



Tax Credits: Extra Cash for Survivors

...and other tax tips

Agenda

- Taxes as an economic justice topic
- Talking taxes with survivors
- Available tax credits
- Tax resources
- Other tax tips



Why talk about taxes?



- We know that access to money (or lack there of) has a huge impact on the choices survivors are able to make.
- Taxes are not usually prioritized by survivors- understandably.
- However, billions of dollars in tax credits go unclaimed each year and many survivors may be eligible!

Talking Taxes with Survivors

- The following information is not intended to give you the ability to help survivors do their taxes.
- It is for your information so that you can talk with survivors about why filing taxes is important and how doing so will be financially beneficial.
- It will also help you find resources in your community to help survivors through the tax filing process.

Tax Credits



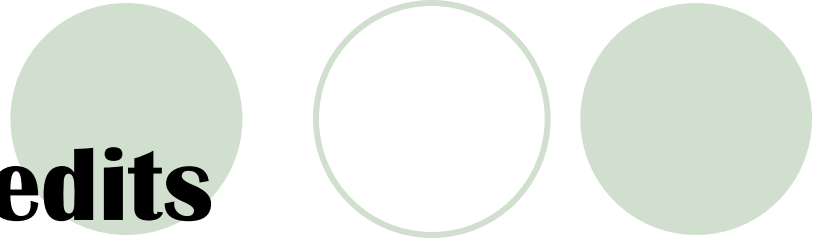
- Earned Income Tax Credit (EITC)
- Child Tax Credit & Additional Child Tax Credit
- Child and Dependent Care Credit
- These are the most common credits survivors may be eligible for, but there are also other credits for education, savings contributions, and more.

Refundable and Non Refundable Credits



- Not all credits are treated equally.
- Some tax credits only count towards making what you may owe in taxes equal 0. These are **non refundable** tax credits.
- Some credits allow you to keep the difference between what you owe in taxes and how much your credits add up to. These are **refundable** tax credits.

Refundable and Non Refundable Credits



- Why is this important to know?
 - Because when you share your knowledge about taxes with survivors, it's important to not give them false hope about a payout that is larger than they would actually get.

Earned Income Tax Credit (EITC)

What is it?

- A tax benefit designed to help people with low to moderate incomes.
- This is a *refundable* credit-so even if your earnings are too low to have to file taxes, you could still get money back if you worked during 2007.

Earned Income Tax Credit (EITC)

Who may qualify?

- Single or married people who worked at all in 2007, depending on income.
 - For example, workers raising one child who earned less than \$32,001 may get up to \$2747 in EITC.
 - Workers raising more than one child who earned less than \$36,348 may get up to \$4536 in EITC.
 - Workers without children who are between 25-64 and earned less than \$12,120 may get up to \$412 in EITC.
 - Workers with over \$2600 in investment income cannot qualify for EITC.
- ** Numbers based on 2006 tax code. Numbers for 2007 will be available soon at www.irs.gov

Advance EITC Payments

- These are monthly payments added to your paycheck throughout the year to help with regular expenses.
- Those workers who have a “qualifying child” and expect an income less than \$33,000 for the year can qualify.
- On average, this can add about \$100 to \$120 extra dollars per month to a paycheck.
- Workers must fill out form W-5 and give it to their employer. This can be done any time of the year. Check out this link for more info.

<http://www.irs.gov/newsroom/article/0,,id=172170,00.html>



Advance EITC Payments

WARNING

- These payments can be a huge help to those trying to make ends meet and there are protections in place to make it difficult to qualify for Advance EITC if you won't qualify for it by the end of the year.
- However, if you are expecting a big life change- like marrying someone who makes a lot more money than you, or graduating from college and landing a living wage job- you could be at risk for having to pay back some of the money you received in advance.

Child Tax Credit (CTC)



- Gives up to \$1000 per child of *non refundable* tax credit to working families.
- A “qualifying child” must be under age 17 at the end of 2007 and live with the person claiming the credit for more than 6 months of the year.
- Because this is a non refundable credit, it only counts toward zeroing out what you owe in taxes. If you don’t owe any taxes, you don’t get any of this money refunded.

Additional Child Tax Credit (or the Child Tax Credit Refund)

- Yes- this is confusing! The Additional Child Tax Credit is kind of related to the CTC, and sort of completely different!
- This is a refundable tax credit- meaning you are refunded with a check for the difference of the credit minus what you owe in taxes. To be eligible, you must have a child under the age of 17 and have income *above* \$11,300.

Child and Dependent Care Tax Credit



What is it?

- This is a *non refundable* credit for those who paid for childcare in 2007 so that they could work or look for work.
- The amount of credit is a percentage of amount you paid for child care in 2007 based on your income level.
- You cannot claim more than \$3000 of child care expenses for the year in your calculation of the percentage.
- The child you are claiming care for has to be under the age of 13.

How to Get These Tax Credits

- You must fill out form 1040 or 1040A in order to get the credits. You cannot use the 1040EZ form.
- Find a free tax preparation site in your community.
- In order to be eligible for these tax credits you *cannot* file “married filing separately.”

Free Tax Preparation

- Many communities may have free tax preparation available for those with low to moderate incomes.
- Both the IRS and AARP have volunteer tax preparer programs. The IRS's is called VITA and AARP's is called Tax-Aide.
- To locate a VITA site call 1-800-829-1040 (you have to sift through a menu to get a person who will transfer you to VITA).
- To locate a Tax-Aide site call 1-888-227-7669 or go to <http://www.aarp.org/money/taxaide/>
- You can also call 211 after January 15th for free tax preparations sites in your area.

A Note About “Married Filing Separately”

- It is an unfortunate reality that if a survivor is married, they cannot get the extra cash from tax credits unless they file jointly with their spouse.
- Talk to survivors about whether or not this is a possibility and weigh the pros and cons with them.
- If it would be safe enough to stick out an hour with a volunteer tax preparer and their abuser, it could mean extra money that could give her options.
- This year, you can get your refund split between 2 accounts. This could be a huge benefit to survivors! More information at <http://www.splitrefunds.net>

Rapid Refunds- A Cautionary Tale

- On the spot refunds or refund loans from tax preparation businesses are quite popular and do offer instant cash.
- These Refund Anticipation Loans are essentially a type of predatory lending and come with very high interest rates, fees and are not guaranteed.
- This means that you will not get all the money you would by waiting for your refund from the IRS and you may end up owing the establishment you got the rapid refund from and the IRS if you end up owing taxes.

Waiting for Your Refund

- If you go to a free tax preparation site, like one run by VITA or Tax-Aide, they file your returns online.
- If you do this and choose direct deposit, typically your refund will arrive in your bank account in about 2 weeks.
- If a survivor can wait 2 weeks, this is definitely the best choice for getting a refund.

Tax Returns and Public Benefits

- The money you receive from the EITC and Additional Child Tax Credit does not count as income when determining eligibility for public benefits.
- However, this extra money could count as a resource for some public benefits programs.
- Talk to a financial worker in your CSO to find out if there are benefit programs that count EITC and Additional Child Tax Credit money as a resource.

Other Tax Tips- Taxes from Previous Years

- You can file or amend tax returns for up to 3 years previous to the current year.
- The Pros: You may be able to increase your tax return if you didn't file or filed in a way that would make you ineligible for tax credits in 2004, 2005, and/or 2006.
- The Cons: You may have to pay if you owed taxes in those years.

A Note About Paying Taxes

- Fact: It is a bummer to have to owe taxes rather than receive a tax return.
- Fact: It is devastating to skip filing taxes only to be found out by the federal government, and charged exorbitant fees on top of having to pay what you owe in back taxes.
- Conclusion: Encourage survivors to critically think about this before they decide to not file a tax return.

Other Tax Tips: Trickier Tax Situations



- Sometimes, survivors may be dealing with more complex tax issues than simply needing to file.
- For example, abusers may force survivors to sign fraudulent tax forms or survivors may otherwise be involved in tax fraud without their knowledge.
- Survivors can claim Innocent Spouse Relief or Injured Spouse Relief in certain situations that can absolve them from fraud or allow them to receive tax credits they may not otherwise be able to .

Other Tax Tips: Trickier Tax Situations



- These situations go beyond the scope of expertise for most free tax preparation volunteers.
- To help a survivor with a trickier tax issue, find out if there is a tax clinic (legal clinic) in your area.
- Your local Community Action Program, local IRS office, or 211 may be good places to start looking.

Other Tax Tips:

Copies of Prior Returns

- You can get free copies (transcripts) of you prior returns from the IRS.
- Look for form 4506T at www.irs.gov
- Prior returns can be useful for checking to see if you claimed all the credits you were eligible for, and is also a good reference of work history for someone who may be trying to put a resume together.



Resources

- www.irs.gov is a very user friendly website with a good search option and lots of clear tax information.
- http://www.cbpp.org/eic2007/EIC_Facts_Text.pdf - A very clear and handy booklet about tax credits from the Center on Budget and Policy Priorities.