

Tax Credits for You and Your Family

Ron Wall, Extension Specialist in Family Economics and Management

Income tax season is here again

Once again, tax season is upon us. This is a very good time to take stock of your finances while you also take advantage of any benefits that are available to you. Although it may not be much fun to gather financial records and complete an income tax return, the rewards can be great. It can also be rewarding to begin planning your tax strategies for the following year. Often, a tax benefit goes unclaimed because appropriate records were not kept or improper actions were taken in the applicable tax year. Hopefully, you will not be among those whose benefits were left behind because appropriate action was not taken.

Earned income credit for workers

Last year, thanks to the earned income credit, 65,000 Hawaii households shared a total of \$85.5 million—an average of about \$1,300 per household. Was it worth filing a tax return? If each household spent up to 10 hours preparing its return, it would have earned \$130 an hour on average. Not bad, eh? You too may be eligible.

The earned income credit (or EIC) is a tax credit for workers that reduces income tax and refunds any additional amount directly to the taxpayer. Families raising one child can get an EIC of up to \$2,312 if they earned less than \$26,928 in 1999. Families raising two or more children can receive up to \$3,816 if they earned less than \$30,580. Even workers not raising any children but who were between the ages of 25 and 64 in 1999 can receive up to \$347 if their income was below \$10,200.

The most important point is that *you must file an income tax return* to claim the EIC. With an average benefit of \$1,300 per household, it goes without saying that you should get the forms you need and the help you need to file your return. For more information, call 1-800-TAX-1040.

Child tax credit

The child tax credit of \$500 per child under age 17 is another tremendous benefit for families with children. This credit can refund any income tax withheld or still owed up to \$500 per child. A family with two children could receive



up to \$1,000, and this would be in addition to any amount they could receive from the EIC. For most families, the child tax credit can only be used to reduce their income tax liability. If their liability were less than their credit, they would not receive the excess amount. But those eligible could still receive additional funds from the EIC.

Additional child tax credit

Unlike families with up to two children, families with three or more children may receive a total child tax credit exceeding the amount of their federal income tax liability. This occurs in those instances where the amount of payroll taxes paid exceeds the amount of the eligible EIC. In such cases, the family can receive more from their allowed child tax credit than would otherwise be limited by their income tax liability. Figuring this credit can be difficult. Thus, the IRS advises taxpayers to get whatever help they may need.

Child and dependent care credit

The child and dependent care credit refunds a portion of the expenses paid by taxpayers for the care they needed for children and dependents in order to work or look for work. The expenses must pertain to the care provided for a child or children under age 13 or a disabled person of any age who lived with the family. The credit is worth between 20% and 30% of expenses paid. The limit for families with one child or adult in need of care is \$770. The limit for families with two or more children or adults in care is \$1,440.

Filing a tax return is essential

Many families can benefit greatly from these tax credits. Receiving tax credits is like receiving a paycheck. The money reduces taxes and in many cases provides direct payment of extra amounts. The important thing is that you must file a tax return in order to receive this money. Even if you do not owe taxes or do not have to file a tax return, it is to your benefit to do so. Get the help you need to prepare and file your tax return even if you have to pay for it. Better still, locate the free VITA (Volunteer Income Tax Assistance) site nearest to you by calling 1-800-TAX-1040.