Tax Tips

Permanent Fund Dividends

Permanent Fund Dividends are taxable to everyone including children. Make sure to report this income on your tax return or, if necessary file a tax return for your child.

You can designate part of this dividend for their education. You can also have federal taxes withheld from your PFD at the time of application.

Impairment Related Work Expenses

The IRS looks at Impairment Related Work Expenses differently than regular medical expenses.

Be sure your tax preparer has entered your Impairment Related Work Expenses as 'Other Miscellaneous Expenses' on your schedule A, not subject to the 2% AGI.

They should be listed on line 27 of your Schedule A instead of Line 1. That means they are deducted dollar per dollar instead of being reduced like other medical expenses.

If the SSA is allowing the IRWE then the IRS will allow it since their definitions are the same.

These expenses along with your other deductions (mortgage interest, property taxes, etc.) will still need to be higher than the standard deduction for your filing status since the IRS allows you the higher of the two.

	2003 Standard Deductions	**+ if age 65 or older or blind**
Married filing joint or Qualified widow(er)	9,500	950
Single	4,750	1,150
Head of Household	7,000	1,150
Married filing separate	4,750	950

Allowable medical miles for 2003 are 12¢ per mile and should be included under Impairment Related Work Expenses or regular medical expenses for maximum benefit.

If self-employed, Impairment Related Work Expenses can be part of your guaranteed payment/compensation contract with the company. To be allowed as an IRWE the expense must be paid for by the worker.

If the company pays for or reimburses you for these expenses they are no longer considered Impairment Related Work Expenses.

Subsidies and Special Conditions

The IRS has established tax credits to employers who hire individuals that have special employment needs.

Welfare to Work Credit

In order for an employer to obtain this credit they need to certify that an individual is a long-term family assistance recipient by filing a form 8850 prior to hiring.

You may want to have a completed form with you at the time of the interview to assist in the hiring process. The credit is calculated as:

1) 35% of the first-year wages on the first $10,000 of wages paid to qualified employees
2) 50% of second-year wages on the first $10,000 of wages paid to qualified employees

Work Opportunity Credit

The work opportunity credit is based on first year wages paid to individuals from specific target groups that have a particularly high unemployment rate or special employment needs.

Included in the target groups are welfare recipients, veterans, ex-felons, high-risk youth, vocational rehabilitation referrals, summer youth employees and Supplemental Security Income (SSI) recipients (while SSI recipients do not qualify for Subsidies a dual recipient or an individual on SSI in SGA determination would qualify for a subsidy) .

Qualified wages include the first $6,000 of wages paid to a target-group employee in the first year of employment ($3,000 in wages for qualified summer youth employees).

The credit equals 40% of qualified wages for employees who work at least 400 hours for the employer. The credit equals 25% of qualified wages for employees who work at least 120 hours but less than 400 hours.

You will still need to fill out a form 8850 in order for the employer to obtain this credit.

An employer cannot claim both the Welfare to Work Credit and the work opportunity credit on the same employee.

Since the government is reimbursing the employer for your wages, you should be able to obtain a subsidy to the extent of the tax credit the employer receives. Document your subsidy with copies of the form 8850 that you gave to your employer at the interview and by having the employer submit a letter or form SSA-3033 stating that they are claiming this credit.

Earned Income Credit

The IRS will allow workers with low income to receive a portion of their federal taxes back in the form of the Earned Income Tax Credit. When you return to work you may be eligible for this tax credit. Generally this credit is available to Working Families with:

1) One Child, AGI less than $29,666 ($30,666 if filing joint return). Maximum credit of $2,547
2) Two Children, AGI less than $33,692 ($34,692 if filing joint return). Maximum credit of $4,204
3) No children, AGI less than $11,230 ($12,230 if filing joint return). Maximum credit of $382. Taxpayers without children must be at least 25 years old but less than 65 years old at the end of the tax year. If married, either spouse can meet the age requirement.

AGI-Adjusted Gross Income includes your wages, PFD, and any other income that is considered taxable by the IRS. Your tax professional can assist you in determining your AGI.

Other requirements include living in the USA for more than six months, and not qualifying as a dependent on any other tax return.

If you are eligible for this credit you may elect to receive it in your paycheck every pay period without it affecting any benefits you might receive based on wages. Wages are generally considered to be gross wages and the Advanced Earned Income Credit is added after the gross wages. This means that it should **not** affect your rental assistance, APA, ATAP, SSI, or any other programs that use gross wages.

Advanced Earned Income Credit

You are eligible to receive advanced EIC payments if all three of the following apply:

1) You expect to have at least one qualifying child.
2) You expect that your 2004 earned income and AGI will be less than $30,338
3) You expect to claim the EIC for 2004.

If you are eligible you will need to complete a W-5 and give it to your employer in January of each year and will be required to file a 1040 to obtain the remaining Earned Income Credit.

Child and Dependent Care Expenses

A portion of your dependent care expenses may be deductible when you return to work.

Work-related expenses qualifying for the child and dependent care credit include expenses for household service for the care of a qualifying individual. Costs of a maid, housekeeper, babysitter or cook ordinarily qualify if they are at least partly for the well-being and protection of a qualifying individual. The qualifying expense includes costs incurred to provide meals and lodging for the in-home provider.

Expenses must be paid so that the taxpayer (or spouse) can work or look for work. Expenses must be prorated if work test is met only part of the year.

Qualifying Individuals include:

1) Person under age 13 who the taxpayer can claim as a dependent.
2) Dependent of the taxpayer who is physically or mentally incapable of self-care
3) Spouse of the taxpayer who is physically or mentally incapable of self-care.

Eligible expenses are limited to the earned income of either the taxpayer or the spouse, whichever is less. If one spouse is a full-time student or disabled, earned income is deemed to be at least $250 per month for one qualifying individual or $500 per month for two or more qualifying individuals. If in the same month both spouses are full time students or disabled, only one spouse is deemed to have earned income for that month.

Credit for the Elderly or the Disabled

You generally cannot take this credit of you have nontaxable social security benefits or other nontaxable pensions that total more than $5,000 for a single taxpayer.

If both spouses are disabled (or over 65) this figure increases to $7,500. If you file separate and lived apart from your spouse for the entire year your nontaxable social security or other nontaxable pensions cannot exceed $3,750.

If your nontaxable benefits are below this amount you should consult your tax professional concerning this tax credit.

Bibliography

Quickfinder handbook, Quickfinder Incorporated, Minnetonka, MN 55345-6637, 1-800-510-8997, www.quickfinder.com