

6th Annual Community Law Day

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Access to Federal Tax Refunds for Nevada Families

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NEVADA LEGAL SERVICES
I N C O R P O R A T E D

A "tax refund" can be much more than a refund.

- A common refund:
 - "I paid \$500 for this TV, but it's a piece of junk. Please pay me my \$500 refund."
- A IRS tax refund:
 - "My spouse and I earned \$24,000 in 2015, we have 3 qualifying children, and we filed a joint tax return. Please pay us our \$9,242 refund."
- The message: the federal government provides critical social benefits through the income tax system.

You have to play to win.

- The family in the example in the last slide can receive a tax refund worth 40% of the income they earned during all of 2015 if they file an accurate tax return by April 15, 2016.
- The family in the example receives no tax refund if they don't file their tax return on time (after April 15, 2016).
- There's a 3-year statute of limitations to file a tax return and get a refund. A missed deadline means no refund.

Most don't have to pay (the preparer!) to play.

- You may receive **free** tax return preparation from IRS-certified volunteers at Volunteer Income Tax Assistance ("VITA") or Tax Counseling for the Elderly ("TCE") sites.
 - irs.treasury.gov/freetaxprep lists local VITA and TCE sites.
 - VITA and TCE have **no reason** to wrongly claim a credit.
- VITA and TCE sites are usually open late January until April 15 every year. In Las Vegas, **two sites are still open!** (Filipino Veterans Group Inc. and Community Services of Nevada.)
- VITA focuses on taxpayers who earned up to \$53,000 in 2014. TCE focuses on taxpayers who are 60 or older.

Filing status matters

If legally married (includes same sex marriage but not registered domestic partnership) on December 31, then must use:

- Married filing jointly
 - Both spouses each responsible for taxes owed, but "innocent spouse" relief may be available.
 - Applies if spouse passed away during the tax year and for two following years if child lives with you for tax year.

OR

- Married filing separately
 - Not responsible for spouse's taxes.
 - Not eligible to receive the earned income tax credit or education credits.
 - Complex since Nevada is a "community property" state.

Filing status matters

If not **legally** married on December 31, then must use either:

- Head of household
 - Must be unmarried or "abandoned spouse" (spouse isn't in household last 6 months of year and qualifying child lives with you for more than half of year)
 - Must provide over half of household financial support.
 - Must share principal residence with your qualifying child for more than half of the year.
 - Only 1 person can claim the same qualifying child!

OR

- Single
 - Not legally married or head of household.

Dependents

- Can be a "qualifying child" or "qualifying relative." Provides a deduction and makes possible the earned income credit, child tax credit, and head of household filing status.
- To qualify, each dependent must have a social security number ("SSN") or individual taxpayer identification number ("ITIN") and be a US, Canadian, or Mexican resident.
- If someone can claim you as a dependent, you can't claim your own exemption (reduces taxable income).

Qualifying child (a dependent)

Must meet all four tests:

- **Relationship:** Son, daughter, stepchild, foster child, adopted child, brother, sister, or a child of these (such as a niece).
- **Age:**
 - Under 19 years old on December 31 (if not a student)
 - Under 24 years old on December 31 (if full-time student for at least 5 months of year)
- **Residency:** Child must have lived with you for more than half of the tax year.
- **Financial support:** Child can't have provided more than half of his or her own support during the year.

Qualifying relative (a dependent)

- "Relative" is defined broadly. It includes ancestors (such as grandparents), siblings, and descendants . (Also includes an unrelated person who lived with you for the entire year.)
- Qualifying relative can be any age.
- You must provide more than half of the qualifying relative's total financial support.
- A qualifying relative can't make more than \$4,000 in gross annual income.

"I thought this class was about tax refunds."

- It is. But eligibility for many crucial tax credits depends on filing status and whether the taxpayer has a qualifying child.
- Examples:
 - Earned income tax credit ("EITC" or "EIC")
 - Child tax credit ("CTC")
- Only claim credits you're entitled to. The IRS can legally force a taxpayer to pay back credits improperly claimed.
 - ***The taxpayer is always responsible for the tax return.***
 - VITA and TCE have no reason to wrongly claim refunds.

Child Tax Credit ("CTC")

What is it?

- A tax credit that helps working parents provide for their kids.
- The maximum CTC amount is \$1,000 per “qualifying child.”

How does it work?

- Eligible taxpayers subtract the child tax credit amount from the total amount of federal income taxes they owe.
- Only 1 person can claim the same qualifying child!

What if I don't owe taxes?

- CTC is **refundable** up to 15% of income above \$3,000.
- This kind of CTC is called an “additional child tax credit.”

"Do I Qualify for the Child Tax Credit ('CTC')?"

- **Relationship:** Son, daughter, stepchild, foster child, adopted child, brother, sister, or a child of these (such as a nephew).
- **Age:** Under 17 years old on December 31.
- **Residency:** Child must have lived with you for more than half of the tax year.
- **Financial support:** Child can't have provided more than half of his or her own support during the year.
- **Citizenship:** Child must be a US citizen, US national, or US resident alien. (Resident of Canada or Mexico isn't enough!)
- **Dependent:** Child must be a qualifying child on tax return.

Earned income tax credit ("EITC" or "EIC")

- Earned income tax credit ("EITC" or "EIC") is a refundable tax credit of up to \$6,242. It can reduce/eliminate IRS taxes, and any unused credit is refunded.
- Only taxpayers who have "**earned income**" qualify for the EITC. Earned income includes wages, salaries, tips, and self-employment income. It doesn't include retirement income.
- A person who qualifies for the EITC must file an accurate tax return on time to receive the credit.
- In 2014, 20% of those eligible for the EITC didn't claim it!

"Do I qualify for the earned income tax credit ('EIC')?"

- Everyone on the return, taxpayer(s) and qualifying child(ren), **must** have a valid social security number. An individual taxpayer identification number ("ITIN") isn't enough.
- Taxpayers must not file as "married filing separate."
- Must have earned income within a certain range. The range depends on filing status and number of qualifying children.

Note: The EIC amount also falls within a certain range.

"I have a qualifying child. Do I qualify for the EIC?"

The child must meet all three tests:

- **Relationship:** Son, daughter, stepchild, foster child, adopted child, brother, sister, or a child of these (such as a grandchild).
- **Age:**
 - Younger than worker (or worker's spouse if filing jointly) **and** under 19 years old (if not a student) or under 24 years old (if full-time student for at least 5 months of year).
 - Any age if permanently and totally disabled.
- **Residency:** Child must have lived with you in the U.S. for more than half of the tax year.
- **Warning: Only 1 person can claim the same qualifying child!**

"I have no qualifying child. Do I qualify for the EIC?"

- You (or your spouse, filing a joint return) must be at least 25 years old but less than 65 years old.
- Your earned income during the tax year must be less than:
 - \$14,820 if single or head of household;
 - \$20,330 if married filing jointly (no EITC if filing separately)
- Can't qualify as the dependent of another person.
- Note: The maximum EITC amount is \$503.

EITC: Income ranges and credit amount ranges

(This information is from www.irs.gov, which has lots of helpful information.)

- Earned income and adjusted gross income must be under:

If filing...	Qualifying Children Claimed			
	Zero	One	Two	Three or more
Single, Head of Household or Widowed	\$14,820	\$39,131	\$44,454	\$47,747
Married Filing Jointly	\$20,330	\$44,651	\$49,974	\$53,267

- The maximum amount of credit for 2015 tax year is:
 - \$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

Detailed example of IRS tax credits' importance

Recall how a tax refund can be far more than a regular refund?

Facts:

- Earned income: \$24,000
- Filing status: married filing jointly
- Qualifying children: 3
- Federal income tax owed: \$0
- Federal income tax withheld: \$0

Refund:

- Total additional child tax credit: \$3,000
- Total earned income tax credit: \$6,242
- **Total refund amount: \$9,242. (That's 39% of the money the family was paid throughout all of 2015!)**

Premium Tax Credit ("PTC")

Created by the Affordable Care Act ("ACA")

The PTC is designed to help low to moderate income people afford health insurance purchased through the Health Insurance Marketplace (also called the Exchange).

You choose how to receive the PTC:

ADVANCEABLE - The credit is paid in advance to your insurance company to lower the monthly premiums you pay.

-OR-

REFUNDABLE - The credit is paid to you when you file your tax return.

"Do I qualify for the premium tax credit ('PTC')?"

Yes, if you meet **all** of these requirements:

- Purchase health insurance through the Marketplace;
- Household income 100–400% of poverty line (depends on family size; aspe.hhs.gov/2015-poverty-guidelines#guidelines);
- Eligible employer-sponsored plan isn't affordable (affordable if you have to spend 9.5% or less of household income);
- Not eligible for government plan, like Medicaid or Medicare;
- Not filing a tax return as married filing separate (exception: certain victims of spousal abuse and spousal abandonment);
- Not be claimed as another person's dependent; and
- Are a US citizen or legally present in the US (not DACA).

Shared Responsibility Payment ("SRP")

Created by the Affordable Care Act ("ACA")

The PTC helps people afford health insurance. The SRP strongly persuades people to get health insurance.

- 2015 penalties for most people:
 - Adults: \$325
 - Children (under 18): \$162.50
 - Family cap: \$975
- 2016 penalties for most people:
 - Adults: \$695
 - Children (under 18): \$347.50
 - Family cap: \$2,085

Note: The penalty doesn't significantly increase after 2016.

What's the takeaway?

*Critical and crucial are words to associate with IRS tax refunds.

- They provide **essential** support to working families.
- It's worth repeating: an eligible working family can receive up to nearly 40% of the income they earned throughout the year by filing an accurate tax return.

*You have to play to win: Filing an **accurate** tax return on time is how tax refunds happen. Missing the filing deadline is how a refund doesn't happen.

*There's free help out there: Between January and April 15, visit a VITA or TCE site for help filing your current tax return.

Nevada Community Tax Services

- Nevada Legal Services, Low Income Taxpayer Clinic: free help with IRS tax disputes for those who qualify.
 - Call 855-657-5489 (toll free) or 702-314-3555.
- Volunteer Income Tax Assistance ("VITA") and Tax Counseling for the Elderly ("TCE") sites: free tax return preparation by IRS-certified volunteers. Usually open January until April 15.
 - irs.treasury.gov/freetaxprep lists local VITA and TCE sites.
 - In Las Vegas, two VITA sites **are still open!** (Community Services of Nevada and Filipino Veterans Group Inc.)
- Taxpayer Advocate Service ("TAS"): free help if your IRS tax problem is causing financial hardship or if an IRS procedure is taking longer than the IRS said it would.

Questions, comment, or concerns?

Nevada Legal Service's Low Income Taxpayer Clinic ("LITC") at 702-314-3555 or 855-657-5489 (toll free).

www.irs.gov and www.taxpayeradvocate.irs.gov

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