



Money Back in Michigan



**“Returning tax dollars to low-income
Michigan households”**

Tax Year 2007

*An outreach effort sponsored by the Michigan League for Human Services with support from the
Ford, W. K. Kellogg and Charles Stewart Mott Foundations and local United Ways.*

Money Back in Michigan

SAMPLE NEWSLETTER ARTICLE

FEDERAL AND STATE TAX CREDITS CAN RETURN DOLLARS TO LOW-INCOME MICHIGAN HOUSEHOLDS

Low-income taxpayers can benefit from a variety of federal and state tax credits, all of which can help to reduce taxes owed or provide refunds to the taxpayer. These tax credits can significantly increase the financial resources available to low-income households—many of whom struggle to make ends meet while also bearing a heavy tax burden.

The federal tax credits include the Earned Income Credit, the Dependent and Child Care Credit and the Child Tax Credit. Michigan tax credits include the Home Heating Credit, the Homestead Property Tax Credit, and the Child Deduction. These credits are available to individuals who file income tax returns as well as those who are exempt from filing requirements. In addition, some credits are retroactive and can be claimed after the normal income tax filing deadline of April 15th.

The assistance provided through these tax credits can make a difference in the lives of poor families. Agencies and organizations across the state can help low-income taxpayers benefit from these credits by participating in outreach efforts that may include distribution of informational materials, (including articles in newsletters), convening meetings and training sessions and setting up taxpayer assistance clinics during the tax filing season. Outreach should include educating low-income tax filers on the drawbacks of using expensive rapid-refund services that diminish the size of their refund. Free and ethical taxpayer assistance is available in most communities.

The Michigan EITC Statewide Coalition has established a website (www.michiganeic.org) to assist tax filers, service providers, and volunteers. Filers can visit the website to find out more about the EITC and whether they qualify, and if they earn under \$50,000, they can use the website's free I-CAN E-File program to prepare and file their taxes online. Filers and volunteers can find out about free Volunteer Income Tax Preparation (VITA) sites in their communities by going to the website or by calling 2-1-1. (*Note: If your organization is not located in a county with 2-1-1 service, substitute 1-800-552-1183 for 2-1-1 in your article.*)

Your EITC refund belongs to you, not a tax preparer.

**Don't pay for tax preparation services!
Don't pay for quick refunds!**



Many people do not fill out their tax forms themselves. They pay a tax preparer to do it for them. Unfortunately, that costs money. It costs \$55-\$100 to pay a tax preparer to help you fill out your forms. If you want a quick refund (which is really a high interest loan), that will cost another \$30-\$100. Do you want to spend your EITC this way?

**Don't put
your
refund in
some-
one
else's
pocket!**

Keep Your Money

If you expect a large EITC refund, then paying up to \$200 for a quick refund may not seem like a lot of money. However, it is your money. Think about what you could use it for.

Fortunately, you have three other choices:

- 1) Fill out the forms yourself. The instructions for completing the tax forms include worksheets and tables. You can get these for free from the post office, libraries and other locations, or call **1-800-TAX-FORM**.
- 2) Fill out your taxes online for free by going to www.michiganeic.org and clicking "I-CAN" on the left-hand side.
- 3) Find out where you can go for tax help by calling 2-1-1. (If no answer, call **1-800-552-1183**.)

The Federal Earned Income Tax Credit (EITC)

Tax Year 2007 Fact Sheet

What is the EITC?

- ✧ It is a tax break for working families and individuals.
- ✧ The EITC is part of the federal tax code and is similar to a tax refund.
- ✧ It is designed to reduce the tax burden on struggling families and supplement the wages of low- and moderate-income workers.
- ✧ The EITC helps low- and moderate-income workers support their families, encourages a higher participation of those already in the work force, and rewards individuals who find employment.

Who Can Claim the EITC?

- ✧ Single or married people who worked at some point in 2007, self-employed workers, cash assistance recipients with earned income, and legal immigrants can all qualify for the EITC, depending on their income.
- ✧ Workers whose earnings are too small to have paid federal taxes can still get money back because the EITC is a refundable tax credit. Receiving the tax credit is contingent upon filing a tax form.
- ✧ Individuals who file as *single, head of households, or married filing jointly* may receive the EITC. It is not available to taxpayers who file as *married filing separately*.

How Can a Worker Claim the EITC?

- ✧ Workers raising children in 2007 must file either Form 1040 or 1040A and must fill out and attach Schedule EIC. Workers who were not raising children in 2007 can file any tax form including the 1040EZ.
- ✧ Married workers must file a joint return to get the EITC.

- ✧ Workers who are raising children can get part of their EITC benefits in their paychecks throughout the year and part in a check from the IRS after they file their tax return. This is called the *Advance Payment Option*. Workers who are interested in the Advance Payment Option should talk to their employers. Businesses are required by law to provide advanced EITC payments upon request, using a W-5 Earned Income Credit Advance Payment Certificate.
- ✧ Workers can claim the EITC for the current year and the previous three tax years.

How Much Can a Worker Get Back Through the EITC?

- ✧ The EITC supplements the wages of low-income workers while taking into account their wages and the number of children under their care.
 - Workers who raised one child and had earnings of less than \$33,241 (single) or \$35,241 (married) in 2007 can get an EITC of up to \$2,853.
 - Workers who raised more than one child and had earnings of less than \$37,783 (single) or \$39,783 (married) in 2007 can get an EITC of up to \$4,716.
 - Workers who did not care for a child in their home, but were at least age 25 and under age 65 on December 31, 2007 and had earnings below \$12,590 (single) or \$14,590 (married), can get an EITC of up to \$428.

Which Children Can Be Counted for EITC Purposes?

- ✧ Qualifying children must be under age 19, under age 24 if they are full-time students, or any age if they are totally or permanently disabled.

- ✧ Sons, daughters, stepchildren, grandchildren, and adopted children are all considered qualifying children as long as they lived with the taxpayer for more than half the year.
- ✧ Nieces, nephews, children of a friend, or foster children placed by an agency are considered qualifying children if they lived with the taxpayer in the U.S. more than half the year, were cared for as if they were members of the family, and are not claimed on another person's tax return.
- ✧ A valid social security number is required for any qualifying child born before December 31, 2007.

What About Errors in Claiming the EITC?

- ✧ To reduce EITC error and fraud rates, the IRS now verifies the Social Security numbers for all parents and children claiming the EITC.
- ✧ If a worker claims the EITC and the IRS finds out that taxes are owed, the filer must pay whatever is owed. However: (1) the EITC may be enough to cover the taxes owed; (2) the IRS is usually willing to work out payment plans for back taxes; and (3) the filer may be able to make an "offer in compromise" that is less than the tax bill.

How Can EITC Refunds Be Used to Build Savings?

- ✧ Beginning in 2007, filers can now use direct deposit to split a part of their refund into a bank account or IRA. File Form 8888 with the tax return. For more information, go to www.splitrefunds.net.

Does the EITC Affect Public Assistance Benefits?

Generally, no. The EITC is not counted as income when determining eligibility for FIP cash assistance, Medicaid, Food Stamps, Supplemental Security Income, or federally assisted housing programs. For certain programs, there may be specified deadlines by which the benefit must be spent.

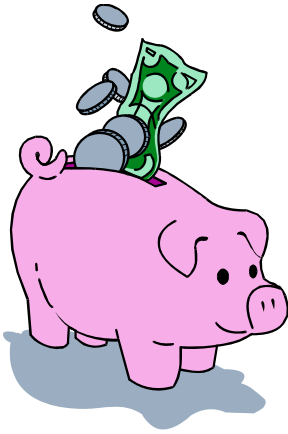
Additional Tips

1. The use of rapid refunds offered by commercial tax preparers is discouraged. They are high interest loans that reduce the amount of money going into the pockets of hardworking taxpayers who need the extra money the refund provides.
2. The Michigan EITC Statewide Coalition offers a website, www.michiganeic.org, that explains the Earned Income Tax Credit in detail and can help filers determine whether they are eligible for the credit.
3. VITA (Volunteer Income Tax Assistance) sites exist to help people fill out their tax forms for free. To find the nearest VITA site go to www.michiganeic.org or call 2-1-1. (If no answer, call **1-800-552-1183**.)
4. Families who qualify for the EITC may also be able to receive other tax credits such as the Michigan Homestead Property Credit, the Federal Child and Dependent Care Credit, the Michigan Home Heating Credit and federal and state child credits and deductions.
5. Credit unions and Michigan Works! Agencies are offering a free web-based tax filing service called I-CAN!E-File. Written at a fifth-grade level, I-CAN!E-File allows filers to e-file federal and state tax returns on their own at no cost. Go to www.michiganeic.org and click on I-CAN!E-File.

Remember...

If you earn less than \$50,000, you can file your taxes online for free using I-CAN!E-File at <http://www.michiganeic.org>

FEDERAL EARNED INCOME TAX CREDIT



(Tax Year 2007)

Could You Use Money Back From Your Earned Income?

What is it?

The **Earned Income Tax Credit (EITC)** is part of the federal income tax code. It is designed to supplement wages, and to reduce the tax burden on low- or moderate-income workers. 682,346 working families in Michigan claimed a total of more than \$1.29 billion in tax credits through the EITC for tax year 2006.

Who Qualifies?

The EITC is available to low- and moderate-income married or single workers (with or without children) who meet the income requirements. Workers may qualify if they worked full- or part-time in 2007. **A qualifying child is a child who is under age 19 at the end of 2007, or under age 24 if a full time student, or any age if totally and permanently disabled.** (This is different from the qualifying rules of the Federal Child Tax Credit.)

How Does it Work?

Depending on eligibility and income level, workers eligible for the EITC either get money back or pay less in taxes:

- ✧ Eligible workers raising one qualifying child in the home with adjusted gross income of less than \$33,241 (single) or \$35,241 (married) in 2007 can get an EITC of up to \$2,853.
- ✧ Eligible workers raising more than one qualifying child in the home with adjusted gross income of less than \$37,783 (single) or \$39,783 (married) in 2007 can get an EITC of up to \$4,716.
- ✧ Eligible workers who were not raising children in their home, but who were at least age 25 and under age 65 on December 31, 2007 and had an adjusted gross income of less than \$12,590 (single) or \$14,590 (married), can get an EITC of up to \$428.

How Do You Get the Credit?

- ✧ Workers raising children in 2007 must file Form 1040 or 1040A and **must** fill out and attach schedule EIC; married workers must file a joint return to get the EITC. Workers with children cannot get the EITC if they file Form 1040 EZ, known as the “Easy Return,” or fail to attach schedule EIC.

- ✧ Workers not raising children in 2007 can file any tax form, including Form 1040 EZ.
- ✧ Workers raising children can get part of their EITC in their paychecks throughout the year with the advance payment option by completing Form W-5.

Do You Need Help With Your Claim?

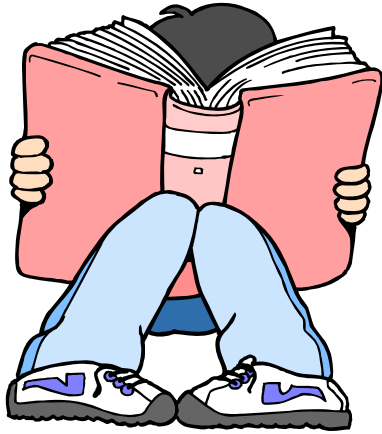
For information on where you can go for free tax assistance, please call 2-1-1. (If no answer, call **1-800-552-1183**.)



Remember...

Avoid commercial tax preparers offering “rapid refund” packages. They often charge a high fee, taking a large percentage of your EITC refund. If you need assistance with your income taxes, try to locate a free VITA program near you by calling 2-1-1 or **1-800-552-1183**.

FEDERAL CHILD TAX CREDIT



(Tax Year 2007)

Would a Reduction in Federal Taxes Help You?

What is it?

The **Federal Child Tax Credit (CTC)** is for taxpayers raising dependent children under age 17. The CTC can give a family back some or all of any additional income tax still owed at the end of the year.

Who Qualifies?

The Federal Child Tax Credit is available for families whose children meet the following criteria:

- ✧ A qualifying child must be the tax filer's own child, a relative cared for as the tax filer's own child, or a foster child placed by an agency, and must have lived with the filer for more than half the year.
- ✧ The child must have been under age 17 for the entire 2007 tax year.
- ✧ The child must be a U.S. citizen with a valid Social Security number, or a resident alien with an Individual Taxpayer Identification Number (ITIN).

(Note: The child is no longer required to be a dependent of the filer; however, if a filer claims a qualifying child who is not a dependent, he or she must complete Form 8901).

How Does it Work?

- ✧ Taxpayers must have taxable earned income over \$11,750 in 2007 to qualify for a refund. Single parents with income up to \$75,000; married parents with incomes up to \$110,000 (filing jointly), or \$55,000 (filing separately), first apply a Federal Child Tax Credit of \$1,000 per child to reduce or eliminate their tax liability. Families who still have CTC remaining after their tax liability has been eliminated may receive a refund in the lesser of two amounts: 1) the amount of CTC that remains, or 2) 15 percent of the family's earned income over \$11,750.
- ✧ Filers with children who receive the Earned Income Tax Credit (EITC), and who owe income tax, may also receive the CTC. The Child Tax Credit will not reduce benefits from the EITC.
- ✧ Many filers received an advance payment on their Child Tax Credit during 2007. Workers who received an advance payment on their Child Tax Credit must deduct this amount on their tax form. Taxpayers who received a credit that is smaller than the amount they

received in advance, or who no longer qualify for the credit, are not required to pay back the refund.

✧ Filers with three or more children, and some other filers, are eligible to take the “Additional Child Tax Credit”. Filers can determine if they are eligible by filling out the CTC worksheet. Filers claiming the additional credit must also complete IRS Form 8812.

How Do You Get the Credit?

✧ To claim the credit, workers must file Form 1040 or 1040A, which include a detailed Child Tax Credit Worksheet. Since the worksheet is fairly complicated, they should be encouraged to seek assistance from a free Volunteer Income Tax Assistance (VITA) site near them. Workers claiming the Child Tax Credit cannot use the 1040 EZ.

Do You Need Help With Your Claim?

For information on where you can go for free tax assistance, please call 2-1-1. (If no answer, call **1-800-552-1183**.)



Remember...

Workers who know they will be eligible for the Federal Child Tax Credit in 2008 can arrange to have less income tax withheld from their pay, since the credit reduces their income tax. This can increase their take-home pay throughout the year.



FEDERAL CHILD & DEPENDENT CARE CREDIT

(Tax Year 2007)

Could You Use Help with the Cost of Providing Care for a Child or Dependent Relative?

What is it?

The **Child and Dependent Care Credit** is a federal tax benefit designed to assist families with the cost of care for children or other dependent relatives.

Who Qualifies?

Families can claim this credit if:

- ✧ They paid for care in 2007 for a child under 13 or a disabled adult; **AND**
- ✧ They needed the child or dependent care to work or look for work; **AND**
- ✧ They paid over half the cost of keeping up their home (rent, food, etc.); **AND**
- ✧ They paid less for dependent care than their 2007 income.

How Does It Work?

Families can claim only a limited amount of their care expenses. Eligible families will receive a credit worth

between 20 percent and 35 percent of these expenses, depending upon income.

- ✧ Families with one child or dependent can claim up to \$3,000 and receive a credit of up to \$1,050.
- ✧ Families with more than one child can claim up to \$6,000 and receive a credit of up to \$2,100.
- ✧ The credit will reduce the amount of taxes owed.

(Note: Families earning too little to pay federal income taxes cannot use this credit).

How Do You Get the Credit?

In order to receive the tax credit, filers must use federal Form 2441 and attach it to the federal Form 1040 or 1040A (Schedule 2).

Do You Need Help With Your Claim?

For information on where you can go for free tax assistance, please call 2-1-1. (If no answer, call **1-800-552-1183**.)

Remember...

The Child and Dependent Care Credit is available to any family with tax liability that pays for the care of a child or other dependent, regardless of income.

STATE CHILD DEDUCTION



(Tax Year 2007)

Would You Benefit From a Reduction in Your State Taxes?

What Is It?

The **State Child Deduction** is a deduction for Michigan taxpayers raising children under 18 years of age.

Who Qualifies?

Taxpayers who claim children as dependents on their federal income tax form qualify if the children are under age 18 as of December 31, 2007.

How Does It Work?

A deduction of \$600 can be claimed for each child up to 18 years of age whom you can claim as an exemption.

How Do You Get the Credit?

Families must fill out a MI-1040 income tax form. The MI-1040 EZ form cannot be used.

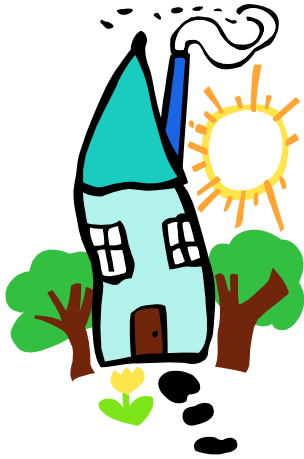
The State Child Deduction is not a deduction for the cost of child care. It is available to taxpayers raising children, regardless of whether they have child care costs.

Do You Need Help With Your Claim?

For information on where you can go for free tax assistance, please call 2-1-1. (If no answer, call **1-800-552-1183**.)

Remember...

This is referred to as an exemption on the tax form MI-1040, line 9 (d) for tax year 2007.



STATE HOMESTEAD PROPERTY TAX CREDIT

(Tax Year 2007)

Could You Use Money Back From Your Homestead Property Tax?

What Is It?

The **Homestead Property Tax Credit** is a state benefit available to eligible Michigan residents who pay high property taxes in relation to their income.

Who Qualifies?

Filer's who own a home may qualify for a Homestead Property Tax Credit if:

- ✧ The homestead (i.e., the principle place of residence) is in Michigan;
- ✧ The filer lived in Michigan for at least 6 months in 2007;
- ✧ The filer pays property taxes or rent on a Michigan homestead; and
- ✧ The filer's income is below \$82,650.

How Much is the Credit?

The amount of the credit depends on the amount of income—\$1,200 is the maximum credit. The computed credit is reduced by 10 percent for every \$1,000 (or

part of \$1,000) that the household income exceeds \$73,650. The Homestead Property Tax Credit can be used to reduce the amount of taxes owed or it can be issued as a refund.

How Do You Get the Credit?

- ✧ Applicants must use Form MI-1040CR. An applicant should complete both Form MI-1040CR and Form MI-1040CR-2 if the applicant is any of the following:

- blind and owns a homestead
- active in the military
- an eligible veteran

Applicants who complete both forms should return whichever form gives a larger credit.

Do You Need Help With Your Claim?

For information on where you can go for free tax assistance, please call 2-1-1. (If no answer, call **1-800-552-1183**.)

Remember...

Homeowners do not have to file a Michigan income tax return in order to qualify for the credit. Homeowners can file a credit claim as soon as they know their household income and property taxes for 2007.

STATE HOME HEATING TAX CREDIT



(Tax Year 2007)

Could You Use Help Paying for the Cost of Heating Your Home?

What Is It?

The **Home Heating Tax Credit (HHTC)** is a state benefit available to eligible low-income households to help offset the cost of heating their homes. Cash assistance recipients and persons who receive other public assistance may be eligible for the credit if they owned or rented a homestead in 2007. (Form MI-1040CR-7 must be used to claim the credit.) More information about heating assistance can be found at www.michigan.gov/heatingassistance.

Who Qualifies?

Michigan residents qualify if they own or rent a homestead in the state and their income is below the income limit. Residents of congregate care facilities (i.e. adult foster care homes, nursing homes, homes for the aged and substance abuse treatment centers) are ineligible.

How Does the Credit Work?

The credit is based on: 1) household income; 2) the number of exemptions claimed; and 3) the actual home heating costs. The following tables can be used to determine eligibility for the credit. Filers who are

eligible under both methods, can claim the largest amount.

Standard Allowance Using the Standard Credit Computation		
<i>Your Exemptions</i>	<i>Maximum Credit</i>	<i>Income Limit</i>
0 or 1	\$394	\$11,243
2	528	15,072
3	662	18,900
4	796	22,729
5	930	26,558
6	1,064	30,386
	+ \$134 for each exemption over 6	+\$3,829 for each exemption over 6

Exemptions and Maximum Income Using the Alternative Credit Computation	
<i>Your Exemptions (from line 1.1)</i>	<i>Maximum Income</i>
0 or 1	\$12,263
2	\$16,502
3 or more	\$20,282

What Are the Available Exemptions?

Residents may claim **one** exemption for each of the following:

- ✧ Self, unless claimed as a dependent on someone else's return;
- ✧ The filer's spouse;
- ✧ The filer's children who live with the worker;
- ✧ Any other dependent of which the filer has custody and for whom the filer furnishes more than half the support.

Seniors (age 65+) and disabled individuals may be eligible to claim an additional exemption.

Do You Need Help With Your Claim?

For information on where you can go for free tax assistance, please call 2-1-1. (If no answer, call **1-800-552-1183**.)

You may also call 1-800-827-4000 to check the status of your claim, and 1-800-373-3742 if you have questions about your energy draft.

How Do You Get the Credit?

- ✧ Filer's who pay their heating bills themselves, under their own name will be sent an energy draft (voucher). The draft must be sent to the energy provider, who will apply the draft amount to the outstanding balance.
- ✧ Renters who have heat included in the rent will be sent a check for one-half of the credit amount.
- ✧ If a filer is a DHS recipient whose heat is provided by DTE Energy, Consumers Energy or SEMCO Energy Gas, the home heating credit will be sent directly to the worker's heat provider.

Note: If the credit amount exceeds the filer's heat account balance, the filer may receive a refund from the heat provider for the overpayment, if eligible. (To be eligible, the filer must have no outstanding balance with the heat provider and must not have received heat assistance in the past 12 months.) If not eligible, the excess refund will be applied toward future bills. If, after nine months, a refund balance still remains on account with the heat provider, the heat provider will issue a refund.



Remember...

A filer does not have to pay income tax or file a regular MI-1040 income tax form in order to get a Home Heating Tax Credit for 2007. Applications (MI-1040CR-7) can be filed as early as January 1, 2008 for tax year 2007, but filers must file before September 30, 2008. Those who file before April 17, 2008 receive priority in processing.

Money Back in Michigan

SAMPLE NEWSLETTER ARTICLE

LOW-INCOME FAMILIES CAN GET RELIEF WITH HOME HEATING EXPENSES

Due to the high cost of oil and natural gas, Michigan families and individuals are facing enormous home heating expenses this winter. In Michigan, these costs especially harm low-income working families, who may be forced to forgo other necessities in order to pay their monthly heat bills. Many of these families have young children, who are particularly impacted by the financial strain arising from monthly energy costs.

To help offset some of these expenses, the State of Michigan provides a Home Heating Credit to Michigan residents. The credit is available to both homeowners and renters, who can receive the credit even if they do not owe any Michigan income tax and do not file an income tax form for 2007. (The form used to claim the credit is separate from the Michigan income tax form.)

Residents who pay their heating bills themselves get the credit in the form of an energy voucher, which must then be sent to their heat provider. Renters who have heat included in the rent receive a check for half of their credit amount, while recipients of the Family Independence Program have their credit sent directly to the heat provider.

Unlike most tax credits, which need to be claimed on tax forms filed before April 15, the home heating credit can be filed as late as September 30, 2008. Agencies and organizations that serve low-income people are encouraged to make their clients aware of the credit and to assist them in filing for the credit if needed. Filers can also receive assistance through the Michigan Statewide EITC Coalition's website (www.michiganeic.org) or toll-free phone number if they file during tax season.