

TAXES

All United States residents who have income above a specified minimum must file a Federal Income Tax Return. The minimum income level depends on marital status and age. Most states also have income taxes based on the Federal Income Tax Return. The state of Connecticut has an income tax. Income tax filings tend to be complex and may require assistance by a knowledgeable person.

Both federal and state tax departments provide some assistance. For federal tax assistance call 1-800-829-1040 or www.irs.gov. For state tax assistance call 1-800-382-9463 or www.drs.state.com.us. It is often necessary to persevere to get the assistance needed. The Internal Revenue Service (IRS) does provide free publications and forms covering all of the provisions of the federal income tax. To order, call 1-800-829-3676. Publication 17 is the *Tax Guide for Individuals*. Publication 910, *Guide to Free Tax Services*, provides a list of tax publications and related topics. There is a volunteer organization in Connecticut which helps with federal income taxes. Call Volunteer Income Tax Assistance (VITA) at 1-888-227-7669.

The amount of income the federal government taxes is reduced by certain deductions, called "itemized deductions." The amount of tax owed is reduced by tax credits. By properly planning income, deductions and tax credits, people with disabilities can significantly reduce, and sometimes eliminate, their income tax liability. This will increase their spendable income and allow them to keep more of each dollar earned.

FEDERAL INCOME TAX

Federal income taxes are calculated as follows:

1. The taxpayer's income from all sources is added together to arrive at a figure called "total income."
2. Total income is reduced by the applicable deductions to arrive at a figure called "adjusted gross income."
3. Adjusted gross income is reduced by either a minimum standard deduction or itemized deductions and exemptions to arrive at a figure called "taxable income."
4. Income tax due is calculated based on taxable (not total) income.
5. The income tax due is reduced by tax credits.

Tax Payer Income

Taxpayer income includes earned income from wages or from any business owned by the taxpayer. It also includes investment income such as interest, dividends and capital gains (profits from the sale of investments). Distributions from IRAs, pensions, and annuities are fully or partially included as income. Income from rents, partnerships, etc. are included as income, as is

unemployment compensation. Social Security benefits (including Social Security disability) are sometimes excluded and sometimes partially included.

Special attention should be given to income from IRAs, pensions, annuities, and Social Security. IRA distributions, other than for a Roth IRA, are taxable and are included as income if the taxpayer deducted all amounts deposited into the IRA account(s). If the taxpayer made deposits or contributions to the IRA account(s) that were not deducted on their tax return, then the amount withdrawn is not fully included as income. Taxpayers use IRS Form 8606 to calculate the amount of the IRA distribution which is included as income.

Pensions and annuities may not be one hundred percent included as income. If the taxpayer contributed funds to the pension or annuity and these funds were already taxed, then part of the pension or annuity distributions to the taxpayer are tax-free. These tax-free distributions represent a return of the taxpayer's own funds which were already taxed. Form 1099R, received at the end of each year from the company making the pension or annuity payments, will normally show the total distributions paid to the taxpayer and the amount of the distribution which should be included as income. If Form 1099R does not show the correct taxable and nontaxable information, taxpayers should consult IRS Publication 939.

Deductions For Adjusted Gross Income

The IRS allows certain deductions from total taxpayer income which results in an amount called "adjusted gross income," or AGI. Alimony paid to a former spouse is deductible, as are penalties for early withdrawals from savings accounts (such as certificates of deposit). Those who are self-employed in their own business may deduct contributions to a business retirement plan (called a Keogh or SEP), a portion of their health insurance, and a portion of the self-employment tax which they pay towards Social Security coverage.

Taxpayers with wages or self-employment business income can deduct IRA (individual retirement account) contributions if they are not covered by another retirement plan. If they are covered by another plan, but their income is below certain levels, then one may still be able to qualify for some additional deductions.

Itemized Deductions

A number of other deductible expenses, called itemized deductions, are subtracted from adjusted gross income. A taxpayer is allowed to deduct a standard itemized amount (for the year 2001 the deduction is \$4,550 for single people and \$7,600 for married couples), or to deduct their actual itemized expenses if they are higher than the standard amounts. In addition, there is a personal exemption of \$2,900.00 per person in household.

Allowable itemized deductions include mortgage interest paid on your main home and second home, real estate taxes and personal property taxes (such as car taxes), income taxes paid to state and local governments, and contributions to churches and charities. In many cases the most important itemized deduction for a taxpayer with disabilities is medical expenses.

Medical expenses are included as itemized deductions only if they exceed seven and one-half percent (7.5%) of a taxpayer's adjusted gross income. Only the amount that exceeds 7.5% is included as an itemized deduction. Medical costs that are reimbursed by health insurance or Medicare may not be included.

Medical expenses include the following:

Accident and health insurance

(only the portion paid toward medical care coverage)

Acupuncture

Ambulance hire

Automobile and van modifications to accommodate a wheelchair or adaptive driving controls to assist a handicapped person in driving

Artificial teeth or limbs

Birth control pills

Blind person's attendant, seeing-eye dog, or Braille books and magazines to the extent the cost exceeds the cost of a normal edition

Chiropractor

Contact lenses

Crutches

Dental fees and dentures

Diagnostic fees

Disposable diapers

Doctor's fees

Drugs (prescription only)

Eye exams and eyeglasses

Home modifications for a handicapped person (removal of structural barriers, installation of wheelchair ramps, any other major expenditure made for medical care if the expenditure does not increase overall value of the property)

Hearing aids

Hospital care

Insulin

Laboratory fees

Lifetime medical care, prepaid

Lodging while away from home for medical care, not to exceed \$50 per night per person, for the taxpayer and any person who must accompany them for medical care

Medical insurance premiums (including Medicare A)

Nursing home (if for medical care, not if for personal or family reasons)

Nurses and nursing services

Operations

Plumbing and fixtures for handicapped modifications

Prosthesis

Psychiatrists, psychologists and psychotherapists

Retirement home lifetime medical care fees

Transportation to and from medical care, including parking
Wheelchair, parts, repairs
X-rays

Personal Care Attendants (PCA)

The cost of nursing and nursing services are deductible as medical expenses to the extent that they along with other medical expenses exceed 7.5% of your adjusted gross income. The attendant need not be a nurse. Only the costs related to personal service are deductible. These costs may include the cost of food and lodging for the attendant. Costs for household maintenance are not deductible.

Wages paid to an attendant who is employed by you and whose work is directed by you (and is not an independent contractor or an employee of an organization or company) are subject to social security, medicare and unemployment taxes.

If the cash wages paid are \$1,300 or more (for the year 2001), 15.3% must be paid to the IRS. One half (or 7.65%) should be withheld from the employee's wages and the other half is the employer's share. If the 7.65% is not withheld from the wages, the entire 15.3% is the responsibility of the employer.

In addition, if the PCA is paid \$1,000 or more in any tax calendar quarter of a year, you must pay federal and state unemployment taxes. The federal rate in 1998 is .8% of up to \$7,000 of wages per year. The Connecticut unemployment tax rate is assigned by the state. The state has a maximum rate of 6.9% on wages up to \$15,000 per year. The state's initial rate is usually 2.1%.

Exemptions

The last deduction allowed to taxpayers is an exemption for each dependent of the taxpayer. Dependents include the taxpayer and their spouse, children under the age of 19 at the end of the year (or under age 24, if a full-time student), or others who pass the following tests:

1. Must have less than \$2,900 of income
2. Must be a relative
3. Taxpayer must have furnished more than half the person's support for the year
4. Must be a citizen
5. Must not have filed a joint return with a spouse

Assuming these tests are met, a deduction of \$2,900 is allowed for each dependent. The amount may change annually.

Taxable Income

After all allowable deductions are subtracted, the amount remaining is called taxable income. This is the amount on which the IRS charges tax. The tax can then be reduced by certain amounts called tax credits, including a credit for the elderly and disabled.

If a taxpayer is under age 65, retired on disability, and was permanently and totally disabled when they retired, they may be able to reduce their taxes. Any taxpayer over 65 can also qualify. Form 1040 Schedule R provides the information on the credit, which is too mathematically complicated to cover here. Taxes due can also be reduced by a credit for child care expenses paid (Form 2441) and a credit for any foreign taxes paid (Form 1116).

Federal Earned Income Credit

If you work or are self-employed and have earned income, you may be entitled to a credit to reduce your federal income tax. If you have to file a return with little or no tax liability, you may be entitled to a cash payment. For an individual or a couple filing jointly, the earned income and modified adjusted gross income must each be less than \$10,710. If you have one qualifying child, the level rises to \$32,121. There are a number of rules that apply. To determine if you qualify refer to the instruction booklet for your tax return.

CONNECTICUT INCOME TAX

Connecticut residents pay income tax based on adjusted gross income (AGI) from the federal tax return with certain adjustments. If a taxpayer's gross income is over \$12,500 (if single) or \$24,000 (if a married couple) then a state tax return must be filed and state income tax paid. The Connecticut tax rate is approximately 4.5% of the adjusted gross income from the federal tax return.

CONNECTICUT SALES AND USE TAX EXEMPTIONS

Specific sales tax exemptions are available for disabled individuals. There are also a number of exemptions applicable to all individuals related to medical needs such as prescription and non-prescription drugs, and medicines including vitamins, oxygen, blood plasma and vital life support equipment.

Sales and Use Tax exemptions applicable only to the disabled include:

1. Special equipment installed on a motor vehicle for a physically disabled person.
2. Services rendered at the residence of a permanent and totally disabled person, such as landscape work, snow removal, window cleaning, etc.
3. Meals delivered to the home of a disabled person.
4. Telephone equipment for the deaf or blind.

5. Artificial devices designed for a particular handicapped person. Also includes sales of wheelchairs, walkers, crutches, etc.

When in doubt about an exemption, ask the vendor or call the Connecticut Department of Revenue Services.

LOCAL PROPERTY TAX RELIEF

Connecticut state law requires cities and towns to provide property tax relief for the disabled, elderly and blind. The amount of tax relief is based on income levels.

There are property tax relief programs for disabled home owners and for renters. Individual towns and cities may have their own programs exempting some or all property tax on motor vehicles equipped for the handicapped.

Each individual who is disabled, elderly, or blind should contact the assessor's office in their municipality to determine what programs are available. The telephone numbers are in the Government (blue) Section of the local telephone directory.

VETERANS IN ALL STATES

Veterans, especially disabled veterans from a war period, are entitled to several tax benefits from federal, state, and local governments. These benefits depend on the degree of disability and income level of the individual. Disabled veterans should contact the IRS, the Connecticut Department of Revenue Services, the Department of Motor Vehicles, and the local assessors office to determine the benefits available.

For Help

Taxpayers may call the IRS for help at 1-800-829-1040. They may also call the State of Connecticut at 1-800-382-9463. Individuals may also want to seek professional help and advice from a tax preparer.