

STATE OF HAWAII
Accounting Manual

Volume III
Part 200: Gross Payroll

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SECTION 271: ADVANCE PAYMENT OF EARNED INCOME CREDIT

1. Purpose.

The purpose of this section is to describe the advance earned income credit (EIC) payment to eligible State employees, for payroll purposes.

2. Description. Briefly, the EIC payment covered by this section can be described as follows:

- (a) The income tax laws of our Federal government, as summarized in Employer's Tax Guide, Circular E, Publication 15 (Supplement, 7/79), provide that eligible employees desiring advance EIC payments may receive such payments during the year as income is earned or may choose to claim the EIC on their annual income tax returns.
- (b) Whenever the employee desires advance EIC payment, the payment is made through the State's payroll system under the general procedures described in this section of the accounting manual.
- (c) The advance EIC payment is not includible in gross income, subject to Federal and State withholding taxes.
- (d) The amount of advance EIC payment is primarily determined by two factors: (1) the amount of earnings subject to federal income tax withholding; and (2) the employee's status under the separate tables for (a) single or married employees without spouse filing certificates and (b) married employees with both spouses filing certificates.
- (e) The advance EIC payment will be shown on payroll reports such as Payroll Register and Employee's Earnings, Deductions and Leave Statement.

3. Departmental Procedures. The procedural steps for reporting the payments by employing agencies for payroll processing are as follows.

- (a) The FORM W-5 EARNED INCOME CREDIT ADVANCE PAYMENT CERTIFICATE is completed by the employee who qualifies in accordance with the eligibility requirements stated in the Earned Income Credit Checklist portion of the form. (Refer to Part 700, Appendix, for sample forms and related instructions.)
- (b) The filled-in Form W-5 is then used to code the payroll change schedule, which is used as input document, and retained by the departments for 4 years.

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- (c) Departmental personnel responsible for processing the payroll change schedule must indicate in the "County" column on the name line of the form, the employee's status by using one of the following alphabetic codes:
 - (1) A - Single or married employees without spouse filing a certificate.
 - (2) B - Married employees with both spouses filing certificates.
- (d) If the employee's eligibility status changes so that any answer in the EIC checklist becomes "no", the employee must file a new certificate, checking the "no" box in question on the new certificate. When this occurs, the code on the payroll change schedule must be lined-out in red ink.
- (e) The Form W-5 certificates expire on December 31 of each year. If an employee expects to qualify for EIC in the following calendar year, the employee must file a new certificate. Accordingly, EIC payments will be automatically stopped through the payroll system, and the turn-around copy of the payroll change schedule for the January 15 pay period will be voided of the EIC codes.