Wi$e Up Teleconference Call
March 31, 2006
Understanding Taxes: Make the Most of Your Return
Speaker 3: Robin Taylor

Cindy Henning: I am Cindy Henning, and I’m the Program Development Specialist out of Region 4 in the Atlanta area.

And it’s my pleasure to introduce Robin Taylor. As Jeff already indicated earlier, Robin is a CPA. And Robin has been a member of the Georgia Society of CPAs for a very long time.

He works with the IRS, and he’s been with IRS since 1983. He currently is a Senior Tax Analyst in Stakeholder Partnerships, Education and Communication. As a Senior Tax Analyst, he develops partnerships with key national organizations that have potential for making significant contributions to local communities in the areas of outreach, free tax return preparation and asset building strategies.

Prior to becoming a Senior Tax Analyst with the IRS, Robin held several positions in the Examination Division - that would be within the IRS. He has been the Examination Manager. He’s also done large case international examination. He’s been a revenue agent, a classroom instructor, and an on-the-job instructor.

It is certainly my pleasure to introduce to you Robin Taylor.

Robin?

Robin Taylor: Thanks, Cindy. And on behalf of the IRS, I appreciate the opportunity to speak with you today.
What I’d like to talk about is a few tax credits. You’ve reported your income, taken any deductions that you are entitled to. You’ve computed your taxes, and now you’re at a point where your taxes are higher than you expected or wanted them to be. And so…

I’m getting a lot of feedback. Can you all hear me okay?

Cindy Henning: We can now.

Robin Taylor: Okay. Great.

But anyway, we’re at the point where you’ve computed your taxes and you’re looking for some alternatives to reduce them. And that’s where tax credits come into place.

A tax credit is a dollar for dollar reduction of taxes owed as opposed to when you have a deduction, you’re reducing your taxable income and then computing your taxes; while the credit reduces the taxes dollar for dollar.

Some credits are refundable to the point where the taxes could be reduced to the point of receiving a refund rather than owing any taxes.

The first credit I’d like to talk about is the Earned Income Tax Credit. And it’s a refundable credit for low to moderate income individuals that work. It’s based on the amount of your earned income and whether or not there are qualifying children in your household. And taxpayers who qualify and claim the credit can receive the credit even if their tax liability is zero.
Now with the Child Tax Credit, you may be able to reduce your federal tax income owed by up to $1,000 for each qualifying child under age 17. A qualifying child would be someone that you’re able to claim as a dependent on your tax return. They were under age 17 at the end of 2005, and they have to bear a relationship to you such as son, daughter, adopted child or grandchild or stepchild, and they are US citizens.

Now this credit is limited to the modified adjusted gross income at a certain level, depending on your filing status. On a person that’s married, filing a joint return, at the point where your income reaches $110,000, then that credit begins to phase out and you begin to lose some benefit of the credit.

If you are single or a head of household filing status, then at the point your income is $75,000, the credit begins to phase out.

And if you are considered -- if you are a lower income individual, then even if your tax is reduced down to zero you maybe entitled to a partial refund of the child tax credit where in normal cases, it’s not refundable.

The next thing, if you pay someone to take care for - take care of your child who is under the age of - age 13 so you could work or look for work, then you may be able to claim the child and dependent care credit on your federal tax return.

Now, this credit is a percentage of the amount of work-related child and dependent care expenses you pay to a care provider. The credit can be anywhere in the range of 20% to 35% of your qualifying expenses depending upon your income.
And for 2005, you may be able to use up to $3,000 of the expenses that you paid for one qualifying individual or $6,000 for two or more qualifying individuals. And these dollar limits, they must be reduced by the amount of any dependent care benefits that were provided by your employer that you excluded from your income.

The next credit that I want to touch on is the Retirement Savers Contribution Credit. Now this is a non-refundable credit. If you make eligible contributions to a retirement plan, qualified employee retirement plan or an individual retirement account, then you may be able to take this credit.

This credit applies to individuals with incomes of up to $25,000 if you are single and incomes up to $50,000 if you’re married filing a joint return. You also must be at least 18 years of age, not a full time student, and you cannot be claimed as a dependent on another person’s return.

The credit amount is up to $1,000 for a single person, $2,000 in the case of a married person filing a joint return.

Now, this credit is in addition to any other tax benefits that you’re entitled to for making contributions to an IRA account. For example, most workers at these income levels may deduct all or part of their contributions to the traditional IRA. Well, in addition to the deduction for the IRA, then you also may be entitled to the credit.

Also, the contributions to the 401(k) plan are not subject to income tax until withdrawn from the plan. And so even though your income [tax]
is being deferred on your contributions to 401(k) plan, you’re also entitled to the retirement saver’s credit in the year of the contributions.

The last credit that I’d like to make reference to, that Mike also spoke on, is the Education Credit. This credit can help offset the high cost of education for yourself or a dependent or spouse. The Hope Credit and the Lifetime Learning Credit are two education credits available that you may be - that may benefit you.

The Hope Credit applies only for the first two years of post-secondary education, such as college or vocational school, and it does not apply to graduate or professional level programs. This credit can be worth up to $1,500 per eligible student per year.

The Lifetime Learning Credit, it applies to undergraduate, graduate and professional degree courses, or courses that you take to improve job skills. And if you qualify for this credit, your credit equals 20% of the first $10,000 of post-secondary tuition and fees that you paid for a maximum of $2,000 per tax return.

To qualify for either the credit, you must pay the tuition and fees for yourself, your spouse, or your dependent.

Thank you, and at this time I turn it back over to our moderator.

Angela Rizzolo: Thank you very much. Each of you has certainly had my pen writing a lot.