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Making the Tax Code Work for You

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Making the Tax Code Work for You

An introduction to tax benefits for low-income taxpayers

Introduction

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Topics

- The Anatomy of a Tax Return
- Income
- Deductions and Credits
- Affordable Care Act
- Resources and Tools

The Anatomy of a Tax Return

- Income
- -<u>Adjustments and Deductions</u>
- =Taxable Income
- Tax
- Credits
- Taxes Paid
- Refund/ Withholding

Income

- What is income?
- Wages and Tips
- Interest and Dividends
- Self-Employment
- Stocks and Bonds (Capital Gains)
- Retirement and Social Security
- Unemployment
- Other income

Earned Income

- Anything that a person physically works for
- Wages
- Tips
- Farm
- Self-Employment
- Disability pay is the exception!
  - Depends on age of the worker

Unearned Income

- Money that is not dependent on physical work
- Stocks, bonds
- Retirement, Social Security
- Unemployment
- Rental income
- Gambling

Adjustments and Deductions

- Lowers taxable income
- Adjustments include:
  - Student loan interest payments
  - Part of Self-Employment tax
  - IRA contributions

Standard vs Itemized

- Standard deduction is based on:
  - Income
  - Marital Status
  - Age
  - Blind
  - Dependency status

Standard vs Itemized

- Itemized deduction is based on:
  - Medical expenses
  - Mortgage interest
  - Taxes paid
  - More than included here
- Whatever is more beneficial for the taxpayer is what is used
  - Exception: MFS has to each take the same type of deduction!

Credits

- Nonrefundable
  - Reduces tax liability
  - Cannot put money in the taxpayers pocket
- Refundable
  - Reduces tax liability
  - Can result in a refund even if nothing was paid in
  - We LOVE refundable credits!!!

Credit for the Elderly or Disabled

- Nonrefundable
- Must be a US citizen
- Must be either:
  - Age 65 or older at the end of the year
  - Under age 65 and:
    - Retired on permanent and total disability
    - Received taxable disability income
    - Not reached mandatory retirement age
- Income cannot exceed certain limits

Dependent Care Credit

- Nonrefundable credit for money paid for dependent care
- Care must be for child under age 13, or a spouse who cannot care for self, or a person that lived with you for over half the year
- Expenses must be paid so that taxpayer/ spouse can work, look for work, or attend school, or the taxpayer/spouse is physically or mentally unable to care for the dependent
- Credit is based on amount paid (up to $3,000 for one dependent and $5,000 for two or more) and Adjusted Gross Income

Retirement Savings Contribution Credit

- Nonrefundable credit designed to reward low-income wage earners to save for retirement
- Credit is based on amount of contribution, filing status, and Adjusted Gross Income
- Cannot be a student or a dependent and claim this credit

Child and Additional Child Tax Credit

- Nonrefundable and refundable
- Designed to help low- and middle-class families
- Children under the age of 17 or permanently and totally disabled at any age qualify for this credit
- Credit is generally $1,000 per child and is limited by income level

Education Credits

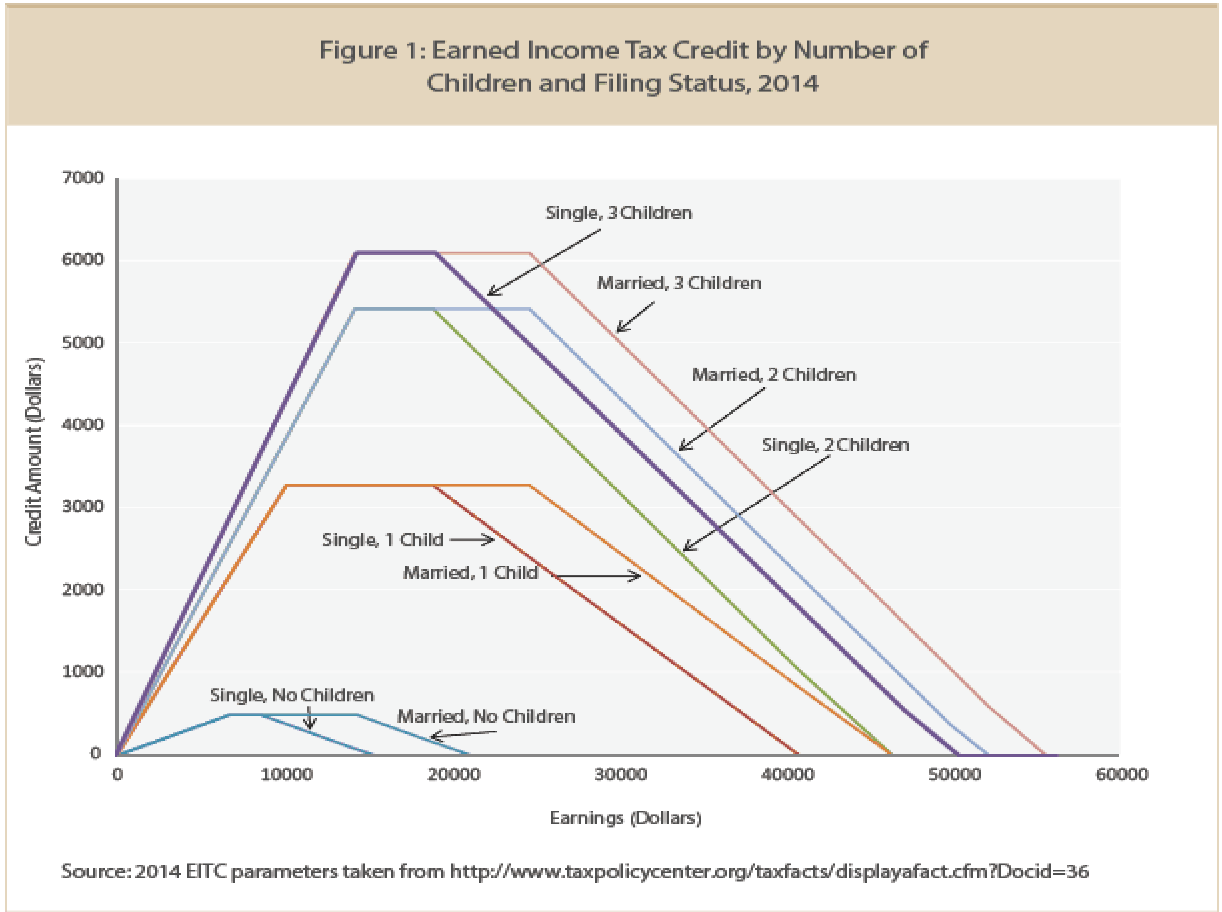
- Nonrefundable and refundable credits designed to encourage low- and middle-class taxpayers to attend college
- Several different types of credits
- American Opportunity Credit
  - Can be worth up to $2,500 per student on the return
- Lifetime Learning Credit
  - Can be worth $10,000 per return

Earned Income Credit

- Considered the third largest anti-poverty program in the United States
- Designed to encourage taxpayers to have earned income
- An estimated 26 million families will receive over $60 billion dollars for tax year 2015. *
- This is a refundable credit and can be worth $1,000’s of dollars
- Amount of the credit is based on filing status, income and number of qualifying children
- The credit is awarded only if there is EARNED income
- The taxpayer, spouse, and dependents must have a Social Security number and live in the United States for more than 6 months of the year
- Disability pay can sometimes count for EITC

* Source: http://www.taxpolicycenter.org/briefing-book/key-elements/family/eitc.cfm

Earned Income Credit



Earned Income Credit

- The maximum credit amounts for 2015 are:
  - $6,242 with three or more qualifying children
  - $5,548 with two qualifying children
  - $3,359 with one qualifying child
  - $503 with no qualifying children
- Also, investment income must be less than $3,400 for the year
- Many states also award Earned Income credit

Affordable Care Act

- As of 2014, all taxpayers are required to have either:
  - Minimal essential health coverage; or
  - An exemption to the requirement to have health coverage
- If the taxpayer, spouse or any dependent does not have one of the above for any month out of the year, a Shared Responsibility Payment must be made
- The SRP is, in essence, a penalty and must be paid with the tax return
- This either reduces the refund amount or increases the balance due

Affordable Care Act

- The maximum SRP for 2015 tax year is the larger of:
  - 2% of your household income; or
  - $325 per person per year
  - This is a simplification of the calculation!
- The SRP increases greatly for 2016:
  - 2.5% of your household income; or
  - $695 per person per year
- For 2017 and beyond it is indexed for inflation

Affordable Care Act

- Minimal Essential coverages includes:
  - Medicare and Medicaid
  - Employer-sponsored coverage
  - Marketplace exchange coverage
- If a taxpayer goes to the Marketplace exchange, he or she may be eligible for Premium Tax Credits to offset the premium.
  - Eligibility is based on income and marital status

Affordable Care Act

- Some tax payers are exempt from the requirement to have MEC
- The most common exemption to the requirement is a low-income threshold
  - Based on filing status and household income
- Other common exemptions include:
  - Residency status
  - Short-coverage gap (less than 3 months without MEC)
- Many other less common exemptions

Resources

- www.cashoregon.org
- www.irs.gov
- Tax-Aide and Vita programs
- Low-Income Tax Payer Clinics
- Many software programs offer free filing options. Check with your state DOR
- www.healthcare.gov

Questions

- Thank you!

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