

TAX CREDIT PRIMER FOR SOCIAL SERVICE PROVIDERS

Tax Year 2011



Training Sponsored By: Legal Aid Society of Minneapolis,
University of Minnesota Extension, AccountAbility
Minnesota, Minnesota Community Action Partnership,
Minnesota Department of Human Services-Office of
Economic Opportunity, and Minnesota Financial Fitness
Network

WELCOME!	4
ABOUT THIS HAND BOOK	4
TAX BASICS	4
TAXABLE INCOME	4
NON-TAXABLE INCOME	5
INCOME FILING REQUIREMENTS	5
WHICH AREAS OF INCOME AFFECT OUR CLIENTS MOST?	5
SOCIAL SECURITY NUMBER AND INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS (ITIN)	6
FEDERAL CREDITS, DEDUCTIONS AND EXEMPTIONS	7
THE FEDERAL CREDITS	9
EARNED INCOME TAX CREDIT (EITC)	9
CHILD TAX CREDIT	10
ADDITIONAL CHILD TAX CREDIT (EXPANDED!)	10
CHILD AND DEPENDENT CARE CREDIT	10
THE ADOPTION CREDIT	11
THE AMERICAN OPPORTUNITY CREDIT	11
LIFETIME LEARNING CREDIT	12
RETIREMENT SAVINGS CONTRIBUTION CREDIT (SAVER’S CREDIT) ...	12
THE MINNESOTA STATE TAX CREDITS	13
MINNESOTA WORKING FAMILY CREDIT (MWFC)	13
MINNESOTA DEPENDANT CARE CREDIT	13

MINNESOTA K-12 EDUCATION CREDIT	13
MINNESOTA K-12 EDUCATION SUBTRACTION	13
MINNESOTA PROPERTY TAX REFUND (A.K.A. THE RENTER’S REBATE)	13
REVENUE RECAPTURE PROGRAM.....	14
WHAT IS IT?	14
WHICH AGENCIES CAN USE REVENUE RECAPTURE?	14
HOW DOES THE PROCESS WORK?	14
SPECIAL RULES FOR MEDICAL CARE DEBT	14
WHERE TO FIND HELP: RESOURCES FOR TAXPAYERS	15
DOCUMENTS: WHAT SHOULD A TAXPAYER BRING TO A PREPARER?.	15
TAXPAYERS BEWARE: AVOID REFUND ANTICIPATION LOANS!.....	16
FREE TAX RETURN PREPARATION SITES.....	16
LEGAL RESOURCES FOR TAXPAYERS.....	19
RESOURCES FOR PROMOTING TAX CREDITS AND ENCOURAGING TAXPAYERS TO FILE A TAX RETURN.....	20
WHY ENCOURAGE TAXPAYERS TO FILE?	20
WHAT DO TAXPAYERS NEED TO KNOW?	20
PROMOTIONAL MATERIALS TO ASSIST WITH OUTREACH	20
WHERE TO FIND TECHNICAL TAX INFORMATION	21

WELCOME!

The Tax Credit Primer is an education program that offers a non-technical overview of tax topics important to taxpayers with low to middle incomes. This year, the program will focus on providing a brief overview of the tax system and the available credits, places where taxpayers can go for help, and strategies for promoting the tax credits available to families with low incomes.

The tax credits offered by the Federal and State Governments often put more money into the hands of families than the public benefits they may receive and in some cases can equal up to 40% of their earned income.

ABOUT THIS HAND BOOK

This handbook is not intended to be a comprehensive tax guide or legal reference. Many of the more complicated nuances of the tax laws will not be discussed. If your clients have complicated tax questions it is best to suggest they contact a tax professional for assistance. The second half of this booklet will provide information about resources for taxpayers.

TAX BASICS

Each year people who have “taxable” income must file a tax return. In Minnesota, both a Federal and a State return must be filed. The return is a way of reporting income and claiming tax credits. Income has a very broad definition. You must pay taxes on some income (taxable), and on some income you are not required to pay taxes (non-taxable). The main categories of taxable and non-taxable income are:

TAXABLE INCOME

- Wages (shown on form W-2);
- Income from services performed as a contractor (shown on form 1099-MISC);
- Interest/Dividends/Capital Gains on savings accounts or investments;
- Income from renting property or a room in your house;
- Self-employment income from a business;
- Distributions from pension plans, or Individual Retirement Accounts;
- Unemployment (shown on a form 1099-G);
- Alimony;
- Prizes or awards;
- Certain scholarships;
- Gambling winnings (shown on form W2-G);
- Some worker’s compensation; and
- Forgiven Debt (shown on form 1099-C).

NON-TAXABLE INCOME

- Public benefit payments (MFIP, General Assistance, SSI and Minnesota Supplemental Assistance, Emergency Assistance);
- Most social security benefits (unless other taxable income exceeds a certain amount);
- Child support;
- Gain from the sale of your primary home (if you meet certain requirements);
- Gifts and inheritances; and
- Most foster care payments.

INCOME FILING REQUIREMENTS

If your filing status is:	AND at the end of 2011 you were:	THEN you MUST file a return if your gross income was at least:
Single	under 65 65 or Older	\$ 9,500 10,950
Married filing jointly	under 65 (both spouses)	\$19,000
	65 or older (one spouse)	20,150
	65 or older (both spouses)	21,300
Married filing separately	any age	\$ 3,700
Head of Household	under 65	\$12,200
	65 or older	13,650

**** NOTE:** If you are **SELF-EMPLOYED** you must file if your net earnings from self-employment is **at least \$400**.

WHICH AREAS OF INCOME AFFECT OUR CLIENTS MOST?

Cancellation of Debt Income:

Because of the economic downturn, many people are facing mounting debt and home foreclosures. Sometimes a company may decide to stop trying to collect a debt owed to it. If a company does this they may “cancel” the debt and issue the debtor a form called “Cancellation of Debt” (form number 1099-C). The IRS will count the amount of the debt cancelled as taxable income. This comes as quite a surprise to many people. If you know of someone who has received a form 1099-C, you may want to suggest that they speak with a tax professional because there are some circumstances when the income shown on the form will not be taxable. They may qualify for free service from a Volunteer Income Tax Assistance site or from Legal Aid (see section on where to get help in this handbook, pages 15-22).

Under the *Mortgage Forgiveness Debt Relief Act of 2007*, taxpayers generally can exclude income from the discharge of debt income related to mortgage on their principal residence or mortgage restructuring. This exclusion applies only to money borrowed to purchase the home. Discharge of debt from a home equity loan is not excluded. This exception does not apply to second homes or vacation homes.

**** NOTE:** *Foreclosures and mortgage restructuring are very complex tax issues and the taxpayer should seek out a tax professional for advice.*

Independent Contractor Income (Form 1099-MISC):

Many taxpayers do not understand the consequences of being paid as an “independent contractor” (for which they receive a form 1099-MISC at the end of the year). When a taxpayer is paid as a contractor, there are no taxes withheld from the taxpayer’s paycheck. At the end of the year, the taxpayer can end up owing a substantial amount of money in income tax and self-employment tax. Taxpayers that are most likely to receive a 1099-MISC at the end of the year are home daycare providers, who are paid by the county, people who work for cleaning companies, painters, and others who are hired on a “per job” basis.

Unemployment Compensation (Form 1099-G):

For tax year 2011 ALL unemployment compensation is taxable. In general, taxes are not automatically withheld from unemployment compensation. Taxpayers can request that taxes be withheld if they believe they will owe taxes on this income at the end of the year.

SOCIAL SECURITY NUMBER AND INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS (ITIN)

When filing a tax return, a taxpayer must provide an identification number. A taxpayer will use either their social security number or an ITIN on their tax return.

What is a Social Security Number?

Most U.S. Citizens and permanent residents have Social Security numbers. The number is used to track worker’s earnings over their working life. It can also serve as proof that a person has the legal right to work in the United States.

What is an ITIN?

An Individual Tax Identification Number or ITIN is a 9-digit number that a person who does not have a social security number can use to file a tax return. In general, a person needs a social security number to be employed in the United States. However, there are many people working in the United States who do not have social security numbers. Workers without social security numbers are often referred to as “undocumented” workers.

Any person who lives and works in the United States must follow the tax rules. Workers must file a tax return regardless of their eligibility to apply for a social security number. To file a return, an undocumented worker must apply for an ITIN from the IRS.

The IRS is currently prohibited by disclosure laws from disclosing information about tax filers to United States Citizenship and Immigration Services (USCIS). However, both agencies are working toward removing this restriction.

How to apply for an ITIN?

To obtain an ITIN, taxpayers should go to an IRS walk-in office with a completed W-7 and a completed tax return. The forms can be found at the IRS website. They must also have with them documents proving identity.

Can someone with an ITIN get all the same credits as someone with a Social Security Number?

Filers who are using an ITIN cannot claim the Earned Income Tax Credit (EITC). Additionally, if a taxpayer who has a social security number is married to and living with a spouse who does not have a social security number they may not claim the EITC.

Filers who use ITINs can claim the child tax credit and adoption credit if they meet certain requirements. They can also claim exemptions for themselves and their spouse and children (as long as everyone has an SSN or ITIN).

FEDERAL CREDITS, DEDUCTIONS AND EXEMPTIONS

What is a deduction?

A deduction reduces the amount of income a taxpayer will pay tax on. Less taxable income means less tax owed.

What is the standard deduction and how is it determined?

Taxpayers will choose between taking the “standard deduction” or “itemized deductions”. Most taxpayers with low incomes will take the standard deduction. The standard deduction is the amount taxpayers are allowed to subtract from their income.

The amount of the standard deduction is determined by a taxpayer’s filing status. Taxpayers must determine their filing status when they file a return. Determining the correct filing status can be more complicated than it appears. If taxpayers have questions about what status to choose, they should contact a tax professional. They may also call the IRS helpline (1-800-829-1040), and someone will guide them through the steps of choosing a filing status. The filing status choices are single, married filing joint, married filing separately, head of household, and qualifying widower.

What is an exemption?

An exemption, like a deduction, will reduce your taxable income. In 2011, taxpayers will receive a \$3700 exemption for themselves, their spouse, and an additional \$3700 for each “qualifying child” or “qualifying relative” they claim on their return. The definition of “qualifying child” and “qualifying relative” can be confusing. The definition can be very difficult for non-traditional families to apply. Encourage taxpayers to seek help if they have any questions about who can be claimed as a qualifying child or qualifying relative. Mistakes in this area of the tax return can be very costly to taxpayers.

What is a tax credit?

A credit reduces, dollar for dollar, the amount of tax owed. For example, if a taxpayer has a tax credit of \$1000.00 and her return shows she will owe \$2000.00 in tax, the credit will reduce that amount to \$1000.00. Credits can be “refundable” or “non-refundable”.

What is a non-refundable credit?

A non-refundable credit can only reduce the tax owed to zero. If the credit is more than what the taxpayer owes in taxes the remaining credit is lost. For example, the Federal Child and Dependent Care Credit is non-refundable. If a taxpayer owes taxes of \$100 and his Child and Dependent Care Credit is \$400, the credit would reduce the tax he owes to \$0 and the remaining \$300 of the credit would be lost.

What is a refundable credit?

A refundable credit can reduce your tax below zero and result in a refund. For example, the Earned Income Tax Credit (EITC) is a refundable credit. If your tax is \$100 and your Earned Income Tax Credit is \$400, your tax will be reduced to \$0 and the \$300 left over will be paid to you.

Many taxpayers with low incomes will have little or no taxable income after they take the allowed deductions and exemptions. Thus, the tax they owe may be \$0 and they will get the entire amount of the refundable credits back in a tax refund. This can result in thousands of dollars for a working family who is struggling financially.

IMPORTANT: What if a taxpayer did not know about the credits and did not file returns to claim the credits in previous years?

The good news for a person in this situation is that most federal credits can be claimed for the 3 previous tax years by filing the returns. If a taxpayer is a wage earner or receives a 1099-MISC, she can ask the IRS to send her the information she will need in order to file the previous years’ returns. Additionally, she may qualify for free tax preparation (see “Where to get help” section for details (page 16)). If she does not qualify for free assistance, all the forms she needs to file past tax returns can be found on the IRS website, www.irs.gov. In the search box of the main IRS webpage, taxpayers

should type the year for which forms and instructions are needed and the term “forms and publications.” For example if they were looking for tax forms and instructions for year 2009, they would type “2009 forms and publications” into the search box.

THE FEDERAL CREDITS

If a family qualified for the maximum level of some available refundable federal tax credits, they could receive a refund of over \$6000.

EARNED INCOME TAX CREDIT (EITC)

For 2011 the Earned Income Credit continues to include a larger credit for families with 3 or more qualifying children. The EITC is a refundable credit available to taxpayers with or without children who have low to middle incomes. A taxpayer cannot claim the credit if she uses the filing status "married filing separately" (meaning she is married, but she and her spouse choose to file separate tax returns), or if she is filing a "married filing joint" return, and her spouse does not have a valid social security number.

Taxpayers without children: If a taxpayer meets the income guidelines, a taxpayer may qualify for the earned income credit if they have earned income (income from a job), are between the ages of 25 and 65, are not the qualifying child or dependent of another taxpayer, lived in the United states for more than 6 months of the year and meet the first 3 requirements under “taxpayers with children”.

Taxpayers with children: If a taxpayer meets the income guidelines and they have children, they may be able to claim the EITC with a “qualifying child”. The basic rules to be a “qualifying child” are:

- (1) Taxpayer must have valid Social Security Number and be US citizen or resident alien all year.
- (2) Taxpayer’s filing status CANNOT be married filing separately.
- (3) Taxpayer’s investment income must be \$3,100 or LESS.
- (4) Child claimed must be related to taxpayer (their child, step-child, grandchild, brother or sister, or a niece or nephew),
- (5) Child must be younger than the taxpayer and under the age of 19 at the end of the tax year or younger than the taxpayer and under 24 if a full time student, or any age if totally and permanently disabled, and
- (6) Taxpayer MUST live with the child for more than 6 months of the tax year (except under limited circumstances*). The rules for claiming a child that is not the taxpayer’s son or daughter can be very complicated. Taxpayers in this situation should consult a qualified tax preparer to ensure they are eligible to take the credit.

*Exceptions to more than 6 month living together requirement: Count time that taxpayer or child is away from home because of attendance at school, business, vacation, military service or detention in a juvenile facility as time the child lived with the taxpayer.

Earned Income Credit Maximum Allowable Income Table:

Maximum Adjusted Gross Income	Number of Qualifying Children
\$43,998 (\$49,078 married filing jointly)	3
\$40,964 (\$46,044 married filing jointly)	2
\$36,052 (\$41,132 married filing jointly)	1
\$13,660 (\$18,740 married filing jointly)	0

****NOTE:** Investment income must be below \$3,100.

CHILD TAX CREDIT

The Child Tax Credit is a non-refundable credit of \$1000 for each qualifying child that a taxpayer claims as an exemption their tax return. If a taxpayer has 2 dependents listed on their tax return and the box signifying “qualifying child” is checked for both of them, the taxpayer can claim a Child Tax Credit of \$2000. This will reduce the tax owed by the taxpayer by \$2000. For many of our clients the Child Tax Credit will eliminate any tax owed.

ADDITIONAL CHILD TAX CREDIT (EXPANDED!)

The Additional Child Tax Credit is a refundable credit. Many taxpayers will not owe enough tax to take full advantage of the Child Tax Credit. The Additional Child Tax Credit allows people with low incomes to receive as a refund all or part of their remaining Child Tax Credit. Taxpayers who have earned income of at least \$3000, and claim at least one qualifying child may be able to take the Additional Child Tax Credit.

CHILD AND DEPENDENT CARE CREDIT

The Child and Dependent Care Credit is a non-refundable credit available to taxpayers who pay a caregiver to care for their qualifying child or disabled child or adult while they work or look for work. The limit on expenses is \$3000 per child, up to two children.

The credit is worth up to \$1050 for one qualifying dependent and \$2100 for two qualifying dependents.

The child/dependent care expenses must be work related. To be work related, the care must allow the taxpayer (and spouse if married) to work or look for work and the care must be for a qualifying person.

To claim the credit, you **MUST** identify the caregiver with their name, address and taxpayer ID number (social security number, ITIN or employer ID number).

THE ADOPTION CREDIT

The adoption credit is still refundable for tax year 2011. The maximum credit is \$13,170. The adoption credit is available to taxpayers who have expenses related to the adoption of a child. Qualifying expenses include reasonable and necessary adoption fees, court costs, attorney fees, traveling expenses (including amounts spent for meals and lodging while away from home), and other expenses directly related to and for which the principal purpose is the legal adoption of an eligible child.

An eligible child must be under 18 years old, or be physically or mentally incapable of caring for himself or herself. The adoption credit cannot be taken for a child who is not a United States citizen or resident unless the adoption becomes final.

In the case of an adoption of a special-needs child, you may be eligible for a certain amount of credit or exclusion regardless of actual expenses paid or incurred. A child has special-needs if (1) the child otherwise meets the definition of eligible child, (2) the child is a United States citizen or resident, (3) a state determines that the child cannot or should not be returned to his or her parent's home, and (4) a state determines that the child probably will not be adopted unless assistance is provided.

THE AMERICAN OPPORTUNITY CREDIT

The American Opportunity Tax Credit is a credit for expenses related to the first four years of post-secondary education. Generally 40% of the credit is refundable. A taxpayer may be able to take the credit if the taxpayer, spouse or dependents were enrolled at least half time at an eligible post-secondary education institution during the tax year and were pursuing an undergraduate degree or other recognized education credential. Each student can only claim the credit for 4 tax years.

Expenses that qualify for the credit are tuition and related course materials such as books, supplies and equipment required for a course of study. Room and board, insurance, medical expenses, transportation and other personal costs do not qualify. Expenses paid for by a tax-free scholarship or grant cannot be used to claim the credit. Most students will receive a form 1098-T from their school that details the tuition paid and will be used to determine the amount of the credit.

The maximum credit is \$2500. The maximum refundable portion of the credit is \$1000. Students must be enrolled at least half-time in a degree program.

Caveat: The student cannot have been convicted of any felony drug charge as of the last day of the tax year.

LIFETIME LEARNING CREDIT

The Lifetime Learning Credit is also an education credit. The entire amount of this credit is non-refundable. It is available to all post-secondary students, and there is no limit on number of years it can be claimed.

Qualified expenses include tuition AND course-related books, supplies, fees and equipment if the expenses and fees are paid directly to the school and are required for enrollment.

Students can be enrolled less than half-time and the program does not need to be a degree program. The maximum credit is \$2000.

Caveat: You cannot claim both the American Opportunity Credit and the Lifetime Learning Credit for the same student in the same tax year. You must choose one or the other.

RETIREMENT SAVINGS CONTRIBUTION CREDIT (SAVER'S CREDIT)

The Retirement Savings Contribution Credit reduces the income tax a taxpayer may owe, and it encourages taxpayers to contribute to retirement plans or Individual Retirement Accounts (IRAs). A taxpayer can receive a tax credit of up to 50 percent of a maximum \$2,000 contribution to a traditional IRA, Roth IRA, elective contributions to 401K or 403B, a governmental 457, SEP or SIMPLE plan. The credit is non-refundable.

Eligibility Requirements:

- Must be at least 18 years of age.
- Must not be a full-time student.
- Must not be claimed as a dependent on someone else's tax return.

Income Limitations:

A taxpayer's adjusted gross income (AGI) must not exceed:

- \$56,500 if married filing jointly
- \$42,375 if filing as head of household
- \$28,250 if filing single or married filing separately

***For more information please see IRS Form 8880.*

THE MINNESOTA STATE TAX CREDITS

MINNESOTA WORKING FAMILY CREDIT (MWFC)

The Minnesota Working Family Credit is a refundable credit based on the rules for the Earned Income Tax Credit. If a taxpayer qualifies for the EITC they will likely qualify for the MWFC as well.

MINNESOTA DEPENDANT CARE CREDIT

The Minnesota Dependent Care Credit is a refundable credit available to taxpayers who pay for care of their qualifying child under age 13 or disabled, or adult dependent while they are at work or looking for work. It is similar to the federal credit.

MINNESOTA K-12 EDUCATION CREDIT

The Minnesota K-12 Education Credit is a refundable credit available to families with low to middle incomes who paid for certain educational expenses during the tax year for their qualifying children. The credit is 75% of eligible expenses up to \$1000 per child.

Examples of eligible expenses are: tutoring, academic books and materials, fees paid to others for transportation, music lessons, after-school enrichment programs, home computer hardware or educational software (up to \$200 per family), academic summer camp and purchase or rental of “long-life” equipment such as calculators and musical equipment.

A family can qualify for the credit if they have one or two qualifying children and their income is less than \$37,500. The maximum income to qualify for the credit increases \$2000 for each additional qualifying child beyond two.

MINNESOTA K-12 EDUCATION SUBTRACTION

The Minnesota K-12 Education Subtraction is similar to a “deduction”. It allows taxpayers to deduct from their taxable income certain expenses paid for K-12 education for their qualifying children. Taxpayers may deduct up to 100% of the expenses they pay up to a certain limit which is based on grade level.

The subtraction is available to families of all income levels. Families may be able to claim both the credit and the subtraction if the expenses exceed the family limit for the credit, the excess can be applied to the subtraction.

MINNESOTA PROPERTY TAX REFUND (A.K.A. THE RENTER’S REBATE)

The property tax refund form is not filed with a taxpayer’s regular Minnesota State Tax Return. This is a refund paid to renters and homeowners with low to middle incomes by the State. A renter will need to get a Certificate of Rent Paid from their landlord to claim the refund. A homeowner will need their property tax statement to claim the refund.

The refund is claimed by filing form M1PR by August 15, 2012. The refund can be claimed up to one year late. Taxpayers who did not claim their 2010 refund can file and claim their refund by August 15, 2012.

REVENUE RECAPTURE PROGRAM

WHAT IS IT?

Some taxpayers will not receive the refund shown on their Minnesota State tax returns. In some cases it is because their refund has been taken to pay another debt as a part of the revenue recapture program. The revenue recapture program allows certain agencies and hospitals to capture a taxpayer's refund to repay a debt owed to the agency.

WHICH AGENCIES CAN USE REVENUE RECAPTURE?

State agencies, the regents of the University of Minnesota, any district court of the state, any county, any city, municipal owned hospitals, private nonprofit hospitals that lease its building from the county in which it is located, any public agency responsible for child support enforcement, any public agency responsible for the collection of court-ordered restitution, the Revenue Collection Division, a public agency that administers a low-income housing program, and private ambulance service that is governed by statute 144E.

HOW DOES THE PROCESS WORK?

In order to use the revenue recapture process an agency must send a letter verifying the debt to the Department of Revenue as well as to the taxpayer. The taxpayer then has 45 days to contest the validity of the claim. If the taxpayer does not make the claim within the 45 day period, they may lose the ability to contest the validity of the claim.

SPECIAL RULES FOR MEDICAL CARE DEBT

For the purposes of the revenue recapture program debt does not include any legal obligation to pay a claimant agency for medical care, including hospitalization if the income of the debtor at the time when the care was received does not exceed the income limits outlined in Minnesota Statute 270A.03, subdivision 5.

If a taxpayer's refund is captured by the department of revenue and turned over to a claimant for medical care the taxpayer should verify the year the care was received. If the taxpayer's income was below the specified level they should contact the claimant agency and provide proof of income and request return of the funds.

WHERE TO FIND HELP: RESOURCES FOR TAXPAYERS

One of the best things you can do for your clients is to provide them with information about where they can find tax assistance. Many taxpayers do not speak English as a first language or have difficulty understanding the tax forms and rules. Unfortunately, there are many people who take advantage of taxpayers who do not understand the system or the rules. Providing information about trustworthy, reliable tax assistance can save your clients money.

DOCUMENTS: WHAT SHOULD A TAXPAYER BRING TO A PREPARER?

- Social Security numbers for you, your spouse, and all your dependents;
- Last year's tax returns;
- W-2s;
- 1099s;
- Alimony received;
- Unemployment income statements;
- Social Security income statements;
- Any other income statements;
- Tuition payments and student loan interest payments;
- IRA contributions;
- Receipts or listings of itemized expenses, such as:
 - Out-of-pocket medical expenses;
 - Non-cash donations;
 - Cash donations;
 - Vehicle license tabs;
 - Property taxes paid;
 - Job-related moving expenses;
 - Mortgage interest paid;
 - Tax preparation fees; and
 - Uniform costs;
- Daycare expenses – name, address, and Social Security number or EIN for each provider paid;
- Receipts for the Minnesota K-12 Education credit;
- Property Tax Refund documents;
- CRPs (Certificate of Rent Paid from your landlord);
- Property tax statements; and
- For direct deposit/direct debit, bring your checkbook to verify your bank account and routing information

TAXPAYERS BEWARE: AVOID REFUND ANTICIPATION LOANS!

The refund anticipation loan, commonly referred to as a RAL is a very expensive, short term loan based on a taxpayers expected tax refund. A bank, through the tax preparer, lends the taxpayer money equal to the amount of the refund shown on their tax return and the taxpayer's refund from the IRS is directed to the lending bank. The fee for this service can vary from \$65-\$200 dollars. These loans are targeted at taxpayers with low incomes, especially taxpayers who are expecting large refunds due to the Earned Income Tax Credit.

Part of what made this profitable and safe for lending institutions was the debt indicator function offered by the IRS. The lender could enter the taxpayer's social security number into a system which would automatically tell the lender if the taxpayer owed a federal debt (such as back taxes, student loan) which would cause the taxpayer's refund to be used by the IRS to offset the debt. The IRS announced last year that it would no longer be offering the debt indicator service.

The withdrawal of the debt indicator service by the IRS has caused some companies to no longer offer the RALs, however, there are still companies who are planning to offer and are advertising RALs. It is remains very important to educate taxpayers about the high cost and dangers associated with RALs. Remind taxpayers that they will most likely receive federal refunds within 14 days of filing if done electronically with the refund being directly deposited into a bank account.

FREE TAX RETURN PREPARATION SITES

Encourage taxpayers that qualify for free tax preparation to take advantage of the service. This will allow the taxpayer to keep their entire refund and ensure that the person preparing their return has had some training. Additionally, because the preparers at the free tax preparation site assist primarily low to middle income taxpayers they may be more familiar with the credits available and the nuances in the rules that can lead to problems.

While the free Volunteer Income Tax Assistance (VITA) sites are a good option for many taxpayers, the preparers can still make mistakes. A taxpayer should review their return carefully and ask questions if they do not understand what their preparer has put on their return. A good tax preparer will accept questions and should be willing to explain. The taxpayer is ultimately responsible for the information on the tax return no matter who prepares it.

Volunteer Income Tax Assistance (VITA) Sites:

VITA sites provide qualifying filers with free tax help in completing their income tax forms. Most sites also provide free e-filing and refunds are typically available within ten days. Sites may also provide information and access to banking, financial education, Individual Development Accounts (IDAs), home buying programs and small business opportunities.

AccountAbility Minnesota:

AccountAbility Minnesota has several tax sites in the Twin Cities Metro Area and partners with other free tax sites in greater Minnesota, and serves individuals with incomes up to \$30,000 and families with incomes up to \$50,000. They also provide services for small businesses with incomes up to \$50,000.

AccountAbility can assist **self-employed** taxpayers but they must get help at the AccountAbility Main Office in St. Paul and they must make an appointment by calling (651) 287-0187 for English and (651) 262-2168 for Spanish.

AccountAbility Minnesota offers several services in addition to tax preparation. Depending on the location taxpayers can get free savings accounts, low-cost prepaid debit card, savings bonds, credit reports, financial planning, and screening for benefits, such as food support and energy assistance.

Contact Information for AccountAbility Minnesota:

Website: www.accountabilitymn.org

Phone: 651-287-0187

AARP Tax-Aide:

AARP (Association for the Advancement of Retired Persons) also provides free tax preparation sites throughout Minnesota. AARP Tax-Aide sites do not have strict guidelines on income or age. If you are low to middle income you should qualify for their services; however, Tax-Aide sites will not prepare returns they determine to be “complex”. To find a tax preparation site in your area you can either call AARP, or you can use their website after January 31st to locate the site nearest you. Please note that AARP Tax-Aide sites require appointments and the number of interpreters is also limited.

Phone Numbers:

1-888-227-7669 (English and Spanish)

1-877-434-7598 (TTY)

1-866-554-5381 (Minnesota Chapter)

Website Preparation Site Locator:

Go to the following website: www.locator.aarp.org/vmis/sites/tax_aide_locator.jsp and enter the taxpayer’s zip code to find the nearest site.

Minnesota Department of Revenue:

The Minnesota Department of Revenue has a list of tax preparation sites throughout Minnesota. This information can be accessed on their website after January 31st or taxpayers can call the numbers listed below for more information.

Phone:

651-297-3724
1-800-657-3989

Free Tax Prep Locator:

www.taxes.state.mn.us/vita/pages/free_tax_prep.aspx

United Way 2-1-1:

The United Way can also help individuals locate a free tax preparation site. Simply **call 211**. 211 is free, confidential and available 24 hours a day, 7 days a week. English, Spanish and Hmong are available on the touchtone system, pressing “8” will give additional language options. Multi-lingual lines are available Monday thru Friday from 8:30AM – 5PM.

IRS Taxpayer Assistance Centers:

The IRS also provides tax preparation service at Taxpayer Assistance Centers throughout Minnesota. These centers will only prepare taxes for individuals who have income of \$42,000 or less. All issues will be handled without an appointment, but an appointment may be required for complex tax issues or special need, such as a disability. Multilingual assistance is available in every office.

Locations:

Bloomington

1550 American Blvd. East, Ste 700
Monday – Friday: 8:30AM – 4:30PM
(Closed 11:30AM – 12:30PM)
Phone: 651-312-8082

Duluth

515 West First Street
Monday – Friday: 8:30AM – 4:30PM
(Closed 1PM – 2PM)
Phone: 218-626-1624

Mankato

1921 Excel Drive
Monday – Friday: 8:30AM – 4:30PM
(Closed 11:30AM – 12:30PM)

Phone: 507-625-4977

Minneapolis

250 Marquette Avenue

Monday – Friday: 8:30AM – 4:30PM

Phone: 651-312-8082

Rochester

21 SW Second Street

Monday – Friday: 8:30AM – 4:30PM

(Closed 11:30AM – 12:30PM)

Phone: 507-281-3044

St. Cloud

3800 8th Street N

Monday – Friday: 8:30AM – 4:30PM

(Closed 1PM – 2PM)

Phone: 320-251-9261

St. Paul

30 East 7th Street

Monday – Friday: 8:30AM – 4:30PM

Phone: 651-312-8082

*** NOTE: Phone numbers listed above are recorded messages with information about office hours, locations and services provided in that office. You may leave a message to request an appointment. You will receive a return call within 2 business days.*

LEGAL RESOURCES FOR TAXPAYERS

Sometimes mistakes are made on a tax return or the IRS has questions about information on a tax return. If this happens the IRS will “audit” the tax return. If a taxpayer is audited the IRS will usually send a letter requesting the taxpayer send additional information. This can be stressful and the letters sent by the IRS are often unclear. There are currently two organizations that provide taxpayers with low to middle incomes with free legal assistance.

Legal Aid Society of Minneapolis Tax Law Project:

The Tax Project provides service to clients with low to middle incomes who are dealing with IRS tax audits, tax collection and other tax issues. The Tax Project does not assist with tax preparation. If a taxpayer has a problem they can call the intake line at (612) 334-5970. Interpreters are available.

University of Minnesota Law School Low Income Taxpayer Clinic (LITC):

The University of Minnesota Law School Low Income Taxpayer Clinic also provides service to people with low to middle incomes. The Clinic is staffed by law students who are supervised by an attorney. The University of Minnesota LITC provides service to clients with low to middle incomes who are dealing with IRS tax audits, tax collection and other tax issues. The LITC does not assist with tax preparation.

If a taxpayer has a tax problem they can call the intake line at (612) 625-5515. Interpreters are available.

RESOURCES FOR PROMOTING TAX CREDITS AND ENCOURAGING TAXPAYERS TO FILE A TAX RETURN

WHY ENCOURAGE TAXPAYERS TO FILE?

Each year millions of dollars go unclaimed by taxpayers who qualify for tax credits but either do not file or do not properly claim the credits. These tax credits are money that taxpayers are entitled to, but miss out on because they are unaware that the credits exist. In the recent economic downturn, there are many individuals who qualify for these tax credits and may not be aware of it.

WHAT DO TAXPAYERS NEED TO KNOW?

Taxpayers need to know that many of the tax credits available to them are refundable. This means that they are entitled to the money even if they have no requirement to file taxes or will have zero tax liability for the year. As discussed above, the earned income credit is a large refundable credit that many taxpayers may qualify for. Other credits are also available and some are also refundable.

Taxpayers also must understand that they should only claim credits that they are entitled to. This means that they should be careful in selecting where they have their taxes prepared. Many commercial preparers seek to maximize taxpayers' refunds in order to maximize fees or interest collected on Refund Anticipation Loans. The many free tax preparation sites listed in this handbook provide a valuable service to taxpayers at no cost.

PROMOTIONAL MATERIALS TO ASSIST WITH OUTREACH

The Center on Budget and Policy Priorities:

The Center on Budget and Policy Priorities offers some great promotional materials with information to help taxpayers understand the importance of filing a tax return. They can be found online at The Money Talks program website. These materials include:

- Complete guide to Tax Credit Outreach
- Outreach tools such as posters, fliers and envelope stuffers in multiple languages
- Free tax preparation site information
- Links to IRS forms and information
- Other tools and information (EITC fact sheet translated into 21 languages)

These materials can be found online at www.eitcoutreach.org. You can also order a 2012 promotional packet through the website, and if you order it once, you should get the packet each year.

The Internal Revenue Service Website:

The IRS website is another excellent resource for obtaining EITC promotional materials as well as specific information regarding qualification for the EITC. The IRS has a main EITC page which includes links to all of the site's EITC resources. The EITC page can be accessed by entering "Earned Income Credit" into the search box at the top of the IRS homepage and then clicking on the recommended search result.

Some of the resources that can be found on the IRS website include:

- Online Tools like the EITC Assistant which helps calculate an estimate of the amount of the taxpayer's earned income credit
- EITC Toolkit for Partners (marketing materials for those who work with taxpayers who may qualify for the earned income credit)
- EITC Marketing Express
- Brochures, posters and other promotional materials that can be downloaded online
- Publications that outline the specific rules to qualify for tax credits
- Forms that taxpayers can download for filing purposes

All of these materials and more can be accessed at www.irs.gov.

Help Minnesota Save:

Help Minnesota Save's website, www.helpmnsave.org, (click the "taxes" link on the left hand side of the page) provides very helpful resources and tools for taxpayers and those who want to educate and promote the tax credits.

The Help Minnesota Save website is of the most comprehensive websites for clear information on tax credits. It also provides links to information about the Volunteer Income Tax Assistance (VITA) sites. This would be an excellent first stop for anyone who wants to learn more about the tax credits and tax resources available in Minnesota.

WHERE TO FIND TECHNICAL TAX INFORMATION

Lawhelpmn.org

On the lawhelp.org website taxpayers can find fact sheets about various tax topics, including detailed information on federal and state tax credits. The fact sheets are meant to provide plain language information about who is eligible for the various credits. The Minnesota Law Help page can be found here:

www.lawhelpmn.org

Click on TAXES tab to get to the tax fact sheets. The fact sheets are available in several different languages.

Internal Revenue Service Website

For those who want more information about tax credits and the rules for qualifying for certain tax credits, the IRS has made information and assistance available online, via phone or in print. Many forms and publications which explain the details of the tax rules can be obtained on the IRS website or at local IRS Taxpayer Assistance Centers. The following materials are the most significant sources of detailed tax information:

- Publication 17 – Your Federal Income Tax;
- Publication 596 – Earned Income Credit – Information for Use in Preparing Tax Returns and Claiming the EITC; and
- Publication 962 - Earned Income Tax Credit with Specific Tax Year Information.

All of these materials and other are available online at www.irs.gov by typing the word “publication” and the number into the search box. They are also available at IRS Taxpayer Assistance Sites and most public libraries.

If a taxpayer has questions about how to prepare their return or about specific items on their tax return they can also call the IRS helpline at (800) 829-1040. A tax specialist with the IRS will walk a taxpayer through the steps to determine if they may be eligible for a particular filing status, deduction or credit.

THANK YOU! Thank you for attending this training and your interest in helping taxpayers! Your assistance in promotion of these credits will help families get the additional financial support they are entitled to.