determined to be fraudulent is 10 taxable years. The disallowance period in the case a prior-year EITC claim is determined to be due to reckless or intentional disregard of rules and regulations (other than fraud) is two taxable years. (IRC §32(k))

Additional rules that apply to individuals with no QCs (IRC §32(c)(1)(A)(ii))

- The taxpayer and spouse must have a principal place of abode in the 50 United States or the District of Columbia for more than one-half of such taxable year.
- Either the taxpayer or spouse must have attained age 25 but not attained age 65 before the close of the tax year.
- Neither the taxpayer nor spouse is a dependent of another taxpayer. This includes individuals who meet the dependency tests under IRC section 152, but who are not claimed as a dependent on a filed return.

Section 4. Definition of Qualifying Child

In general, the child must be the taxpayer's dependent as defined in section 152(c). In addition, the child must meet the following tests:

1) Valid SSN. The child must have been issued an SSN that is valid for employment on or before the due date of the return plus extensions. (IRC §§32(c)(3)D) and 32(m))

2) Age. Generally, the child must not have attained age 19 by the end of the tax year or the age of 24 if they were a full-time student for at least five calendar months during the tax year. In both cases, the child must be younger that the taxpayer (or spouse if filing a joint return).

   A permanently and totally disabled individual who is the taxpayer's dependent meets the age test, regardless of age.

3) Residency. The child must have lived with the taxpayer in the 50 United States or the District of Columbia for more than half of 2022. (IRC §32(c)(3)(C)) U.S. military personnel stationed outside the United States on extended active duty are considered to live in the United States for this purpose. (IRC §32(c)(4)) Any location where the taxpayer regularly lives is considered the taxpayer's home.

   An adopted child or foster child meets the residency test if that child lived with the taxpayer for more than half of the time after adoption or being placed with the taxpayer. For purposes of the time test, a child that is born or dies during the year is treated as having met the test. Time that a child spends away from home on a temporary basis, such as hospitalization, school attendance, vacation, or military service, is treated as time living in the taxpayer's home. Special rules also apply to kidnapped children. (See Tax Year 2022 Publication 596 for more information.)

4) Joint Return Test. A married child must not have filed a joint return unless the joint return is filed only to claim a refund of withheld income tax or estimated tax payments. This means that the taxpayer and spouse were not required to file a return and did not claim any deductions or credits or make any elections on the return.

5) Identification Requirement. The taxpayer must include the name, age, and TIN of the QC on the return.

A child may meet the tests to be a QC for more than one taxpayer. In this case, tie-breaker rules determine who may claim the child as a QC for EITC.

Child meets the test for:	**Tiebreaker**
Both parents*	If only one parent claims the child, there is no tiebreaker. The child is the QC for that parent. If both parents claim the child on separate returns, the child is the QC of the parent with whom the child lived longer. If the child lived with the parents the same amount of time, the child is the QC of the parent with the higher adjusted gross income (AGI).
Either or both parents* and one or more non-parent	If one or both of the parents claim the child, see the tiebreaker rules for both parents. If neither parent claims the child, the child is the QC of the non-parent who had the highest AGI, but only if that non-parent's AGI is higher than the highest AGI of any of the child's parents who could have claimed the child.
Two or more non-parents	The child is the QC of the individual who had the highest AGI for the year.

*"Parent" for this purpose includes only a biological or adoptive parent. It does not include a step-parent or foster parent.

Section 5. TY2022 EITC Calculation

Under IRC section 32(a), the calculation of EITC depends on where Earned Income falls in relation to the dollar amount where the credit begins to phase out, referred to as the "phaseout threshold." Table 1 below shows the Tax Year 2022 phaseout threshold amount as well as the other EITC calculation parameters.

There are three basic rules to calculating EITC:

1) When Earned Income ≤ Phaseout Threshold and AGI < the full phaseout amount, EITC is the lesser of the maximum credit based on the number of QCs or the credit calculated using Earned Income

2) When Earned Income > Phaseout Threshold, EITC is the lesser of the credit calculated using Earned Income or AGI

3) If Earned Income or AGI is equal to or greater than the full phaseout amount, EITC = $0

Rather than require taxpayers to calculate the credit, the IRS publishes a table (IRC section 32(f)) that provides EITC amounts applicable to $50 brackets. To reproduce the table amounts, we set Earned Income at the midpoint for the $50 range in which the earned income amount falls. For example, if earned income equals $3,205, the midpoint between $3,200 and $3,250 ($3,225) is used for the calculation. A minimum credit is allowed when the mid-point is greater than the full phaseout amount, but the Earned Income amount is less than that mid-point amount.

Table 1 - Tax Year 2022 Earned Income Tax Credit Calculation Parameters

Filing Status	# of QCs	Phase-in Rate (%)	Phaseout Rate (%)	End of Credit Phase-in ($)	Maximum Credit ($)	Phaseout Threshold ($)	Full Phaseout Amount ($)
Not Married Filing Jointly	0	7.65	7.65	7,320	560	9,160	16,480
	1	34	15.98	10,980	3,733	20,130	43,492
	2	40	21.06	15,410	6,164	20,130	49,399
	3	45	21.06	15,410	6,935	20,130	53,057
Married Filing Jointly	0	7.65	7.65	7,320	560	15,290	22,610
	1	34	15.98	10,980	3,733	26,260	49,622
	2	40	21.06	15,410	6,164	26,260	55,529
	3	45	21.06	15,410	6,935	26,260	59,187

Combat Pay Election

The election to treat nontaxable combat pay as earned income for purposes of the EITC calculation should be made if doing so results in a larger credit. Because the election is made separately by the taxpayer and spouse, we must consider which condition results in the highest EITC: 1) no election, 2) taxpayer elects, 3) spouse elects, or 4) both taxpayer and spouse elect. Rather than calculate EITC four times, we use a decision formula to determine the most beneficial amount of earned income to use for a single calculation.

Combat Pay Election Logic

$$Primary = Earned\ Income + Primary\ Combat\ Pay$$
$$Spouse = Earned\ Income + Spouse\ Combat\ Pay$$
$$Combined = Earned\ Income + Primary\ Combat + Spouse\ Combat$$
$$MaxEffective = \frac{MaxEITC - (Earned\ Income * PhaseIn\ Rate)}{PhaseOut\ Rate} + Phase\ Out\ Threshold$$

$$CombatPay = \begin{cases} Earned\ Income \geq Phase\ Out\ Threshold, & Earned\ Income \\ Combined < Phase\ Out\ Threshold, & Combined \\ (Primary > Spouse)\ and\ (Primary < Phase\ Out\ Threshold), & Primary \\ Spouse < Phase\ Out\ Threshold, & Spouse \\ (Primary > 0)\ and\ (Spouse > 0) & \\ and\ (Earned\ Income < End\ of\ Credit\ Phase\ In) & \\ and\ \min(Primary, Spouse) < MaxEffective, & Combined \end{cases}$$

Section 6. Key Results

The TY2022 EITC Benefits Gap for filers is estimated to be just under $900 million compared to a total claimed amount of just over $56 billion. The Benefits Gap for filers is primarily comprised of unclaimed EITC, but IRS administrative data show that nearly $45 million was underclaimed compared to the IRS-calculated EITC.

Table 2: TY2022 Estimated EITC Benefits Gap for Filers Using IRS Administrative Data

Group	Number of Returns	Underclaimed Amount	Claimed Amount
All Filers	22,000,000	$893,000,000	$56,000,000,000
Nonclaimants	452,000	$848,000,000	-
Underclaimants	17,000	$45,000,000	$56,000,000,000

Source: RAAS CDW (10/17/2024)

Table 2 indicates that very few taxpayers who appear eligible for EITC failed to claim the credit on their return. In Table 3, however, we show that the large number of paid-prepared and software-prepared returns masks a substantially lower participation rate for paper filers.

Table 3: TY2022 Estimated EITC Benefits Gap, Count of Tax Returns by Preparation Method, Claimants vs. Nonclaimants

Preparation Method	Number of Returns	Claimants	Nonclaimants	Participation Rate for Filers
Paid Preparer	11,000,000	11,000,000	227,000	98%
Self-Prepared on Paper	115,000	66,000	49,000	57%
Self-Prepared using Software	11,000,000	11,000,000	176,000	98%

Source: RAAS CDW (10/17/2024)

Taxpayers who use a paid-preparer or prepare their returns using software may miss claiming EITC because they skip the eligibility questions or don't answer the questions correctly. It is also possible that the software program that is used to prepare the return does not calculate Earned Income in the same way the IRS does.

Taxpayers who prepare their own returns on paper may not apply the complex eligibility rules correctly, may not select the correct EITC amount from the table, or may not know they are eligible for the credit. Taking a closer look at paper filers, we find that 90 percent of these nonclaimants have no QCs (Table 4) and almost 80% of them are Single filers (Table 5).

Table 4: TY2022 Estimated EITC Benefits Gap Count of Paper Filers by Number of QCs, Claimed vs. Unclaimed				
Number of QCs	**Number of Returns**	**Claimed**	**Unclaimed**	**Participation Rate for Filers**
0	83,000	39,000	44,000	47%
1	18,000	16,000	3,000	85%
2	9,000	8,000	1,000	85%
3	4,000	4,000	1,000	82%

Amounts may not add due to rounding.
Source: RAAS CDW (10/17/2024)

Table 5: TY2022 Estimated EITC Benefits Gap Count of Paper Filers by Filing Status, Claimed vs. Unclaimed				
Filing Status	**Number of Returns**	**Claimed**	**Unclaimed**	**Participation Rate for Paper Filers**
Single	74,000	36,000	38,000	48%
MFJ/QSS	21,000	13,000	8,000	61%
HoH	19,000	17,000	2,000	88%

Amounts may not add due to rounding.
Source: RAAS CDW (10/17/2024)

While these findings confirm what IRS already knows – that paper filers and lower-income taxpayers face barriers to claiming the EITC, further study of taxpayers who underclaim EITC on paid-prepared or on a self-prepared return prepared on software, may reveal ways the IRS can help the tax preparation industry help their customers get the EITC they deserve.

General Overview of Nonclaimants

In this section, we provide additional information about TY2022 EITC nonclaimants, regardless of preparation method. Tables 6 and 7 show nonclaimants by filing status and whether they have at least one QC. Unclaimed amounts are larger for nonclaimants with at least one QC, because the missed credit can be substantial for these taxpayers.

Table 6: TY2022 Estimated EITC Benefits Gap for Taxpayers with no QCs by Filing Status							
Filing Status	**Number of Returns**		**Count**		**Amount ($)**		**Participation Rate for Filers**
	Count	**Amount**	**Claimants**	**Nonclaimants**	**Claimed**	**Unclaimed**	
Single	5,000,000	$1,633,000,000	5,000,000	140,000	$2,000,000,000	$38,000,000	97%
Married Filing Jointly/QSS	700,000	$331,000,000	1,000,000	24,000	$300,000,000	$7,000,000	97%
Head of Household	100,000	$46,000,000	100,000	4,000	$45,000,000	$1,000,000	96%

Amounts may not add due to rounding.
Source: RAAS CDW (10/17/2024)

Table 7: TY2022 Estimated EITC Benefits Gap for Taxpayers with at least one QC by Filing Status							
	Number of Returns		Count		Amount ($)		Participation Rate for Filers
Filing Status	Count	Amount	Claimants	Nonclaimants	Claimed	Unclaimed	
Single	2,000,000	6,000,000,000	2,000,000	44,000	6,000,000,000	121,000,000	97%
Married Filing Jointly/QSS	4,000,000	13,000,000,000	3,000,000	100,000	12,000,000,000	306,000,000	97%
Head of Household	11,000,000	37,000,000,000	11,000,000	100,000	36,000,000,000	375,000,000	99%

Source: RAAS CDW (10/17/2024)

Tables 8 and 9 on pages 10 and 11 show nonclaimants by filing status (not-MFJ or MFJ) and AGI. The eligibility rules are the same for these taxpayers, but the phaseout starting point (Phaseout Threshold) is $6,130 higher for MFJ filers. The lower participation rate for taxpayers with AGI equal to or less than zero, may indicate a misunderstanding of EITC calculation rule #1: When Earned Income ≤ Phaseout Threshold and AGI < the full phaseout amount, EITC is the lesser of the maximum credit based on the number of QCs or the credit calculated using Earned Income.

The overall slightly lower participation rates for MFJ returns in Table 9 does not necessarily mean that MFJ filers face more barriers to claiming EITC than non-MFJ filers. It is most likely because the population size is so much smaller that each nonclaimant has a greater impact on the participation rate.

Section 7. Estimated TY2022 EITC Benefits Gap Maps

Maps 1 and 2 on page 12 show how the EITC Benefits Gap is distributed across the states. We chose this stylized map of the U.S. because it's much easier to read, especially when it comes to the states in the Northeast that are very small geographically.

Map 1 shows that most states have a less than $20 million share each of the TY2022 EITC benefits gap, and many of those share less than $5 million. It's not surprising that larger states have a larger share of the benefits gap. California and Texas alone share 30% of the benefits gap. Wyoming, the least populated state in 2022,[2] has a share of over $1 million.

Map 2 shows the number of underclaimants by state. Underclaimants include nonclaimants and those who didn't claim as much credit as they apparently should have. Not surprisingly, about one-third of all underclaimants live in either California or Texas. Most other states have less than 10,000 underclaimants. Consider, however, states like VT with an estimated 500 impacted taxpayers missed out on an estimated $500,000 in EITC.

[2] https://www2.census.gov/programs-surveys/popest/tables/2020-2023/state/totals/NST-EST2023-POP.xlsx

Table 8: TY2022 Estimated EITC Benefits Gap for non-MFJ Filers by AGI and Number of QCs				
	Number of Returns	**Count**		**Participation Rate for Filers (%)**
AGI	**Count**	**Claimed**	**Unclaimed**	
QC=0				
<=$0	55,000	53,000	0	96
$1-$10,000	3,000,000	3,000,000	89,000	97
$10,001-$20,000	2,000,000	2,000,000	53,000	98
$20,001-$30,000	0	0	*	100
$30,001-$40,000	*	*	*	*
$40,001-$50,000	*	*	*	*
$50,001-$60,000	*	*	*	*
QC=1				
<=$0	10,000	10,000	0	98
$1-$10,000	799,000	789,000	10,000	99
$10,001-$20,000	2,000,000	2,000,000	21,000	99
$20,001-$30,000	2,000,000	2,000,000	30,000	98
$30,001-$40,000	2,000,000	2,000,000	33,000	98
$40,001-$50,000	450,000	400,000	11,000	98
$50,001-$60,000	*	*	*	*
QC=2				
<=$0	4,000	4,000	0	98
$1-$10,000	319,000	316,000	3,000	99
$10,001-$20,000	1,000,000	1,000,000	8,000	99
$20,001-$30,000	1,000,000	1,000,000	15,000	99
$30,001-$40,000	1,000,000	1,000,000	13,000	99
$40,001-$50,000	1,000,000	1,000,000	12,000	98
$50,001-$60,000	*	*	*	*
QC=3				
<=$0	*	*	*	*
$1-$10,000	148,000	147,000	1,000	99
$10,001-$20,000	608,000	605,000	3,000	99
$20,001-$30,000	448,000	442,000	6,000	98
$30,001-$40,000	377,000	370,000	7,000	98
$40,001-$50,000	258,000	253,000	5,000	98
$50,001-$60,000	54,000	52,000	2,000	96

*Redacted
Source: RAAS CDW (10/17/2024)

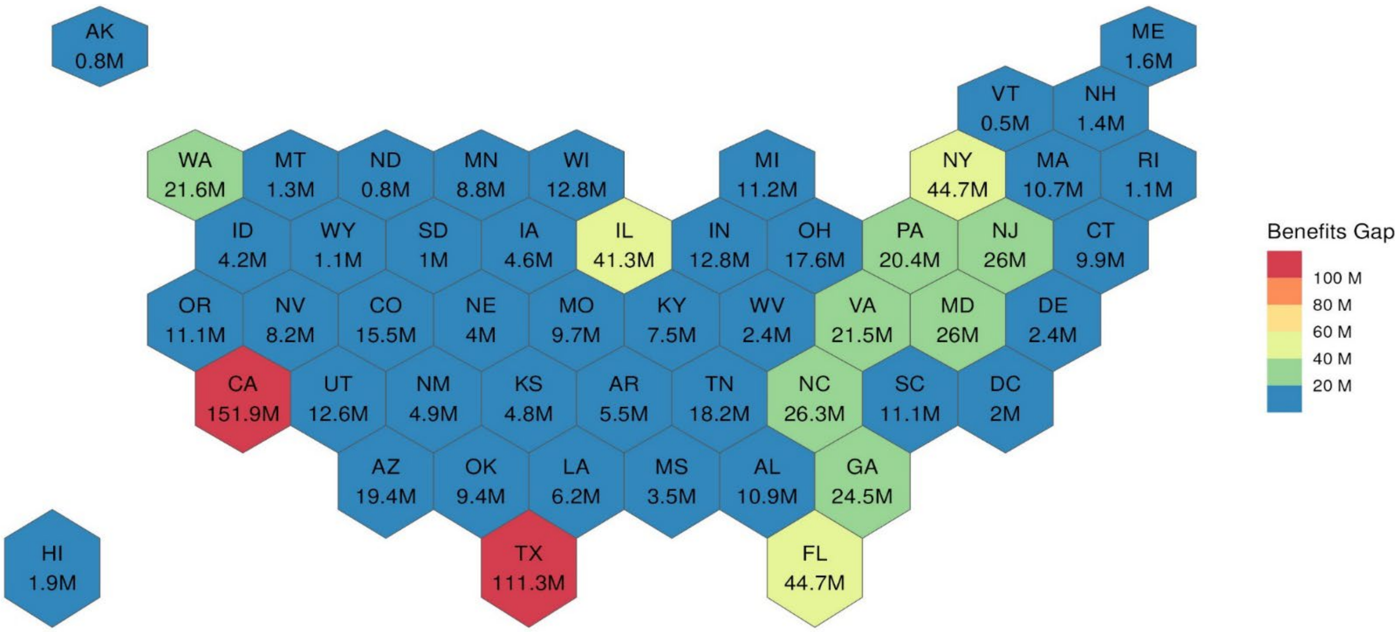
Table 9: TY2022 Estimated EITC Benefits Gap for MFJ Filers by AGI and Number of QCs				
	Number of Returns	Count		Participation Rate for Filers (%)
AGI	Count	Claimed	Unclaimed	
QC=0				
<=$0	22,000	19,000	2,000	89
$1-$10,000	245,000	238,000	8,000	97
$10,001-$20,000	367,000	357,000	10,000	97
$20,001-$30,000	102,000	98,000	4,000	96
$30,001-$40,000	*	*	*	*
$40,001-$50,000	*	*	*	*
$50,001-$60,000	*	*	*	*
QC=1				
<=$0	9,000	9,000	1,000	92
$1-$10,000	75,000	73,000	2,000	97
$10,001-$20,000	220,000	217,000	4,000	98
$20,001-$30,000	263,000	255,000	7,000	97
$30,001-$40,000	316,000	306,000	11,000	97
$40,001-$50,000	306,000	295,000	11,000	96
$50,001-$60,000	*	*	*	*
QC=2				
<=$0	9,000	8,000	1,000	92
$1-$10,000	47,000	46,000	1,000	97
$10,001-$20,000	168,000	165,000	3,000	98
$20,001-$30,000	252,000	245,000	7,000	97
$30,001-$40,000	291,000	282,000	9,000	97
$40,001-$50,000	323,000	313,000	10,000	97
$50,001-$60,000	176,000	169,000	7,000	96
QC=3				
<=$0	6,000	6,000	0	*92*
$1-$10,000	35,000	34,000	1,000	98
$10,001-$20,000	131,000	130,000	2,000	99
$20,001-$30,000	206,000	202,000	4,000	98
$30,001-$40,000	227,000	220,000	7,000	97
$40,001-$50,000	253,000	245,000	8,000	97
$50,001-$60,000	229,000	221,000	9,000	96

Source: RAAS CDW (10/17/2024)

Map 1

Estimated TY2022 EITC Benefits Gap by State – Dollars

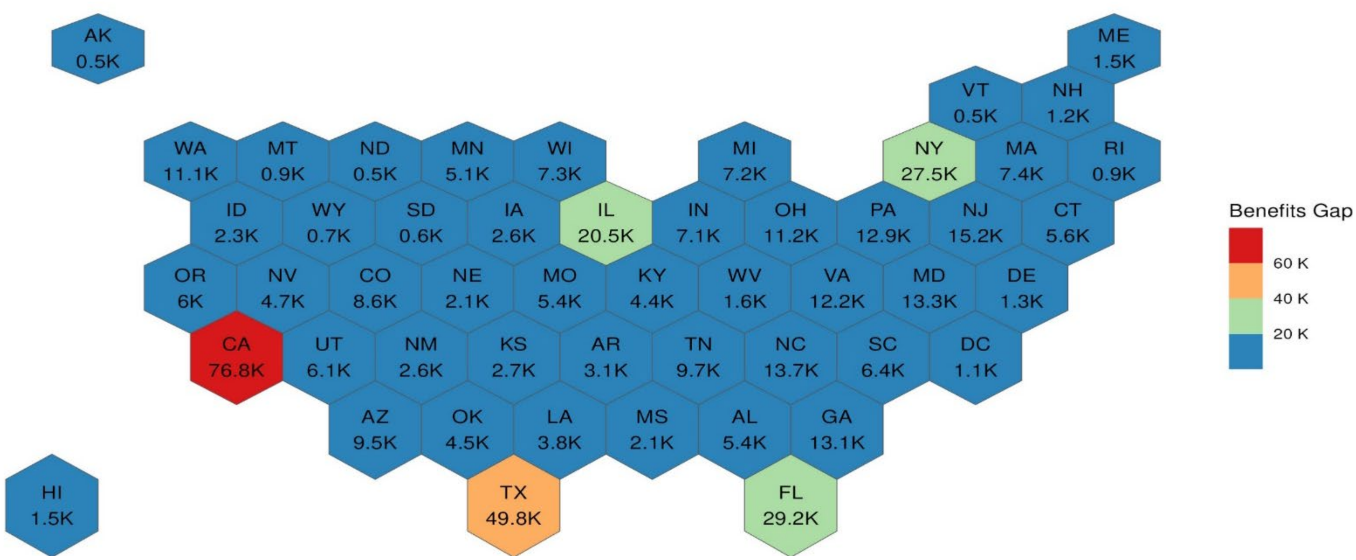
50 States and DC



Map 2

TY2022 EITC Underclaimants by State

50 States and DC



Section 8. Methodology

Internal Revenue Code (IRC) section 32 and IRS administrative data are used to determine the potentially EITC-eligible taxpayers who did not claim the Earned Income Tax Credit (EITC) for Tax Year 2022. In the current method, these rules are applied to the population of TY2022 Form 1040 returns in six steps:

1) Identify returns that meet basic Benefits Gap criteria and pull administrative data
2) Identify dependents who appear to meet the tests to be Qualifying Children
3) Determine eligibility based on the number of Qualifying Children and remove ineligible returns
4) Eliminate returns with investment income above the allowed threshold ($10,300 for 2022) and returns with no reported earned income
5) Calculate EITC and remove taxpayers where calculated EITC = $0

Note: Due to certain data limitations, it is difficult to precisely determine EITC. Despite these limitations, however, validation of our calculator showed that we are able to replicate the computer-calculated EITC amounts for nearly all filers who claimed the credit.

Step 1: Identify Returns that Meet Benefits Gap Study Requirements

The first step is to create a population file that includes timely filed TY2022 Forms 1040 where the earned income tax credit =$0. Then we apply the eligibility rules:

Residency. We use a combination of state, filing location, document code, the F1040-NR indicator, and nonresident alien indicator to determine whether the return is filed by taxpayer(s) who reside in the 50 United. States or the District of Columbia. Returns that don't meet the test are removed. We also remove returns filed by nonresident aliens and part-year residents.

Valid Social Security Number (SSN). We test whether both the taxpayer and spouse have valid SSNs. To qualify for EITC, both the taxpayer and spouse must have a valid SSN.

Ineligible returns. We remove returns that are marked as ineligible for EITC.

Form 2555. Returns that include Form 2555, *Foreign Earned Income,* are not eligible for the credit. We exclude all returns that include this form.

Banned From Claiming EITC. Returns filed by taxpayers who are banned from claiming EITC are removed from the file.

Cannot be a Qualifying Child of Another Taxpayer. To qualify for the credit, the taxpayer (or the case of joint filers, either the taxpayer or spouse) cannot be a QC on another taxpayer's return. We remove returns that do not meet this test.

Step 2: Determine the Number of Qualifying Children

A second data pull is conducted to query information related to dependents. Dependents who don't meet all tests are removed from consideration as a QC.

Dependent Valid TIN. As is the case with the taxpayer and spouse, each dependent must have a valid SSN to be considered a QC.

Dependent Age Requirement. To be a QC, a dependent must be under age 18 or under age 24 if they are at least a half-time student. Additionally, the dependent must be younger than both the primary and spouse.

Dependent Not Claimed for EITC. To determine if a dependent was already claimed for EITC on another taxpayer's return, we create a list of all filers associated with the dependent and create an indicator for whether the taxpayer claimed EITC. Any dependent that was already claimed as a QC is removed.

Dependent Cannot File a Joint Return. Generally, a married dependent cannot be a QC if they filed a joint return. However, if the joint return was filed merely to receive a refund of withheld taxes, the joint return is not prohibited. We use a simple test to determine that the dependent was not required to file and had no other reason to file: No adjustments to income from Schedule 1, no Schedule A, no Qualified Business Income Deduction (Form 8995 or Form 8995-A) and Tax Refund = Total Withholding.

Tiebreaker Rule. In the event that more than one filer claimed a child's dependency exemption but none of them claimed the child for EITC, we use tiebreaker rules to assign the dependent to return with the highest AGI. To do so, we link the dependent SSN to all matching filer SSNs and the adjusted gross income from each return. The return with the highest AGI wins the tie-breaker. If the "winning" return is the return in our file, the dependent is considered to meet this QC test.

Step 3: Eligibility Based on Number of Qualifying Children

IRC section 32 has further eligibility rules that depend on the number of QCs. To test for these rules, we create a variable that sums the number of identified QCs and apply eligibility rules below:

Adjusted Gross Income Limit. For each combination of QCs and filing status, there is a point where the credit is fully phased out. Returns with AGI equal to or greater than the full phaseout amount are removed from the file.

No-Child EITC Age Limit. IRC section 32 imposes age limits for taxpayers who have no QCs. For these filers, either the primary filer or spouse must be at least age 25 and under the age of 65 at the end of year.

No-Child EITC Filer Cannot be a Dependent of Another Taxpayer. For filers with no QCs, the primary taxpayer *and* spouse must not be a dependent of another taxpayer.

Step 4: Determine Investment Income and Earned Income Amounts

In addition to the general eligibility and number of QCs, the amount of investment income and earned income reported on the return must be determined.

Investment Income. For TY2022, investment income must total $10,300 or less. We used the method detailed in Worksheet 1 of Publication 596 (Page 6), to calculate total investment income See Worksheet 1 reproduced in Figure 5 below for more information.

Earned Income. To be eligible for EITC, a filer must have at least some earned income. Earned Income is generally defined as taxable wages, salaries, tips, and other taxable employee pay, net earnings form self-employment, and gross income received as a statutory employee. To calculate earned income for our population, we follow the steps in Worksheets A and B from the Form 1040 instructions (See Figures 2 and 3 below). Sources of earned income are:

- Form 1040 – Wage and self-employment deduction
- Form 1040 Schedule SE – Tentative Earnings, Schedule SE Optional Method amount, and Church Wages
- Form 1040 Schedule C – Profit/Loss amount minus Statutory W-2
- Form 1040 Schedule F – Profit/Loss amount
- Form 1065 Schedule K-1 – Partner Self-Employment Earnings – Box 14, Code A amount

To calculate earned income, wages, and self-employment income from the sources above is summed. When Schedule SE is present, we use the self-employment reported on Schedule SE in lieu of the amounts from Schedule C, Schedule F, and Schedule K-1. The self-employment deduction from Form 1040, Schedule 1, line 15 is subtracted to arrive at earned income for EITC purposes.

Additionally, taxpayers with nontaxable combat pay may elect to include that income as earned income for EITC purposes. We test to see if the election is to the taxpayers' benefit and assume the election is made when it is. When both the taxpayer and spouse have combat pay, we use selection logic to determine whether a taxpayer election, a spouse election, or a joint election will result in the larger credit and then compare to the credit assuming no election. We use the higher EITC amount (See "Combat Pay Logic" on page 6 for the formula).

Any returns with calculated earned income less than or equal to zero are removed from the study population.

Step 5: Calculating Earned Income Credit Amount

The EITC table amounts are calculated by applying earned income (or AGI) set to the midpoint of the applicable $50 range. The formula used to calculate the credit depends on whether the midpoint amount falls in the phase-in, maximum credit range, or phaseout range for the taxpayer's filing status and number of QCs.

EITC is calculated by the following steps:

- If AGI is less than or equal to the amount at which the credit begins to phase out, a flag is created so that EITC is calculated using earned income. Otherwise, the credit must be calculated twice, once using earned income and once using AGI.
- The midpoint of the applicable $50 dollar bin is determined. Note: If the amount is divisible by $50, the amount equals that value plus $25.
- The midpoint values are used to determine the credit amount based on filing status and number of qualifying children.
- The applicable formula is used to calculate the credit:
    - $X < the amount at which the phase-in ends: Income range midpoint is multiplied by the phase-in rate.
    - $X >= the amount at which the phase-in ends and <= the amount at which the credit phaseout begins: Max credit amount.
    - $X > the amount at which the credit phaseout begins: The amount at which the credit phaseout begins is subtracted from the midpoint and multiplied by the phaseout rate. The resulting value is subtracted from the maximum credit amount.

If calculated EITC = $0, the return is removed.

See Table 1 in Section 5 for the TY2022 EITC parameters.

The estimated TY2022 EITC Benefits Gap for filers is the sum of the unclaimed and underclaimed EITC in our final file. The count of returns in the final file equals the total number of apparent nonclaimants and underclaimants.

Figure 1: TY2022 Rules for EITC Eligibility from TY2022 Publication 596, Page 2.

First, you must meet all the rules in this column.		**Second, you must meet all the rules in *one* of these columns, whichever applies.**		**Third, you must meet the rule in this column.**
Chapter 1. Rules for Everyone		**Chapter 2. Rules If You Have a Qualifying Child**	**Chapter 3. Rules If You Do Not Have a Qualifying Child**	**Chapter 4. Figuring and Claiming the EIC**
1. Your adjusted gross income (AGI) must be less than: • $53,057 ($59,187 for married filing jointly) if you have three or more qualifying children who have valid security numbers (SSNs), • $49,399 ($55,529 for married filing jointly) if you have two qualifying children who have valid social SSNs, • $43,492 ($49,622 for married filing jointly) if you have one qualifying child who has a valid SSN, or • $16,480 ($22,610 for married filing jointly) if you don't have a qualifying child who has a valid SSN.	**2.** You must have a valid social security number (SSN) by the due date of your 2022 return (including extensions). **3.** You must meet certain requirements if you are separated from your spouse and not filing a joint return. **4.** You must be a U.S. citizen or resident alien all year. **5.** You can't file Form 2555 (relating to foreign earned income). **6.** Your investment income must be $10,300 or less. **7.** You must have earned income.	**8.** Your child must meet the relationship, age, residency, and joint return tests. **9.** Your qualifying child can't be used by more than one person to claim the EIC. **10.** You can't be a qualifying child of another person.	**11.** You must meet the age requirements. **12.** You can't be the dependent of another person. **13.** You can't be a qualifying child of another person. **14.** You must have lived in the United States more than half of the year.	**15.** Your earned income must be less than: • $53,057 ($59,187 for married filing jointly) if you have three or more qualifying children who have valid SSNs, • $49,399 ($55,529 for married filing jointly) if you have two qualifying children who have valid SSNs, • $43,492 ($49,622 for married filing jointly) if you have one qualifying child who has a valid SSN, or • $16,480 ($22,610 for married filing jointly) if you don't have a qualifying child who has a valid SSN.

Figure 2: Worksheet A, determination of EITC. Form 1040 Instructions, Page 43.

Worksheet A—2022 EIC—Line 27 *Keep for Your Records*

Before you begin: √ Be sure you are using the correct worksheet. Use this worksheet only if you answered "No" to Step 5, question 2. Otherwise, use Worksheet B.

Part 1

All Filers Using Worksheet A

1. Enter your earned income from Step 5. | 1 |

2. Look up the amount on line 1 above in the EIC Table (right after Worksheet B) to find the credit. Be sure you use the correct column for your filing status and the number of qualifying children you have who have a valid SSN as defined earlier. Enter the credit here. | 2 |

   If line 2 is zero, STOP You can't take the credit.
   Enter "No" on the dotted line next to Form 1040 or 1040-SR, line 27.

3. Enter the amount from Form 1040 or 1040-SR, line 11. | 3 |

4. Are the amounts on lines 3 and 1 the same?

   ☐ **Yes.** Skip line 5; enter the amount from line 2 on line 6.

   ☐ **No.** Go to line 5.

Part 2

Filers Who Answered "No" on Line 4

5. If you have:
   - No qualifying children who have a valid SSN, is the amount on line 3 less than $9,200 ($15,300 if married filing jointly)?
   - 1 or more qualifying children who have a valid SSN, is the amount on line 3 less than $20,150 ($26,300 if married filing jointly)?

   ☐ **Yes.** Leave line 5 blank; enter the amount from line 2 on line 6.

   ☐ **No.** Look up the amount on line 3 in the EIC Table to find the credit. Be sure you use the correct column for your filing status and the number of qualifying children you have who have a valid SSN. Enter the credit here. | 5 |
   Look at the amounts on lines 5 and 2.
   Then, enter the **smaller** amount on line 6.

Part 3

Your Earned Income Credit

6. **This is your earned income credit.** | 6 |

   Enter this amount on Form 1040 or 1040-SR, line 27.

Reminder—

√ If you have a qualifying child, complete and attach Schedule EIC.

1040 or 1040-SR EIC 1040 or 1040-SR

CAUTION *If your EIC for a year after 1996 was reduced or disallowed, see* Form 8862, who must file, *earlier, to find out if you must file Form 8862 to take the credit for 2022.*

Figure 3: Worksheet B, determination of earned income. TY2022 Form 1040 Instructions, Page 44.

Worksheet B—2022 EIC—Line 27

Keep for Your Records

Use this worksheet if you answered "Yes" to Step 5, question 2.

√ Complete the parts below (Parts 1 through 3) that apply to you. Then, continue to Part 4.

√ If you are married filing a joint return, include your spouse's amounts, if any, with yours to figure the amounts to enter in Parts 1 through 3.

Part 1

Self-Employed, Members of the Clergy, and People With Church Employee Income Filing Schedule SE

1a. Enter the amount from Schedule SE, Part I, line 3.		1a
b. Enter any amount from Schedule SE, Part I, line 4b and line 5a.	+	1b
c. Combine lines 1a and 1b.	=	1c
d. Enter the amount from Schedule SE, Part I, line 13.	–	1d
e. Subtract line 1d from line 1c.	=	1e

Part 2

Self-Employed NOT Required To File Schedule SE

For example, your net earnings from self-employment were less than $400.

2. Don't include on these lines any statutory employee income, any net profit from services performed as a notary public, any amount exempt from self-employment tax as the result of the filing and approval of Form 4029 or Form 4361, or any other amounts exempt from self-employment tax.

a. Enter any net farm profit or (loss) from Schedule F, line 34; and from farm partnerships, Schedule K-1 (Form 1065), box 14, code A*.		2a
b. Enter any net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming)*.	+	2b
c. Combine lines 2a and 2b.	=	2c

**If you have any Schedule K-1 amounts, complete the appropriate line(s) of Schedule SE, Part I. Reduce the Schedule K-1 amounts as described in the Partner's Instructions for Schedule K-1. Enter your name and social security number on Schedule SE and attach it to your return.*

Part 3

Statutory Employees Filing Schedule C

3. Enter the amount from Schedule C, line 1, that you are filing as a statutory employee.	3

Part 4

All Filers Using Worksheet B

Note. If line 4b includes income on which you should have paid self-employment tax but didn't, we may reduce your credit by the amount of self-employment tax not paid.

4a. Enter your earned income from Step 5.	4a
b. Combine lines 1e, 2c, 3, and 4a. **This is your total earned income.**	4b

If line 4b is zero or less, STOP You can't take the credit. Enter "No" on the dotted line next to Form 1040 or 1040-SR, line 27.

5. If you have:

- 3 or more qualifying children who have valid SSNs, is line 4b less than $53,057 ($59,187 if married filing jointly)?
- 2 qualifying children who have valid SSNs, is line 4b less than $49,399 ($55,529 if married filing jointly)?
- 1 qualifying child who has a valid SSN, is line 4b less than $43,492 ($49,622 if married filing jointly)?
- No qualifying children who have valid SSNs, is line 4b less than $16,480 ($22,610 if married filing jointly)?

☐ **Yes.** If you want the IRS to figure your credit, see *Credit figured by the IRS*, earlier. If you want to figure the credit yourself, enter the amount from line 4b on line 6 of this worksheet.

☐ **No.** STOP You can't take the credit. Enter "No" on the dotted line next to Form 1040 or 1040-SR, line 27.

Figure 4: Sample TY2022 Earned Income Credit Table. Publication 596, Page 27 and TY2022 Form 1040 Instructions, Page 46.

If the amount you are looking up from the worksheet is–		And your filing status is– Single, head of household, or qualifying surviving spouse★ and you have–				Married filing jointly and you have–			
		0	1	2	3	0	1	2	3
At least	But less than	Your credit is–				Your credit is–			
1	50	2	9	10	11	2	9	10	11
50	100	6	26	30	34	6	26	30	34
100	150	10	43	50	56	10	43	50	56
150	200	13	60	70	79	13	60	70	79
200	250	17	77	90	101	17	77	90	101
250	300	21	94	110	124	21	94	110	124
300	350	25	111	130	146	25	111	130	146
350	400	29	128	150	169	29	128	150	169
400	450	33	145	170	191	33	145	170	191
450	500	36	162	190	214	36	162	190	214
500	550	40	179	210	236	40	179	210	236
550	600	44	196	230	259	44	196	230	259
600	650	48	213	250	281	48	213	250	281
650	700	52	230	270	304	52	230	270	304
700	750	55	247	290	326	55	247	290	326
750	800	59	264	310	349	59	264	310	349
800	850	63	281	330	371	63	281	330	371
850	900	67	298	350	394	67	298	350	394
900	950	71	315	370	416	71	315	370	416
950	1,000	75	332	390	439	75	332	390	439
1,000	1,050	78	349	410	461	78	349	410	461
1,050	1,100	82	366	430	484	82	366	430	484
1,100	1,150	86	383	450	506	86	383	450	506
1,150	1,200	90	400	470	529	90	400	470	529
1,200	1,250	94	417	490	551	94	417	490	551
1,250	1,300	98	434	510	574	98	434	510	574
1,300	1,350	101	451	530	596	101	451	530	596
1,350	1,400	105	468	550	619	105	468	550	619
1,400	1,450	109	485	570	641	109	485	570	641
1,450	1,500	113	502	590	664	113	502	590	664
1,500	1,550	117	519	610	686	117	519	610	686
1,550	1,600	120	536	630	709	120	536	630	709
1,600	1,650	124	553	650	731	124	553	650	731
1,650	1,700	128	570	670	754	128	570	670	754
1,700	1,750	132	587	690	776	132	587	690	776
1,750	1,800	136	604	710	799	136	604	710	799
1,800	1,850	140	621	730	821	140	621	730	821
1,850	1,900	143	638	750	844	143	638	750	844
1,900	1,950	147	655	770	866	147	655	770	866
1,950	2,000	151	672	790	889	151	672	790	889
2,000	2,050	155	689	810	911	155	689	810	911
2,050	2,100	159	706	830	934	159	706	830	934
2,100	2,150	163	723	850	956	163	723	850	956
2,150	2,200	166	740	870	979	166	740	870	979
2,200	2,250	170	757	890	1,001	170	757	890	1,001
2,250	2,300	174	774	910	1,024	174	774	910	1,024
2,300	2,350	178	791	930	1,046	178	791	930	1,046
2,350	2,400	182	808	950	1,069	182	808	950	1,069
2,400	2,450	186	825	970	1,091	186	825	970	1,091
2,450	2,500	189	842	990	1,114	189	842	990	1,114
2,500	2,550	193	859	1,010	1,136	193	859	1,010	1,136
2,550	2,600	197	876	1,030	1,159	197	876	1,030	1,159
2,600	2,650	201	893	1,050	1,181	201	893	1,050	1,181
2,650	2,700	205	910	1,070	1,204	205	910	1,070	1,204
2,700	2,750	208	927	1,090	1,226	208	927	1,090	1,226
2,750	2,800	212	944	1,110	1,249	212	944	1,110	1,249

If the amount you are looking up from the worksheet is–		And your filing status is– Single, head of household, or qualifying surviving spouse★ and you have–				Married filing jointly and you have–			
		0	1	2	3	0	1	2	3
At least	But less than	Your credit is–				Your credit is–			
2,800	2,850	216	961	1,130	1,271	216	961	1,130	1,271
2,850	2,900	220	978	1,150	1,294	220	978	1,150	1,294
2,900	2,950	224	995	1,170	1,316	224	995	1,170	1,316
2,950	3,000	228	1,012	1,190	1,339	228	1,012	1,190	1,339
3,000	3,050	231	1,029	1,210	1,361	231	1,029	1,210	1,361
3,050	3,100	235	1,046	1,230	1,384	235	1,046	1,230	1,384
3,100	3,150	239	1,063	1,250	1,406	239	1,063	1,250	1,406
3,150	3,200	243	1,080	1,270	1,429	243	1,080	1,270	1,429
3,200	3,250	247	1,097	1,290	1,451	247	1,097	1,290	1,451
3,250	3,300	251	1,114	1,310	1,474	251	1,114	1,310	1,474
3,300	3,350	254	1,131	1,330	1,496	254	1,131	1,330	1,496
3,350	3,400	258	1,148	1,350	1,519	258	1,148	1,350	1,519
3,400	3,450	262	1,165	1,370	1,541	262	1,165	1,370	1,541
3,450	3,500	266	1,182	1,390	1,564	266	1,182	1,390	1,564
3,500	3,550	270	1,199	1,410	1,586	270	1,199	1,410	1,586
3,550	3,600	273	1,216	1,430	1,609	273	1,216	1,430	1,609
3,600	3,650	277	1,233	1,450	1,631	277	1,233	1,450	1,631
3,650	3,700	281	1,250	1,470	1,654	281	1,250	1,470	1,654
3,700	3,750	285	1,267	1,490	1,676	285	1,267	1,490	1,676
3,750	3,800	289	1,284	1,510	1,699	289	1,284	1,510	1,699
3,800	3,850	293	1,301	1,530	1,721	293	1,301	1,530	1,721
3,850	3,900	296	1,318	1,550	1,744	296	1,318	1,550	1,744
3,900	3,950	300	1,335	1,570	1,766	300	1,335	1,570	1,766
3,950	4,000	304	1,352	1,590	1,789	304	1,352	1,590	1,789
4,000	4,050	308	1,369	1,610	1,811	308	1,369	1,610	1,811
4,050	4,100	312	1,386	1,630	1,834	312	1,386	1,630	1,834
4,100	4,150	316	1,403	1,650	1,856	316	1,403	1,650	1,856
4,150	4,200	319	1,420	1,670	1,879	319	1,420	1,670	1,879
4,200	4,250	323	1,437	1,690	1,901	323	1,437	1,690	1,901
4,250	4,300	327	1,454	1,710	1,924	327	1,454	1,710	1,924
4,300	4,350	331	1,471	1,730	1,946	331	1,471	1,730	1,946
4,350	4,400	335	1,488	1,750	1,969	335	1,488	1,750	1,969
4,400	4,450	339	1,505	1,770	1,991	339	1,505	1,770	1,991
4,450	4,500	342	1,522	1,790	2,014	342	1,522	1,790	2,014
4,500	4,550	346	1,539	1,810	2,036	346	1,539	1,810	2,036
4,550	4,600	350	1,556	1,830	2,059	350	1,556	1,830	2,059
4,600	4,650	354	1,573	1,850	2,081	354	1,573	1,850	2,081
4,650	4,700	358	1,590	1,870	2,104	358	1,590	1,870	2,104
4,700	4,750	361	1,607	1,890	2,126	361	1,607	1,890	2,126
4,750	4,800	365	1,624	1,910	2,149	365	1,624	1,910	2,149
4,800	4,850	369	1,641	1,930	2,171	369	1,641	1,930	2,171
4,850	4,900	373	1,658	1,950	2,194	373	1,658	1,950	2,194
4,900	4,950	377	1,675	1,970	2,216	377	1,675	1,970	2,216
4,950	5,000	381	1,692	1,990	2,239	381	1,692	1,990	2,239
5,000	5,050	384	1,709	2,010	2,261	384	1,709	2,010	2,261
5,050	5,100	388	1,726	2,030	2,284	388	1,726	2,030	2,284
5,100	5,150	392	1,743	2,050	2,306	392	1,743	2,050	2,306
5,150	5,200	396	1,760	2,070	2,329	396	1,760	2,070	2,329
5,200	5,250	400	1,777	2,090	2,351	400	1,777	2,090	2,351
5,250	5,300	404	1,794	2,110	2,374	404	1,794	2,110	2,374
5,300	5,350	407	1,811	2,130	2,396	407	1,811	2,130	2,396
5,350	5,400	411	1,828	2,150	2,419	411	1,828	2,150	2,419
5,400	5,450	415	1,845	2,170	2,441	415	1,845	2,170	2,441
5,450	5,500	419	1,862	2,190	2,464	419	1,862	2,190	2,464
5,500	5,550	423	1,879	2,210	2,486	423	1,879	2,210	2,486
5,550	5,600	426	1,896	2,230	2,509	426	1,896	2,230	2,509

Figure 5: Investment Income – Worksheet 1. TY2022 Publication 596, Page 6

Interest and Dividends

1. Enter any amount from Form 1040 or 1040-SR, line 2b . . . . 1. ______
2. Enter any amount from Form 1040 or 1040-SR, line 2a, plus any amount on Form 8814, line 1b . . . . . . 2. ______
3. Enter any amount from Form 1040 or 1040-SR, line 3b . . . . 3. ______
4. Enter the amount from Schedule 1 (Form 1040), line 8z, that is from Form 8814 if you are filing that form to report your child's interest and dividend income on your return. (If your child received an Alaska Permanent Fund dividend, use Worksheet 2 in this chapter to figure the amount to enter on this line.) . . . . 4. ______

Capital Gain Net Income

5. Enter the amount from Form 1040 or 1040-SR, line 7. If the amount on that line is a loss, enter -0- . . . . 5. ______
6. Enter any gain from Form 4797, Sales of Business Property, line 7. If the amount on that line is a loss, enter -0-. (But, if you completed lines 8 and 9 of Form 4797, enter the amount from line 9 instead.) . . . . 6. ______
7. Subtract line 6 of this worksheet from line 5 of this worksheet. (If the result is less than zero, enter -0-.) . . . . 7. ______

Royalties and Rental Income From Personal Property

8. Enter any royalty income from Schedule E, line 23b, plus any income from the rental of personal property shown on Schedule 1 (Form 1040), line 8l . . . . . 8. ______
9. Enter any expenses from Schedule E, line 20, related to royalty income, plus any expenses from the rental of personal property deducted on Schedule 1 (Form 1040), line 24b . . . . 9. ______
10. Subtract the amount on line 9 of this worksheet from the amount on line 8. (If the result is less than zero, enter -0-.) . . . . 10. ______

Passive Activities

11. Enter the total of any net income from passive activities (such as income included on Schedule E, line 26, 29a (col. (h)), 34a (col. (d)), or 40; or an ordinary gain identified as "FPA" on Form 4797, line 10). (See instructions below for lines 11 and 12.) . . . . 11. ______
12. Enter the total of any losses from passive activities (such as losses included on Schedule E, line 26, 29b (col. (g)), 34b (col. (c)), or 40; or an ordinary loss identified as "PAL" on Form 4797, line 10). (See instructions below for lines 11 and 12.) . . . . 12. ______
13. Combine the amounts on lines 11 and 12 of this worksheet. (If the result is less than zero, enter -0-.) . . . . 13. ______
14. Add the amounts on lines 1, 2, 3, 4, 7, 10, and 13. Enter the total. **This is your investment income** . . . . 14. ______
15. Is the amount on line 14 more than **$10,300**?
    ☐ **Yes.** You can't take the credit.
    ☐ **No.** Go to *Step 3* of the Form 1040 instructions for line 27 to find out if you can take the credit (unless you are using this publication to find out if you can take the credit; in that case, go to *Rule 7* next).

Instructions for lines 11 and 12. In figuring the amount to enter on lines 11 and 12, don't take into account any royalty income (or loss) included on line 26 of Schedule E or any income (or loss) included in your earned income or on line 1, 2, 3, 4, 7, or 10 of this worksheet. To find out if the income on line 26 or line 40 of Schedule E is from a passive activity, see the Schedule E instructions. If any of the rental real estate income (or loss) included on Schedule E, line 26, isn't from a passive activity, enter "NPA" and the amount of that income (or loss) on the dotted line next to line 26.