

Questions and Answers
About
Tax Deductions
for Disabled Dependents
2007

Prepared by:

J. Grady Gower
Certified Public Accountant
90 West Wieuca Road, N.E.
Suite 101
Atlanta, Georgia 30342-3200
(404) 252-3599

Distributed by:

Georgia Learning Resources System
Metro East Center
2415-C North Druid Hills Road, N.E.
Atlanta, Georgia 30329
(678) 676-2400

January 2008



Foreword

This publication is designed to try to provide current, accurate information to assist parents and guardians in planning for their dependents with disabilities. It is a project of the Metro East Center of the Georgia Learning Resources System. The questions contained in this publication were submitted by parents with such dependents. The answers were prepared by a licensed Certified Public Accountant.

A publication of this type can only give guidelines and general answers to the topics it addresses. It is published with the understanding that the Georgia Learning Resources System network is not engaged in rendering tax advice. If such advice or assistance is required, the service of a competent professional should be sought.

The contents of this publication were developed under a grant from the Department of Education. However, these contents do not necessarily represent the policy of the Department of Education, and you should not assume endorsement by the Federal Government.

Nancy Buice, Director
Metro East GLRS

TABLE OF CONTENTS

TAX DEDUCTIONS	1
WHAT ARE THE TAX BENEFITS OF A DEPENDENCY CLAIM AND WHAT TESTS MUST BE MET IN ORDER TO CLAIM A DEPENDENT?.....	1
WHO MAY ITEMIZE DEDUCTIONS?.....	3
WHAT MEDICAL EXPENSES ARE DEDUCTIBLE?	4
WHEN ARE MEDICAL EXPENSES DEDUCTIBLE?	9
HOW SHOULD MEDICAL EXPENSE INSURANCE REIMBURSEMENTS BE HANDLED?.....	10
WILL LARGE MEDICAL DEDUCTIONS CAUSE A RETURN TO BE SELECTED FOR AUDIT?.....	10
WHO IS ELIGIBLE FOR A TAX CREDIT FOR CHILD CARE EXPENSES AND HOW MUCH IS ALLOWED?	11
WHAT EMPLOYMENT TAXES MAY THE TAXPAYER BE REQUIRED TO PAY?	12
WHAT RECORDS ARE NECESSARY TO SUPPORT DEDUCTIONS AND TAX CREDITS?.....	14
WHAT ARE THE TAX INCENTIVES FOR MAKING PLACES OF BUSINESS MORE ACCESSIBLE TO EMPLOYEES OR PATRONS WITH DISABILITIES?	14
HOW DOES THE TARGETED JOBS TAX CREDIT APPLY TO DISABLED PERSONS?.....	15
WHAT RELIEF FROM INCOME TAX PAYMENTS IS AVAILABLE TO THE TAXPAYER BEFORE AN ANNUAL INCOME TAX RETURN IS FILED?	15
WHERE CAN TAX ASSISTANCE BE FOUND?.....	16

TAX DEDUCTIONS

Parents and guardians of children with disabilities face additional expenses caring for their children. Some of the expenses may qualify as income tax deductions if the expenses are properly documented and if other requirements of the Internal Revenue Code and Regulations are met.

The following information is provided to help parents and guardians of children with disabilities become familiar with expenses that may qualify as deductible medical expenses and with other provisions of the income tax law that may be of particular interest to them. The information relates primarily to federal income tax considerations but includes a few pertinent provisions of Georgia law where there are differences from federal provisions.

WHAT ARE THE TAX BENEFITS OF A DEPENDENCY CLAIM AND WHAT TESTS MUST BE MET IN ORDER TO CLAIM A DEPENDENT?

For tax year 2007, a taxpayer may deduct a personal exemption of \$3,400 for each dependent claimed on his or her federal return. (Georgia allows \$3,000 for each dependent.) However, the federal exemption allowance will be reduced or eliminated for high-income taxpayers whose adjusted gross income exceeds \$234,600 if married and filing jointly; \$156,400 if single; \$195,500 if head of household; and \$117,300 if married filing separately. The amounts of the adjusted gross income thresholds for high-income taxpayers will be reduced by one-third in 2008 and by two-thirds in 2009. After 2009, the exemption phase-out is repealed.

In addition to a personal exemption for each dependent claimed, a taxpayer who itemizes deductions may deduct medical expenses he or she pays for a dependent. Dependency tests must be met before an individual is qualified as a dependent.

1. Support

Over half the support of the dependent must be provided by the taxpayer. SSI payments and social security benefits used for the dependent's support will disqualify the dependency claim if support provided by the taxpayer does not exceed the government payments and

support from any other sources. In addition to specific expenses paid by the taxpayer for the dependent, the taxpayer may count a portion of shared expenses, such as expenses of maintaining a home and the cost of food and transportation, as support provided by the taxpayer.

2. Relationship

With a few exceptions, the dependent must be a blood relative of the taxpayer and must live in the taxpayer's home for more than half the year.

3. Age and Income

The dependent child must be under 19 years of age or under 24 years of age and a full-time student at an qualified educational institution for at least five months of the year. The rule does not apply to a permanently and totally disabled dependent.

If the person does not qualify as a dependent because he or she does not meet the age requirements, he or she may still be claimed as a dependent if his or her taxable income is less than \$3,400 annually. Income not subject to tax, such as the non-taxable portion of social security, SSI or tax-exempt interest, is not counted. A disabled person's income from a sheltered workshop also does not count.

If the person may not be claimed as a dependent because his or her income subject to tax is \$3,400 or greater and yet all other dependency tests are met, the taxpayer will lose the dependency claim but may still deduct the medical expenses paid for the person.

4. Residency

The dependent must be a citizen, national or resident, of the United States or a resident of Canada or Mexico at some time during the tax year or an alien child adopted by and living with a U.S. citizen or national.

5. Joint Return

The dependent cannot personally file a joint return except to claim a refund.

WHO MAY ITEMIZE DEDUCTIONS?

A taxpayer whose allowable personal expenses exceed a standard amount known as the standard deduction may itemize certain personal expenses and deduct the expenses from adjusted gross income. The standard deduction amounts for taxpayers under 65 years of age are:

- ◆ \$5,350 for unmarried individuals;
- ◆ \$10,700 for married individuals who file joint returns and those who file as surviving spouses;
- ◆ \$5,350 for married individuals filing separate returns;
- ◆ \$7,850 for heads of household.

The standard deduction amounts are adjusted annually for inflation and will be higher for taxpayers over 65 and for those who are blind.

Allowable personal expenses that may be itemized include medical expenses of a taxpayer and his or her spouse and dependents; personal residence mortgage interest and qualified investment interest; certain taxes; charitable contributions to qualified organizations; unreimbursed, qualified casualty losses and a few other miscellaneous expenses such as trustee fees, tax return preparation fees, union dues and certain business expenses not deducted elsewhere. If a taxpayer itemizes deductions on his or her federal return, he or she must itemize deductions on his or her Georgia return as well. For 2007 a taxpayer with adjusted gross income over \$156,400 (over \$78,200 if married filing separately) must reduce itemized deductions, excluding medical expenses, investment interest and casualty, wagering and theft losses, by two-thirds of 3% of the difference between his or her adjusted gross income and the limitation amount. The maximum reduction cannot exceed 80% of total allowable itemized deductions, excluding medical expenses and certain other deductions. The limitation will be further reduced for tax years 2008 and 2009. After 2009, the limitation on itemized deductions for high-income taxpayers will be fully repealed.

WHAT MEDICAL EXPENSES ARE DEDUCTIBLE?

The Internal Revenue Code defines medical expenses as any payments made for the diagnosis, cure, alleviation, prevention and treatment of disease or of a dysfunction of the body of the taxpayer, his or her spouse or dependent; transportation costs of a trip primarily for and essential to medical care; medical insurance premiums paid including premiums paid for long-term care not exceeding certain limits.

Specific medical deductions will be explained in categories which follow. There may be expenses which would qualify as medical deductions that will not be covered. To determine if an expense would qualify as a medical deduction, each circumstance should be considered separately with regard for the medical reason of the expense, the medical nature of the service rendered or the use of the item purchased. Medical expenses may be deducted only if they are not reimbursed by medical insurance or a medical plan and if they exceed 7.5% of the taxpayer's adjusted gross income.

1. Medical Insurance Premiums

Medical insurance premiums and health maintenance organization fees paid by the taxpayer during the year are deductible if, together with other medical expenses, they exceed 7.5% of the taxpayer's adjusted gross income. Deductible premiums may include eligible, long-term care insurance premiums that do not exceed certain limits and premiums paid to insure medical equipment. Life, accident and disability insurance premiums are not deductible.

2. Medicine and Drugs

Amounts paid for medicine and drugs prescribed by a doctor may be deducted. Over-the-counter drugs and medicines are not deductible although they may be recommended by a doctor to treat specific medical problems. For example, the cost of aspirin, even if recommended by a doctor to reduce the risk of a heart attack, would not qualify as a deductible medical expense.

3. Medical Fees

Fees of anyone rendering a medical service to alleviate, treat, compensate for or cure a disease or dysfunction of the body may be deducted. Whether the service for which the expense is incurred can be considered medical care will depend upon the therapeutic nature of the service to the individual receiving it. The medical nature of the service will not be dependent upon the title of the person rendering the service, the general nature of the institution where the service is rendered or whether the service can be considered medical for all persons.

In most cases, fees of the following are deductible:

- ◆ Doctors
- ◆ Dentists
- ◆ Nurses
- ◆ Sitters
- ◆ Christian Science Practitioners
- ◆ Chiropractors
- ◆ Osteopaths
- ◆ Podiatrists
- ◆ Psychologists
- ◆ Physical or Patterning Therapists

4. Institutions and Hospitals

Fees paid to hospitals, clinics and medical sanitariums are deductible. Whether fees paid to nursing homes, day care centers or permanent care centers are deductible depends upon whether the patient is there primarily for medical attention he or she receives. If medical care is the major consideration, all the costs of maintaining the patient there including room and board, but not clothing and other personal expenses, are deductible. If the patient is there primarily for the convenience of the taxpayer and medical care received is not a major consideration, the fees are not deductible. The expense might nevertheless qualify for child care credit.

5. Special Aids, Equipment and Other Expenses

The following aids, equipment, supplies and other expenses may be deducted as medical expenses as long as there are medical reasons for incurring the expenses and doctors recommend them.

- ◆ Autoette or wheelchair
- ◆ Excess cost of a specially designed automobile
- ◆ Mechanical lifting device
- ◆ Tape recorder
- ◆ Specially equipped typewriter
- ◆ Special lamp
- ◆ Special writing material
- ◆ Seeing eye dog, hearing aid animal or specially trained canine assistant, and the maintenance of each
- ◆ Device to add fluoride to water or the monthly rental charge of a rented device if recommended by a dentist
- ◆ Special mattress and boards
- ◆ Special food, but only the amount expended that exceeds the cost of a normal diet
- ◆ Oxygen equipment
- ◆ Remedial reading program to correct dyslexia
- ◆ Special telephone
- ◆ Eyeglasses, magnifying devices and other visual aids
- ◆ Artificial limbs and teeth
- ◆ Visual display equipment
- ◆ Braille books and magazines, but only the cost of these items that exceeds the cost of the regular printed edition
- ◆ Cost of air conditioners, elevators, swimming pools if necessary; however, the medical deduction must be reduced by the increase in the value of the taxpayer's home where the equipment is installed
- ◆ Utility and repair bills associated with special equipment

- ◆ Special food and beverages taken in addition to the regular diet if for medicinal reasons
- ◆ Added charge by restaurants to prepare a special menu such as salt-free food
- ◆ Additional cost of chemically uncontaminated food available only at health food stores
- ◆ Additional cost of extra meals if part of recommended diet for patient suffering from hypoglycemia
- ◆ Legal fees necessary to authorize medical treatment
- ◆ Rental of special medical equipment
- ◆ Ambulance service
- ◆ Emergency room fee
- ◆ Specially equipped van, but only the cost of the wheelchair, lift or other special equipment and the installation and maintenance of the equipment; the cost of the vehicle is not deductible
- ◆ Computers used to alleviate or compensate for a specific disability if the computer is specially designed for the medical purpose

6. Transportation and Travel

Local transportation expense to and from doctors' offices, hospitals, sheltered workshops, special schools, therapeutic sessions and the like are deductible. The taxpayer may deduct the actual expense of operating his or her automobile for medical purposes or may deduct a standard rate of \$.20 per mile in addition to parking and toll fees. Actual public transportation expenses such as taxi and bus fares may be deducted.

For distant trips to hospitals and doctors, the taxpayer may deduct actual transportation expenses, including meals and lodging en route, of the patient and of an accompanying parent or companion if it is medically necessary for someone to accompany the patient. The accompanying person must be required to care for the patient and to perform services a nurse might otherwise perform.

If both parents accompany the patient, only the transportation expense of one parent may be deducted. If the patient stays in a hospital or medical facility in a distant city, all costs in addition to transportation may be deducted. Meals and lodging of a companion or accompanying parent, however, may not be deducted. If the patient stays in a hotel, meals may not be deducted and lodging costs are limited to \$50.00 per night for the patient and \$50.00 per night for an accompanying parent or companion.

Transportation and out-of-pocket expenses of attending meetings of a special group of parents of disabled children may be deducted; however, costs of social events are specifically not allowed.

7. Nurse Care in the Home

The cost of nursing care for a disabled dependent is deductible. The person rendering the service need not be a qualified nurse as long as the service is of a medical nature and directly benefits the disabled person. Incidental housework by the nurse would not disqualify the deduction; however, hiring a person for housework to free the taxpayer or the spouse to perform the medical service would not qualify. The person hired must care for the disabled dependent.

Deductible expenses for nurse care may include the cost of room and board of the nurse and social security and unemployment taxes for which the taxpayer will be liable.

8. Special Schools and Classes

According to the Individuals with Disabilities Education Act (IDEA) any child with a disability is entitled to an appropriate, free, publicly supported education.

If the child's education is publicly supported, the parents may deduct out-of-pocket expenses incurred over and above what would usually be paid if the child were not disabled. Special supplies, special equipment and cost of transportation to a special location may be deducted.

If the parents choose a private educational program at the recommendation of a medical doctor or psychologist and if the program is designed specifically to alleviate or treat the

disability, the total cost of the school, including room and board if a required part of the program, is deductible. The cost is deductible only if the disabled child's medical condition is a principal reason for the child's being there. The school must maintain special facilities or resources for physical or psychological therapy and must be regularly engaged in providing services which will be interpreted as medical care. Clothing and other personal expenses of the child are not deductible.

Fees for tutoring by specially trained and qualified teachers, psychological counseling and testing, and therapy programs which are staffed in part by doctors and psychologists are deductible if the services are directed toward a specific medical problem.

9. Special Summer Camps

The cost of sending a disabled dependent to a special summer camp may be deductible. The criteria for the deduction are the same as for special schools. If the summer camp has a specially designed program to treat or alleviate the disorder of the dependent and if the special camp or program is recommended by a qualified person or prescribed by a doctor, the expense may be deducted.

WHEN ARE MEDICAL EXPENSES DEDUCTIBLE?

Medical expenses are deductible for the year in which they are paid. If a medical service is rendered in one year but paid for in the following year, the expense must be deducted on the following year return. Use of a credit card is an exception. If a credit card is used to pay for medical service, the expense may be deducted for the year in which the expense was charged. When the credit card company is paid does not matter.

Generally, advance payments for medical service may not be deducted until the service is rendered. However, payments made for the future life care of a person with disabilities are deductible when paid if a contractual obligation exists for the institution receiving the payment to provide care and for the taxpayer to make current payments.

HOW SHOULD MEDICAL EXPENSE INSURANCE REIMBURSEMENTS BE HANDLED?

Medical insurance reimbursements reduce deductible medical expenses. Only the excess of the medical expenses over the insurance reimbursements may be deducted. If medical expenses have been deducted in the previous year and insurance reimbursements are not received until the current year, the reimbursements must be included as other miscellaneous income in the current year. However, the reimbursement would be included in income only to the extent of the previous year deduction considering the 7.5% adjusted gross income limitation; whether the taxpayer itemized deductions or used the standard deduction; and whether the taxpayer was subject to the high income deduction limitation.

If a medical expense has been incurred in one year and a reimbursement received before a return is filed in the following year, the deduction should not be taken. On the other hand, if it is uncertain whether a reimbursement will be received although a claim has been filed, the expense should be deducted in the first year because it may only be deducted for the year in which it is paid.

WILL LARGE MEDICAL DEDUCTIONS CAUSE A RETURN TO BE SELECTED FOR AUDIT?

Not necessarily. While high itemized deductions are a basis for selection for audit, a return may not be selected if deductions are consistently high from year to year. Perhaps a letter of explanation attached to the return would be advisable. The letter, addressed to the Internal Revenue Service and written by the taxpayer or a medical doctor, should describe the person requiring medical care and the necessity of the care. The letter should describe programs required, specialists and therapists needed, and other additional medical costs that would not ordinarily be required for a person who is not disabled.

WHO IS ELIGIBLE FOR A TAX CREDIT FOR CHILD CARE EXPENSES AND HOW MUCH IS ALLOWED?

Taxpayers who pay someone to care for their disabled dependents of any age in order to work or to look for work may take a non-refundable credit against their income tax for a portion of the expense. If the dependent is in the taxpayer's home for at least eight hours each day, the taxpayer may include expenses for out-of-home care such as a dependent day care center. The center must be in compliance with state and local law.

Taxpayers with adjusted gross income of \$15,000 or less will be allowed a tax credit of 35% of the first \$3,000 of qualified expenses paid for one dependent's care or 35% of the first \$6,000 paid for two or more dependents' care. The credit is decreased gradually for taxpayers with adjusted gross income between \$15,000 and \$43,000. Beyond \$43,000, the credit will be 20% of qualified expenses.

Certain requirements must be met before the credit can be taken.

1. The taxpayer must file a Form 1040, not 1040A.
2. The dependent care expense must be incurred in order for the taxpayer or the taxpayer's spouse to work or search for work.
3. The taxpayer must have income from employment.
4. The taxpayer must maintain a home in which he or she lives with one or more qualified dependents.
5. The taxpayer must file a joint return if married and both parents must work, except for couples living apart and full-time students.
6. The taxpayer must pay someone other than his or her child under 19 years of age. The person paid may be related to the taxpayer but may not be someone the taxpayer may claim as a dependent.

Domestic help may qualify for the child care credit. The person hired must be employed to spend at least part of the time caring for and protecting the qualified dependent. The fact that the domestic employee performs some household chores in addition to caring for the dependent is of no consequence.

The expenses qualifying for the credit are only those incurred in order for the taxpayer or the taxpayer's spouse to work. Expenses of providing household services for the dependent when the taxpayer or the taxpayer's spouse is not working will not qualify. The expenses will have to be allocated and the credit taken only for the work-related expenses.

The child care credit is applicable to earned income only. The amount of the credit cannot exceed earned income. In the case of married couples, the credit cannot exceed the earned income of the spouse earning the least. If one spouse is not working, no credit will be allowed unless the non-working spouse is disabled or a full-time student. In such cases, the law assumes earned income for the nonworking spouse of \$250 per month if there is one qualifying dependent and \$500 per month if there are two or more qualifying dependents.

A final limitation is that the child care credit cannot exceed the taxpayer's income tax liability reduced by certain other credits such as foreign tax credit the taxpayer may have taken.

Some disabled dependent care expenses may qualify as work-related and as medical expense. The proper procedure would be to use as much of the expenses as needed to obtain the maximum child care credit and then use the remainder as medical deductions.

WHAT EMPLOYMENT TAXES MAY THE TAXPAYER BE REQUIRED TO PAY?

If a taxpayer hires someone to care for a dependent in his or her home and pays the individual \$1,500 or more annually, the taxpayer will be liable for social security taxes. The social security tax will be 15.3% of the gross wages (subject to a maximum wage base) paid to a domestic employee during the year. Half of the tax, 7.65% of the gross wages, should be withheld from the domestic employee's wages and, if not withheld, will be additional taxable wages to the employee. Social Security taxes should be reported annually to the Internal Revenue Service when a taxpayer files his or her personal income tax return. The taxpayer reports the liability on Schedule H attached to his or her return. The social security taxes are added to the personal income tax liability of the taxpayer and the full amount is due by April 15, the filing date. To avoid a penalty for underpaying tax, a taxpayer who is obligated to pay social security taxes for domestic employees must withhold additional tax during the year or

make quarterly estimated tax payments that will cover his or her regular tax liability as well as his or her federal employment tax liability.

Federal unemployment tax will be due if the taxpayer pays a domestic employee \$1,000 or more during a calendar quarter. The tax rate is usually .8% of the first \$7,000 paid to a domestic employee by a Georgia taxpayer. If the taxpayer becomes liable for federal unemployment tax, he or she will be required to pay the tax on all domestic employees, including those who are paid less than \$1,500 annually. The rules are different for social security and unemployment tax liabilities.

At the end of the calendar year, the taxpayer will be required to issue W-2 forms to all domestic employees who are paid \$1,500 or more annually. An employer identification number will be needed. The taxpayer's social security number cannot be used to identify the payer of taxable social security wages. The employer identification number can be obtained by mailing, or transmitting by facsimile, a completed Form SS-4 to the Internal Revenue Service. The number can also be obtained by telephone.

Georgia unemployment tax will be due if a taxpayer pays a domestic employee \$1,000 or more in a calendar quarter. The tax in Georgia is usually 2.7% of the first \$8,500 paid to each employee in a calendar year. The rate will be reduced over time for those employers who have few or no claims for unemployment compensation by terminated employees.

The Georgia unemployment tax must be paid annually. A special account number must be obtained from the Georgia Department of Labor by filing an employer status report as soon as an employer pays or becomes aware he or she will pay a domestic employee \$1,000 during a calendar quarter. The status report can be obtained from the Georgia Department of Labor. The Georgia Department of Labor and the Internal Revenue Service share annual information. It will not be possible to avoid either tax if the other is being paid.

Failure to properly report and pay employment taxes may result in severe penalties. If no returns are filed and at some future time taxes are determined to be due, the taxes will have to be paid in full with penalties as much as 100% of the tax due.

Social security taxes and unemployment taxes paid for domestic employees caring for disabled dependents may qualify as deductible medical expenses.

WHAT RECORDS ARE NECESSARY TO SUPPORT DEDUCTIONS AND TAX CREDITS?

Records should be carefully maintained to indicate:

1. date of payment;
2. name and address of the person providing the service;
3. description of the service;
4. amount paid; and
5. person benefiting from the service.

Paid bills and canceled checks are the best evidence. The paid bills indicate medical expenses were actually incurred for qualified dependents, the taxpayer or the taxpayer's spouse. Canceled checks are evidence of payment of the medical expenses. If the taxpayer always pays medical expenses by check, loss or the evidence necessary to support the medical expenses will not result in the taxpayer's losing the tax deduction. Medical invoices can be reproduced by providers, and banks and other organizations maintain front and back copies of all canceled checks.

WHAT ARE THE TAX INCENTIVES FOR MAKING PLACES OF BUSINESS MORE ACCESSIBLE TO EMPLOYEES OR PATRONS WITH DISABILITIES?

Anyone who owns a business may deduct the cost of removing certain architectural and transportation barriers to improve accessibility for people who are disabled. The deductible amount is limited to \$15,000 per year. The remainder of the cost of the alterations may have to be capitalized and depreciated by the owner.

A small business with gross receipts of less than \$1,000,000 and with no more than 30 full-time employees in the preceding tax year may claim a tax credit of 50% of the cost of qualified barrier-removal expenditures made to its premises. Expenditures must be made to remove existing architectural and transportation barriers that impede access to elderly or disabled persons. Expenditures that qualify must meet standards established by Internal Revenue Service Regulations and must range between \$250 and \$10,250 annually.

Expenditures exceeding the annual limit may be claimed as a deduction for the removal of barriers up to the annual limit of \$15,000.

HOW DOES THE TARGETED JOBS TAX CREDIT APPLY TO DISABLED PERSONS?

A tax credit is available to an employer who has hired an individual who has been certified disabled by a designated local agency and who is participating in a qualified vocational rehabilitation program. The maximum credit is 40% of the first \$6,000 paid to a qualified, disabled employee for first-year wages. The employee must begin work before September 1, 2011. He or she must complete at least 400 hours of service for his or her employer.

WHAT RELIEF FROM INCOME TAX PAYMENTS IS AVAILABLE TO THE TAXPAYER BEFORE AN ANNUAL INCOME TAX RETURN IS FILED?

If large itemized deductions due to high medical expense or the child care credit result in unusually large refunds each year, the taxpayer may be able to claim additional exemptions from income tax and reduce the amounts withheld from monthly payroll checks. Federal Form W-4 should be used to determine if the taxpayer is eligible to claim additional exemptions. The taxpayer should keep in mind that a penalty may be imposed if at least 90% of the taxpayer's tax liability has not been paid by the end of the year.

An earned income tax credit is available to a low-income taxpayer who has earned income, who meets modified adjusted gross income limitations and who meets disqualified income limits. The credit is refundable if it reduces the income tax liability below zero and can be received in advance through periodic paychecks from the taxpayer's employer. Form W-5 should be used by an employee to notify an employer the credit is to be added to periodic wage or salary payments. The credit increases from a very low income level to a maximum amount depending upon the number of exemptions claimed and is phased out as income increases. The earned income levels and phase-out levels are adjusted annually for inflation.

The maximum credit for tax year 2007 is as follows:

No. of Qualifying Children	Credit Percentage	Earned Income	Maximum Credit
1	34%	\$ 8,390	\$2,853
2 or more	40%	11,790	4,716
None	7.65%	5,590	428

WHERE CAN TAX ASSISTANCE BE FOUND?

The Internal Revenue Service offers free tax preparation assistance at various local and regional offices. Agents will review returns prepared by taxpayers or will assist with the preparation of returns for taxpayers. In addition, the IRS maintains toll-free numbers to receive calls from taxpayers and answer questions.

Tax preparation assistance is available for fees from companies such as H & R Block and from individual preparers. Only individuals qualified by special IRS examinations may represent taxpayers in audits by the IRS.

Certified Public Accountants offer tax preparation and planning services. CPAs can represent taxpayers in audits by the IRS and can appeal decisions to the Appellate Division at the regional office.

Only attorneys can represent taxpayers in court if appeals should proceed that far. Attorneys offer tax planning services and only attorneys can draft wills, trust agreements, guardianship agreements and other legal documents.