

REMINDER NO SPONSORED NEWSPAPERS NEXT FRIDAY 1/18!

1/11 The Earned Income Tax Credit and benefits for working families with low incomes

PLEASE BE SURE TO COVER THE FRIDAY FEATURE THIS WEEK! OUR GOAL IS TO HELP MORE FAMILIES GET EXTRA MONEY from the Earned Income Tax Credit. Many of them don't know that they qualify, how to get it or pay too much to tax preparers who are robbing them of their money!

There is so much information and wonderful opportunities for activities to help your students learn about how the Earned Income Tax Credit program from the IRS can be a huge benefit for their family. In 2004 the average return for low income workers even if they didn't pay taxes was \$1,743! That could really help these families out!

I am including another activity about predatory tax preparation which so many of these folks use because they don't realize they are getting very expensive short term loans guaranteed by their tax refund.

Make sure they take the information home and share it with their families. There are free preparation services in Erie and in the county that are listed on tomorrow's page.

Activity of the week

1. In 2004, the EITC program provided 20,877 taxpayers in Erie County an average refund of \$1,743 per person on their federal tax returns. But the General Accounting Office estimates that up to 25 percent of taxpayers eligible for the tax credit didn't claim it - in Erie County that means nearly 7,000.

Determine the total amount of money for Erie County citizens if all qualified taxpayers would have received the average tax refund. How would this money help the families and how would it benefit the local economy? What would you do if you got a check for \$1,743?

2. According to the IRS website you may claim the EITC for Tax Year 2007 if your total earned income is at least \$1 and your earned income and adjusted gross income (AGI) are both less than:

- * \$12,590 (\$14,590 if married filing jointly) with no qualifying children
- * \$33,241 (\$35,241 if married filing jointly) with one qualifying child
- * \$37,783 (\$39,783 if married filing jointly) with more than one qualifying child
- * Your investment income cannot be more than \$2,900

A qualifying child must have a valid social security number, be under the age of 19 or 24 if still a full-time college student. Qualified individuals must meet other guidelines and file a tax return -- even if they did not earn enough money to require filing.

For all the requirements, EITC information and forms are available at www.irs.gov/eitc and can also be found in IRS Publication 596, Earned Income Credit.

Which of the following fictitious people might qualify for the EITC? Based on the information you have what do they still need to make sure they get the refund?

Erica Werker earned \$20,000. She lives in subsidized housing with her two high school children. They have social security numbers and did file a return.

Alan Caldwell has no children. He worked part-time and earned \$5,200. He had no income tax taken out of his paycheck and owes nothing to the IRS so he did not file a tax return.

Sabrina and Kevin Jones have three kids in elementary school who do not have social security numbers. Sabrina earned \$5,000 and her husband earned \$30,000. They filed a joint return.

What about your family? Do they qualify? Can they benefit from the extra cash? Share this information with your family.

EITC information and forms are available at www.irs.gov/eitc, a portion of the IRS Web site dedicated to EITC issues. Details about the credit also can be found in IRS Publication 596, Earned Income Credit.

Be aware that many predatory practices are technically legal, so even if you end up with an unfair deal, you may not be able to do anything about it. The best way to avoid these situations is choose your tax preparer wisely or learn to do your own taxes with the help of the IRS FREE FILE.

The following example shows how a rapid refund can waste your money. Marilyn expected to receive her W-2 statement in the mail any day. Because she saw an ad that she could get her tax refund right away she decided to wait to pay her rent and instead used that money to buy new clothes.

But Marilyn didn't count on the situation she would find herself from not understanding that the tax preparation she choose was actually a small term loan that cost her dearly - money that could have been in her pocket is she had made better choices.

She got busy, her W-2 was late, and she didn't make it to town until the end of the month. By then, her rent was almost 30 days late and she wanted her tax refund fast. She heard about a free tax preparation site at the local community center but she didn't have time to look into it. Instead, she went to the tax preparer who advertised he could give her a check within 24 hours. She was relieved as she left the check-cashing outlet the next day and headed to her landlord's office to pay the rent, even though she ended up paying a late fee.

That night, as she took off one of her new outfits, she tallied up how much extra she had actually spent to get those new clothes. For her \$1,000 tax return, she had paid:

- \$100 to have the tax return prepared
- \$50 to file the tax return electronically
- \$25 for a preparation fee for the Refund Anticipation Loan
- \$125 in interest and other fees for the loan
- \$50 for the check cashing fee

- \$50 for the late fee to her landlord

How much did she pay by not taking the time to learn more about the free services that could have helped her get her refund? What could Marilyn have done differently?

You may want to ask the tax preparer to provide an itemization of estimated expenses so that you can compare the costs of different tax preparation services.

The IRS also provides the following basic tips and guidelines to help you choose a reputable tax professional:

- Avoid tax preparers who claim they can obtain larger refunds than other preparers.
- Avoid preparers who base their fee on a percentage of the amount of the refund.
- Use a reputable tax professional that signs your tax return and provides you with a copy for your records.
- Consider whether the tax professional offers electronic filing options and other payment options that you want.
- Consider whether the individual or firm will be around to answer questions about the preparation of your tax return, months, even years, after the return has been filed.
- Never sign a blank tax form.
- Ask questions. Do you know anyone who has used the tax professional? Were they satisfied with the service they received? Are there free options for low income earners?

Newspaper Activity:

Look for tax preparation advertisements for rapid refunds. How do they appeal to consumers? What is the cost for the service? From the ad can you tell this is actually a loan for an expected tax refund? Do more research on Rapid Anticipation Loans (RALs) and write a letter to "your space" to share what you learn.

Quiz Question

1/11/08

Why do most individuals who qualify for the EITC (Earned Income Tax Credit) not receive it?

- A. Their income is too high
- B. An individual's tax credit exceeds taxes owed
- C. The individuals do not know about the EITC or how to apply for it
- D. All individuals who qualify for the EITC receive it

Responses:

A: Incorrect. If an individual qualifies for the EITC, their income level meets the requirements.

- B. Incorrect. If an individual qualifies for the EITC and the credit exceeds the amount of taxes owed, that individual will still receive the credit in the form of a refund.
- C. Correct! Many qualifying individuals may not know they can receive the EITC or how to apply for it. To determine eligibility, visit the IRS website at http://apps.irs.gov/app/eitc2006/Forward_Eligibility.do and answer the questions.
- D. Incorrect. All individuals who may qualify for the EITC do not necessarily receive it if it is not filed for on their tax return.
- A. The amount of total profit you earn on investments.
 - B. The interest rate at which your money is growing.
 - C. The rate of inflation from the time period you invested money.
 - D. The amount of money you decide to invest.

WEEKLY QUIZ Question: Visit www.cccr.psu.edu to play the S³ Online Game - Save•Spend•Succeed. Your students can use the online game to practice for the Live S³ Game Show available from JA and Penn State Behrend. Two teams will compete for prizes at Penn State Behrend during the year. They will be treated to lunch and will be given a tour of the college.

Each Friday except Friday 11/23, 12/28, 1/18, 3/21, and 4/18 you will receive newspapers from Erie Times-Newspaper in Education program paid for by our sponsors (see below)

Friday newspaper includes weekly financial literacy topics and weekly activities, your space for student writing, a S³ trivia bonus question and newspaper activities to help students make the connections to the real world by using the newspaper as their resource.

See below for this week and for more resources.

Partner WEBSITES for more information

www.erie.ja.org
www.cccr.psu.edu
www.eriefcu.org
www.unitedwayerie.org

Financial Literacy Website Resources

NEFE – National Endowment for Financial Education

<http://hsfpp.nefe.org/home/>

<http://www.nefe.org/pages/educational.html>

www.smartaboutmoney.org

<http://www.smartaboutmoney.org/nefe/pages/content.asp?page=1730#Top>

<http://www.cooperativalatina.org/education/curriculum.htm>

NEFE – Teen Resource Bureau Website

<http://www.ntrbonline.org/>

The Jump Start Coalition for Personal Financial Literacy

<http://www.jumpstart.org/>

Money Instructor

<http://www.moneyinstructor.com/>

<http://www.moneyinstructor.com/checks.asp>

Financial Literacy in a Box

http://www.mcul.org/Financial_Literacy_In_A_Box_658.html

Pennsylvania Office of Financial Education – Pennsylvania Department of Banking

<http://www.moneysbestfriend.com/>

CUNA – Credit Union National Association

<http://www.creditunion.coop/>

<http://www.precision-info.com/quiz/quiz.cgi?c=1056147613&t=coop>

Thrive By Five - http://www.creditunion.coop/pre_k/

NCUA – National Credit Union Administration

<http://www.mymoney.gov/>

Money Matters

<http://www.smartcredittips.com/>

National Youth Involvement Board

<http://www.nyib.org>

www.eriefcu.org

Treasure Club Kid's Account - <http://www.eriefcu.org/savings/treasure-club/>

CU Succeed – For Teens 13 – 18 <http://www.eriefcu.org/savings/financial-literacy/>

Scholarships for college students - <http://www.eriefcu.org/loans/student-loans/>

“Guides to Independence” Online Interactive Educational Teen Program

<http://www.eriefcu.org/savings/financial-literacy/>