

Building Native Communities

A Guide to Claiming the
Earned Income Tax Credit (EITC)

Participant's Workbook – 2004 Tax Year



The Annie E. Casey Foundation

Building Native Communities

A Guide to Claiming the Earned Income Tax Credit (EITC)

A Native community is more than the sum of its parts. It embodies the mystique of community, the circle of inclusion. Within each member it generates powerful feelings of cultural solidarity. That precious spirit cannot survive without the underpinnings of economic development. But the development must be for everyone – not for just a few. That is the Native understanding.

This EITC curriculum is for Native communities. It supplements *Building Native Communities: Financial Skills for Families* which was published by First Nations Development Institute and the Fannie Mae Foundation in 2000.

The purpose of this curriculum is to:

Enable Native community members to realize their traditional values and expand their financial skills to access the Earned Income Tax Credit in a cost effective way to help improve the financial standing of themselves, their family, and their community.



FNDI

First Nations Development Institute is a nonprofit organization that helps Native communities build sound, sustainable economies. First Nations helps community members to identify assets and build models to create and retain wealth in ways that reflect the culture and desires of the people in those communities. The strategy coordinates local grassroots projects with national program and policy development initiatives to build capacity for self-reliant communities. For more information, visit www.firstnations.org.



The Annie E. Casey Foundation

AECF

The Annie E. Casey Foundation is a private charitable organization dedicated to helping build better futures for disadvantaged children in the United States. It was established in 1948 by Jim Casey, one of the founders of United Parcel Service, and his siblings, who named the Foundation in honor of their mother. The primary mission of the Foundation is to foster public policies, human-service reforms, and community supports that more effectively meet the needs of today's vulnerable children and families. In pursuit of this goal, the Foundation makes grants that help states, cities, and communities fashion more innovative, cost-effective responses to these needs. For more information, visit www.aecf.org.



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This workbook, *Building Native Communities: A Guide to Claiming the Earned Income Tax Credit (EITC)*, was designed by First Nations Development Institute (FNDI) under the direction of Sarah Dewees, FNDI Director of Research, with support and funding from the Annie E. Casey Foundation (AECF).

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All photographs are courtesy of the Smithsonian National Museum of the American Indian.

Disclaimer

All names and examples provided in this workbook are fictional. Any resemblance to actual individuals or their financial situations are coincidental.

This workbook is only meant to be used as guidance and should not be relied on as legal or tax advice. Please seek the counsel of a qualified attorney or tax professional for further assistance.

More Information

To obtain additional copies of this workbook or for more information about training opportunities for instructors, please contact First Nations Development Institute at 540-371-5615 or info@firstnations.org.

For information about the EITC, contact your tribal government, local nonprofit or tribal college. You can also call the IRS at 1-800-829-1040 or visit:

- www.irs.gov/EITC
- www.EITC.info/native
- www.firstnations.org

Introduction

The purpose of this workbook is to help eligible Native people access the Earned Income Tax Credit (EITC).

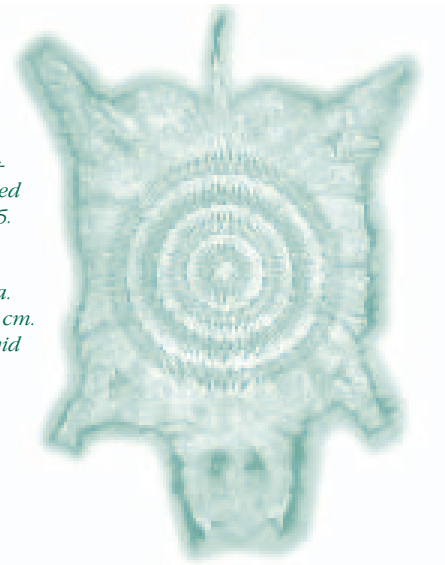
Once you have completed the workbook, you will be able to answer the following questions:

- What is the Earned Income Tax Credit?
- Am I eligible to receive an EITC refund?
- How do I claim the EITC without losing money?
- What will it cost me to get a rapid refund or refund anticipation loan (RAL)?
- How can I use my EITC refund to improve my family's financial situation?



*Nanticoke children
playing "bear in ring,"
ca. 1911, Delaware.
Photo by Frank G. Speck.*

Sioux feather-bonnet-painted robe, ca. 1875. Ft Berthold Reservation, North Dakota. 254.7 x 180.5 cm. Photo by David Heald.



What is the Earned Income Tax Credit?

The EITC is a federal tax benefit which has been in existence since 1975. It is the single largest federal aid program supporting working families. It provides more dollars than any other federal program. For example, the EITC program is larger than food stamps and Temporary Assistance for Needy Families (TANF) combined.

- The EITC is a tax benefit for people who have earned income under a certain amount. Earned income includes wages, salary, tips, other taxable employee compensation, and net earnings from self-employment.
- It generally benefits low- and moderate-income working families, but it also benefits qualifying individuals with earned income and no children.
- The EITC is administered through the Federal tax code. You must file a federal tax return in order to receive the benefit, even if you don't owe any tax or did not have income tax withheld.
- If you owe federal taxes, the EITC may reduce the amount you owe and may result in a refund check.
- If you have no qualifying children, your maximum credit could be \$390. If you have one qualifying child, your maximum credit could be \$2604. And if you have two or more qualifying children, your maximum credit could be \$4300!
- You can receive your EITC refund in a lump sum with your tax return or, if you are eligible, you can claim it in advance throughout the year in your paycheck.
- If you were eligible for an EITC refund within the past three years, but did not claim it, you can still file to receive it.
- An EITC refund can add on to your income to cover living expenses or to pay off existing debt. You can also use it to help meet your savings goals.
- Receiving an EITC refund generally does not affect your ability to qualify for other public assistance.

The following examples show how EITC refunds have benefited other Native families:

Sherry Danforth works as a part-time cook at the local high school. She supports herself and her three qualifying children on an annual salary of \$17,000 per year. Last year, for the first time, she filed for her EITC at a local credit union that was providing free tax preparation services. She qualified for a \$4,000 refund, which she used to pay off her credit card bills and to buy a new refrigerator.

Daniel Begay works on construction jobs and other seasonal work. In 2004, he earned a total of \$23,000. Since he and his wife Tina have one qualifying son, they were eligible for a \$1,328 credit through the EITC. They applied for the credit through a local free tax preparation site, and used direct deposit to put the money directly into a savings account that they are using to save for a down payment on a home.

Maximum EITC Income and Credit Limits for 2004 Tax Year

	Two or more qualifying children	One qualifying child	No qualifying children
Maximum income for single filers	\$34,458	\$30,338	\$11,490
Maximum income for "married filing jointly" filers	\$35,458	\$31,338	\$12,490
Maximum amount of EITC credit	\$4,300	\$2,604	\$390

EITC Use Exercise

Imagine you receive an unexpected check in the mail for \$1700, which is the average size of an EITC refund. Ask yourself the following questions:

1. How would you spend the money?

2. Is this something you really “need” or is it something that you “want?”

3. Is there a way to revise your plan for using the \$1700 to include focusing on “needs,” debt reduction and/or savings? How would this benefit you and your family?

Pomo three-stick coiled basket. Sedge root, willow, meadowlark, mallard, and quail topknot feathers, and clam and abalone shell. California. 3.7 x 20.2 cm. Photo by David Heald.



Am I Eligible to Receive an EITC Refund?

The table below summarizes the EITC eligibility rules:

To qualify for EITC you must meet all of these rules.

- You must have earned income.
- You must have a valid Social Security number.
- Your filing status cannot be “married filing separately.”
- You must be a U.S. citizen or legal resident all year.
- You cannot file Form 2555 or Form 2555-EZ relating to foreign earned income.
- Your investment income must be less than a certain amount.
- Your earned income and adjusted gross income (AGI) must be less than an amount specified annually by the IRS, depending on how many qualifying children you have.
- You must file a tax return to receive the EITC, even if you owe no tax and had no income withheld.

You must also meet all rules in one of these columns, whichever applies.

If you have a Qualifying Child:

- Your child must meet the relationship, age and residency tests.
- Your qualifying child cannot be used by more than one person to claim EITC.
- Your qualifying child must have a valid Social Security number.
- You cannot be a qualifying child of another person.

If you do not have a Qualifying Child:

- You must be at least age 25 but under 65.
- You cannot be the dependent of another person.
- You cannot be a qualifying child of another person.
- You must have lived in the United States more than half of the tax year.

To claim the EITC with or without qualifying children, you must meet the following rules:

- You must have earned income.
- Your earned income and your adjusted gross income (AGI) must be less than an amount specified annually by the Internal Revenue Service (IRS), depending on how many qualifying children you have.
 - Although per capita payments or other types of distributions such as lease income or land settlement claims are generally not considered to be earned income, they might affect your ability to qualify for the EITC because they are included as part of your AGI.
 - Even if you report other income on a 1099 form, you may still qualify for the EITC if your total earned income falls below the applicable limits.
- You must have a valid Social Security number.
- Your investment income must be below a certain amount.
- Your filing status cannot be “married filing separately.”
- You must be a U.S. citizen or legal resident all year.
- You cannot file Form 2555 or Form 2555-EZ related to foreign earned income.
- You cannot be a qualifying child of another person.

To claim the EITC with qualifying children, each qualifying child must:

- Have a valid Social Security number,
- Not be used by more than one person to claim EITC, and
- Must meet all three of the following tests:
 - *Relationship.* The child must be your son, daughter, adopted child, stepchild, descendant of any of them (e.g. your grandchild) or eligible foster child. Your brother, sister, stepbrother, stepsister or a descendant of your brother, sister, stepbrother or stepsister (e.g. your niece or nephew) may also qualify if you care for this individual as you would your own child.
 - *Age.* At the end of the tax year, the child must be under age 19, a full-time student under age 24, or any age if permanently and totally disabled.
 - *Residency.* The child must live with you in the United States for more than half of the tax year.

To claim the EITC with no qualifying children:

- You must be at least 25 years old but under 65.
- You cannot qualify as the dependent or qualifying child of another person.
- You must have lived in the United States more than half the tax year.

EITC Eligibility Exercise

Whether you can claim the EITC depends on a series of eligibility criteria. Review the following examples to determine their eligibility to claim the EITC.

1. Kelly Lupe is a 30-year old single mom living on the Fort Apache Indian Reservation. She works for the White Mountain Apache Housing Authority and earns an adjusted gross income of \$18,000 per year (which is below the IRS's annual income limit for claiming the EITC with qualifying children). She has one eight year-old daughter who lives with her and last February, her 16-year old brother moved in with her.

Kelly, her daughter and her brother are all U.S. citizens and all have valid Social Security numbers. Kelly has no investment income and no foreign earned income.

- a. Does Kelly qualify to claim the EITC?

- b. Why or why not?

- c. How many qualifying children does she have?

2. Martin Smith and his wife Elsie are residents of the Blackfeet Indian Reservation. They are both U.S. citizens and have valid Social Security numbers. Their son is 19 and moved to his own apartment in Billings last year after getting a new job. Neither Martin nor Elsie is employed, but they get by with general assistance and money their son sends to them every month.

- a. Do Martin and Elsie qualify to claim the EITC?

- b. Why or why not?

- c. How many qualifying children do they have?

See answers on page 19



How Do I Claim the EITC Without Losing Money?

Filing Your Tax Return

To claim the EITC, you must file a federal tax return. Whether you are required to file a federal income tax return or not depends on your filing status (whether you are single or married and your family situation), your age and the amount of your gross income. To determine whether you must file, you can:

- Consult with a tax professional or someone at a free tax preparation site,
- Call 1-800-829-4477 and select option 351 for recorded or faxed information,
- Call 1-800-829-1040 to talk to an IRS representative,
- Visit www.irs.gov to read Publication 501 (2004), Exemptions, Standard Deduction, and Filing Information, or
- Check the instruction booklet for Form 1040, U.S. Individual Income Tax Return, which is available at most post offices, libraries and government buildings.

Why File if You Don't Have To?

Even if you are not required to file a federal tax return, you may want to consider doing so because you may be eligible to receive money back from the federal government if:

- You qualify for the EITC,
- You qualify for other tax credits such as the child tax credit, or
- You had federal income tax withheld from your pay.

Some people may be reluctant to file a tax return because their refunds may be garnished to pay debts such as back child support or defaulted student loans. However, if they are eligible to receive an EITC credit, even though they may not receive a refund this year, they could significantly reduce their outstanding debt making them eligible for future tax refunds.

In addition, some individuals find they need to file a federal income tax return in order to qualify for college tuition assistance for themselves or their children. You may also need to file your tax return if you received a grant or plan to apply for a loan or mortgage financing. For example:

For the past five years, Robert, a member of the Pueblo of Santo Domingo, was not required to file a federal income tax return because he had not earned enough income. Next spring, however, his son wants to attend the University of New Mexico and his school counselor says he can qualify for financial aid. While his son was completing the paperwork, he saw that he was required to submit his parents' tax return.

So for the first time in five years, Robert had to file his federal taxes. He went to a community college in Albuquerque, which offered free tax preparation assistance. He was thrilled to learn that in addition to helping his son qualify for financial aid for college, he would be receiving a \$2,000 EITC refund in the mail within ten days. He decided to use the extra money to invest in supplies for his arts and crafts business and doubled his sales during the next tourist season.



Tips for Self-Employed Individuals

If you are your own boss and perform services for others, you are self-employed. Examples of self-employed professionals in Native communities include contractors, craftspeople, consultants, artists and vendors. To claim the EITC, self-employed individuals must file their income tax return.

Your self-employment profit (income minus expenses) increases your income that is subject to tax. Self-employed people must also pay the self-employment tax which is a social security and Medicare tax primarily for people who work for themselves. It is similar to the social security and Medicare taxes withheld from the pay of most wage earners. By not reporting all of your self-employment income, you could cause your social security benefits to be lower when you retire.

Self-employed individuals:

- Report earnings on Form 1099-MISC, *Miscellaneous Income*;
- Calculate self-employment income, expenses and profit or loss on Schedule C (C-EZ), *Profit or Loss from Business*;
- Calculate the self-employment tax on Schedule SE, *Self-Employment Tax*; and
- Report the profit or loss and self-employment tax on Form 1040, *U.S. Individual Income Tax Return*.



*Cabuilla buffware pottery
jar. California. 40.8 cm.
Photo by David Heald.*

Tax Filing Options

Once you determine that you will file a federal income tax return, you have several choices about how to file. You can consider free and low-cost options or decide to hire a commercial tax preparer. In order to maximize your tax refund, you may want to research all available filing options.

Tax Filing Options Exercise

Who are the tax preparers serving your community?

Free and Low-Cost Filing Options

The following are free or low-cost options for filing your taxes:

Paper Return by Mail. You can prepare and file by mail a paper return yourself. You can find paper tax forms at place such as post offices, libraries, banks or credit unions, copy centers, city/county offices, or grocery stores.

Volunteer Tax Sites. You can visit a free tax return preparer, such as a Volunteer Income Tax Assistance (VITA) or Tax Counseling for the Elderly (TCE) site. To find the site nearest to you, contact your tribal government, local nonprofit, or tribal college or university; or call the IRS at 1-800-829-1040.

Electronic Filing. You can visit www.irs.gov to explore electronic filing options, including over the telephone through TeleFile or over the internet through self-prepared returns or an authorized IRS e-file provider.

Choosing a Good Commercial Tax Preparer

Many commercial tax preparers are trained professionals who serve their customers well, but before you hire someone to do your taxes, you should do your homework. You may want to ask a tax preparer to provide an itemization of estimated expenses and the expected date of delivery of the refund so that you can compare the costs and delivery times of different tax preparation services. The IRS also provides basic tips and guidelines to help you choose a reputable tax professional. This information appears in the Appendix.

Precautions in Selecting a Tax Preparer

Some tax preparers promise large and fast refunds and try to encourage individuals to use their returns as a down payment on a large purchase such as an automobile or a mobile home. Or, they might offer a rapid refund through a loan or a debit card. These people and the businesses they work for are called “predatory” because they prey upon people’s needs, fears and lack of knowledge about options.

In Native communities, some common predatory tax return preparers work out of:

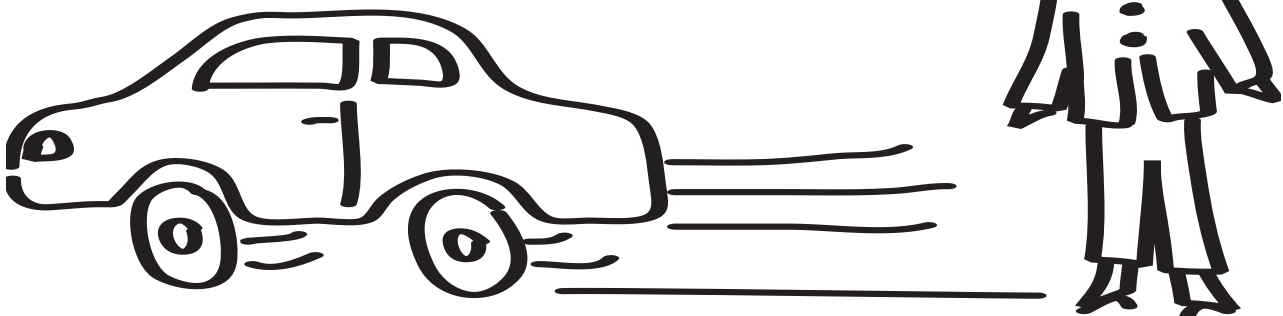
- Pawn shops
- Trading posts
- Car dealers
- Mobile home dealers
- Check cashing services

Although their offers may appear attractive, they may cause you to lose a lot of your refund to inflated fees.

The following example shows how someone can become a victim of a predatory tax preparer.

Sandy Metoxen learned about the EITC from the car dealership on the border of her reservation. She went to the car dealership to buy a car to travel to work, and was told that she qualified for a large tax return that could be used as a down payment on her car loan. She allowed Smithfield Autos to submit her tax return for her. She is a single mother of one qualifying child and earned \$23,000 as a home health care nurse in 2003. She was surprised to learn that she qualified for a \$2,500 refund.

However, Smithfield Autos charged a 40 percent fee (\$1,000!!) for processing her return, and she only received \$1,500 towards her car down payment. On top of that, the dealership charged her 25 percent interest on her car loan, and Sandy was not able to make the payments. She defaulted on the loan and eventually the car was repossessed. She realized that she would have been better off going to a free tax prep service and using the full \$2,500 refund as a down payment for a car loan from a reputable lender, rather than the car dealership. Because she had good credit, she could have qualified for a much better interest rate. Now she lost her refund, has no car and has ruined her credit!





What Should I Bring to the Tax Preparer?

You should bring the following items to your tax preparer to file your tax return and to determine whether you are eligible for the EITC:

- Photo identification cards
- Social Security card(s) for you and your spouse (if married filing jointly)
- Forms or records to verify your earned income, such as W-2 and 1099 forms, and records or logs of self-employment income
- Any notices, tax forms or other mail you received from the IRS during the year
- A copy of last year's federal and state tax returns, if available
- Social Security card(s) and birth dates for any qualifying children
- Your bank account and routing numbers if you would like to have your refund deposited directly into your bank account
- Both spouses must be present to sign the required forms to file taxes electronically on a "married filing joint tax return"

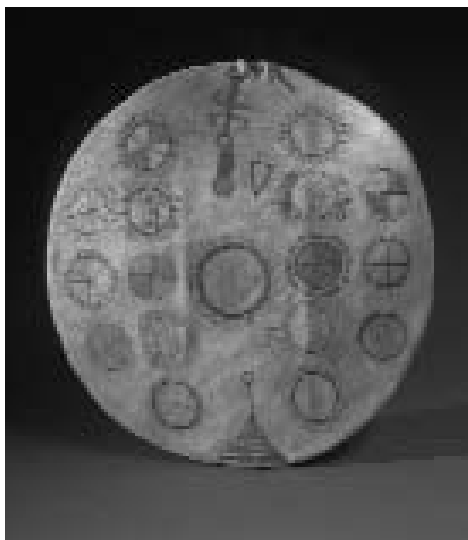
Please see the Appendix for a copy of this checklist for you to tear out to take to your visit to your tax preparer.

Filing Your Taxes Exercise

Answer the following questions by checking the best choice:

1. Which of the following are warning signs of a predatory tax preparer:
 - a. Publishes advertisement promising to get you the “biggest refund in town”
 - b. Refuses to give you a copy of your completed tax return
 - c. Says he’ll only charge you 5 percent of the amount of your refund
 - d. Asks you to sign a blank form so that she can fill in the information later when it’s not so busy
 - e. All of the above
2. In order to claim the EITC, you ***must***:
 - a. Use a commercial tax preparer
 - b. Pay a large fee to get your refund
 - c. File a tax return which can be submitted by mail or electronically
 - d. Owe taxes to the federal government
3. You can get your full EITC refund by:
 - a. Locating a free or low-cost tax preparation site
 - b. Going to a car dealership who will apply your refund to a down payment for a new car
 - c. Completing your tax return yourself on paper and mailing it to the IRS
 - d. All of the above except b.

See answers on page 20.



White Mountain Apache shield cover. Arizona. Deerhide and pigment. 47.6 cm. diam. Photo by David Heald.

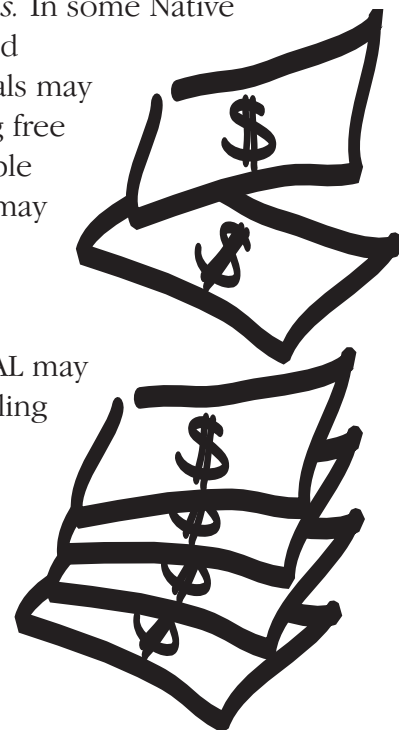
What Will it Cost Me to Get a Rapid Refund or Refund Anticipation Loan (RAL)?

Using a rapid refund from a commercial tax preparer allows you to access your tax refund in just a few days, but what you are actually getting is a high-interest loan. This is called a Refund Anticipation Loan or RAL. This is actually a short-term loan secured by the expected refund from the IRS. While this product may look good, it comes with very high costs. ***In some cases, by waiting a few extra days, you might be able to double the amount of your return.***

Benefits of RAL's

Though many taxpayers do not even realize they are using a loan to access their tax returns as a rapid refund, they see many benefits to doing so. Reasons why you might decide to use a RAL refund include:

- *Quick Cash.* Some taxpayers need their refunds as soon as possible to cover past debts or outstanding rent or utilities payments. They do not mind getting a smaller refund in order to get it faster.
- *Mistrust of Federal Government.* Rather than rely on the federal government to provide a refund in the future, some Native taxpayers prefer to receive their refunds from their tax preparers immediately, even at a higher cost.
- *No Knowledge of or Comfort with Other Options.* In some Native communities, tax preparation services are limited predominantly to predatory providers. Individuals may not be aware of other alternatives, such as using free tax sites. In addition, they may not be comfortable completing their own paper returns. They also may not realize that using other electronic filing options may be free and almost as fast.
- *Source of Funds to Cover Filing Fees.* Using a RAL may be the only way some taxpayers can cover the filing fees charged by the tax preparer.
- *Down Payment for Purchases.* Some businesses such as car or mobile home dealers may provide free tax services in exchange for using the refund as a down payment on a new purchase.



Hidden Costs of RAL's

Despite these perceived benefits, RAL's can come with many hidden costs to taxpayers. Depending on how the transaction is structured, you may be charged the following fees:

- *Tax Return Preparation Fee.* Many tax preparers charge high fees just to prepare the paper return and there may be additional fees to prepare the paperwork to claim the EITC.
- *Electronic Filing Fee.* In addition to the fees to prepare the tax return, tax preparers charge additional fees to file electronically.
- *Loan Fees.* Tax preparers may charge a fee to prepare or originate the RAL.
- *Interest Charges.* The interest rates for RAL's are generally very high – sometimes in the triple digits. They may appear reasonable if they are quoted on an annual basis, but since the loan is usually only for two weeks, the rates are inflated.
- *Check Cashing Fee.* In many cases, RAL's are issued to taxpayers in checks rather than by depositing them in a new or existing bank account. This may require an additional check-cashing fee.
- *Debit Card and Transaction Fees.* Some tax preparers, especially those at trading posts, issue the refund as a debit card, which may be used only at certain retail outlets. There may be a first-time user or membership fee to obtain the debit card and then an additional fee charged for each transaction. On top of that, the retailers may inflate their prices by as much as 30 percent during tax season.

Another risk you may encounter when using a RAL is the chance that the IRS will dispute your claim. In some cases, predatory tax preparers whose fees are tied to the amount of your refund may have an incentive to give inaccurate tax advice, which causes the refund to be delayed or disallowed. In these situations, you are either required to continue to pay inflated interest rates until the refund arrives or even repay the loan without receiving the refund. This could be quite a hardship to you especially if you have already spent the RAL.

Each of these hidden costs may provide extra convenience, but they may also unnecessarily reduce the amount of your refund. In some cases, you may not even realize how much you are paying unless you specifically ask for an itemization of the costs. With a little more research, you may be able to identify low- or no-cost alternatives in or near your community.

Rapid Refund Exercise

The following example shows how using a rapid refund can waste your money.

Marilyn expected to receive her W-2 statement in the mail any day. She knew as soon as she got it, she could take it to the border town near her reservation and get her tax refund, including an EITC refund, in a couple of days, so she decided to wait to pay her rent. Instead, she bought some new clothes. 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 tribal college, but she didn't have time to look into it. Instead, she went to a tax preparer who told her 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 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

When she realized that these fees totaled \$400, she couldn't believe it.

What could Marilyn have done differently?

See answers on page 21.

Avoiding Predatory Tax Preparers

It is important to be very cautious in selecting a tax preparer. The best way to do that is to educate yourself about the tax services you need, shop around, and follow the tips for choosing a good tax preparer listed on the tear-out checklist in the Appendix. If you don't understand the terms that the tax preparer is using, don't be afraid to ask questions until you have a clear picture.

If you find yourself in an uncomfortable situation with a tax preparer, ask someone you trust to look at the documents for you. You may also want to contact a local legal aid office or consumer advocate. You should also report fraudulent tax activity to your tribal attorney and to the IRS by calling 1-800-829-0433.

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.

Predatory Tax Preparer Exercise

Review the following situations. Based on what we have discussed, which of the following would you consider to be a predatory tax preparer? Mark your answer, and list your reason in the space provided.

Situation	Yes	No	Maybe	Reason
A national tax preparation chain in a strip mall advertises immediate tax refunds.				
A Tribal Business Information Center (TBIC) provides free tax services and offers to help you start your small business using your tax refund.				
During tax season, someone opened a make-shift office on the reservation boasting the ability to get you the biggest and fastest tax refund in town. Nobody has ever heard of the person before.				
During tax season, a Volunteer Income Tax Assistance (VITA) site opened in a make-shift office on the reservation and advertised free tax services and the opportunity to have your tax refund deposited into a new or existing bank account.				
Your trading post prepares your tax return for free and gives you a refund immediately on a debit card which can be exchanged for goods only at the trading post.				

See answers on page 22.

How Can I Use My EITC Refund to Improve My Family's Financial Situation?

Instead of using your EITC refund to make unplanned purchases, you may want to consider ways to make the most of your refund by focusing on how to improve your family's financial situation. This may require some planning because you don't want to be in a situation where you've already "spent" your refund before you get it.

Think about the following:

- *Debt Elimination.* If you have high debt and/or problems with your credit, using your EITC refund to eliminate debt may be the best thing you can do to improve your financial standing. Some families with the goal of repairing their credit histories in order to buy a home may have put together a spending plan to lower their monthly expenses and pay off existing debt. Receiving a lump sum payment is an excellent way to jump-start the implementation of that spending plan.
- *Savings.* You can plan to deposit at least a portion of your refund in a savings account to help you save for necessary, large purchases rather than use credit. Paying cash for a purchase will eliminate added financing costs and help to minimize getting over-extended with credit. You can also use your savings for retirement planning.
- *Individual Development Accounts (IDAs).* IDAs are programs to help low- and moderate-income working families increase their savings. They are "matched savings accounts" in which deposits you make are matched by contributions from the sponsoring organizations. IDAs are designed to help participants obtain some kind of asset like a down payment for a home, college education or job training, a computer, a car, or small business financing. Check with your tribal government or local nonprofit to see if IDA programs are available in your community.

You can learn more about each of these options by participating in a personal financial education course. Look for opportunities in your community to attend a class that can help you achieve your financial goals and maximize the impact of your EITC refund.

EITC Use Review

Refer back to the exercise on page 4. How would you revise your answers to use your EITC refund to improve your family's financial situation?

EITC Eligibility Exercise, Page 7

1. a. Does Kelly qualify to claim the EITC?

Yes

- b. Why or why not?

She meets all income and qualifying child requirements.

- c. How many qualifying children does she have?

Two, because both children lived with her for more than half the tax year, are under 19 years old and meet the relationship test (i.e., brother and daughter).

2. a. Do Martin and Elsie qualify to claim the EITC?

No

- b. Why or why not?

They have no earned income.

- c. How many qualifying children do they have?

None, because their son no longer lives with them.

ANSWERS (cont.)

Filing Your Taxes Exercise, Page 13

1. Which of the following are warning signs of a predatory tax preparer:
 - a. Publishes advertisement promising to get you the “biggest refund in town”
 - b. Refuses to give you a copy of your completed tax return
 - c. Says he’ll only charge you 5 percent of the amount of your refund
 - d. Asks you to sign a blank form so that she can fill in the information later when it’s not so busy
 - e. All of the above

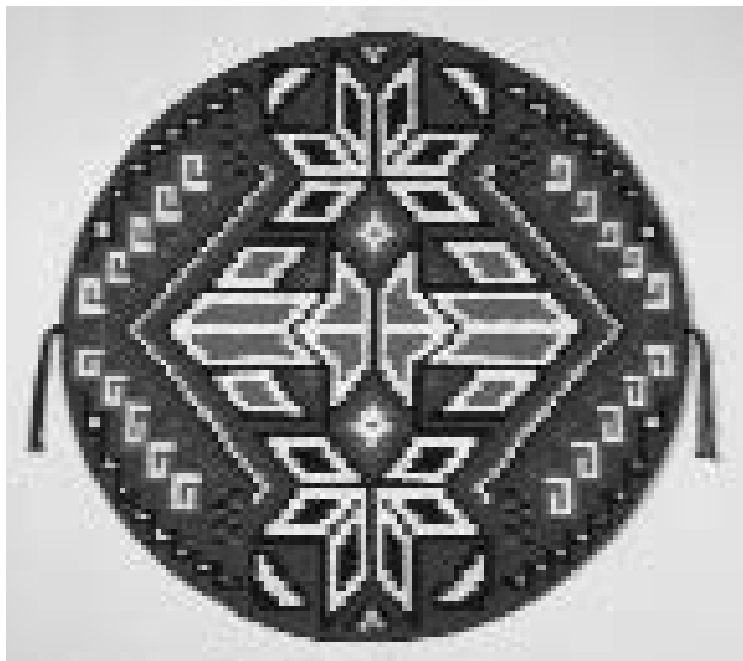
2. In order to claim the EITC, you ***must***:
 - a. Use a commercial tax preparer
 - b. Pay a large fee to get your refund
 - c. File a tax return which can be submitted by mail or electronically
 - d. Owe taxes to the federal government

3. You can get your full EITC refund by:
 - a. Locating a free or low-cost tax preparation site
 - b. Going to a car dealership who will apply your refund to a down payment for a new car
 - c. Completing your tax return yourself on paper and mailing it to the IRS
 - d. All of the above except b.

Rapid Refund Exercise, Page 16

What could Marilyn have done differently?

She could have paid her rent on time, used the free tax prep service at the tribal college, and waited for her tax refund instead of using a rapid refund to make purchases. Once she received the tax refund, she could have purchased one new outfit and considered saving or investing at least a portion of the rest of her refund.



*Rose Owens (Navajo, 1929-94),
round rug, 1981. Ganado, Arizona.
Handspun wool, 109 cm. diam.
Gift of Gloria F. Ross.*

ANSWERS (cont.)

Predatory Tax Preparer Exercise, Page 17

Situation	Yes	No	Maybe	Reason
A national tax preparation chain in a strip mall advertises immediate tax refunds.			✓	These outlets may charge high interest rates for a refund anticipation loan (RAL) and extra fees for preparing an EITC claim and filing electronically. Although convenient, this may not be the most cost effective option.
A Tribal Business Information Center (TBIC) provides free tax services and offers to help you start your small business using your tax refund.		✓		A TBIC is a nonprofit organization providing free tax prep as a community service, along with technical assistance to start a small business.
During tax season, someone opened a make-shift office on the reservation boasting the ability to get you the biggest and fastest tax refund in town. Nobody has ever heard of the person before.	✓			More than likely this is a predatory tax preparer that may take advantage of people's needs, fears, and lack of knowledge about other tax prep options.
During tax season, a Volunteer Income Tax Assistance (VITA) site opened in a make-shift office on the reservation and advertised free tax services and the opportunity to have your tax refund deposited into a new or existing bank account.		✓		VITA sites are supported by the Internal Revenue Service. They feature trained volunteers knowledgeable about EITC who can help you file your tax return efficiently and at no cost. Some VITA sites even offer connections to local financial institutions to open new bank accounts.
Your trading post prepares your tax return for free and gives you a refund immediately on a debit card which can be exchanged for goods only at the trading post.			✓	Although the tax prep service may be free, you may be paying a very high interest rate because the deposit on the debit card is actually a RAL. In addition, you may be paying a transaction fee each time you use the card. And by limiting its use to the trading post, you don't get the full benefit of your refund.

Appendix

Tips for Choosing a Good Tax Preparer

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?



Appendix (cont.)

What Should I Bring to the Tax Preparer?

- Photo identification cards
- Social Security card(s) for you and your spouse (if married filing jointly)
- Forms or records to verify your earned income, such as W-2 and 1099 forms, and records or logs of self-employment income
- Any notices, tax forms or other mail you received from the IRS during the year
- A copy of last year's federal and state tax returns, if available
- Social Security card(s) and birth dates for any qualifying children
- Your bank account and routing numbers if you would like to have your refund deposited directly into your bank account
- Both spouses must be present to sign the required forms to file taxes electronically on a "married filing joint tax return"

W-2 Wage and Tax Statement 2004

Employer's Name (Print or Type) _____
Employer's Address (Print or Type) _____
Employer's City/State/Zip _____
Employer's Federal ID Number _____

Employee's Name (Print or Type) _____
Employee's Address (Print or Type) _____
Employee's City/State/Zip _____
Employee's Social Security Number _____

1. Wages, tips, other compensation _____
2. Federal income tax withheld _____
3. Social Security tax withheld _____
4. Medicare tax withheld _____
5. State income tax withheld _____
6. Local income tax withheld _____
7. Railroad retirement taxes _____
8. State disability insurance _____
9. Other deductions _____

10. Total amount paid to you _____
11. Total amount withheld _____
12. Total amount paid to you _____
13. Total amount withheld _____

14. Other information _____

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Glossary

Adjusted Gross Income (AGI) – a calculation that includes an individual’s total taxable income, minus certain adjustments, that is used in calculating the EITC.

Child Tax Credit – The child tax credit allows taxpayers to claim a tax credit up to a certain amount per qualifying child. It is in addition to the credit for child and dependent care and the EITC.

Commercial tax preparer – Any person, partnership or corporation who prepares for compensation a tax return or claim for refund under the income tax provisions of the Internal Revenue Code.

Earned Income – This generally means wages, salary, tips, other taxable employee compensation, and net earnings from self employment.

Form 1040EZ – The simplest form to use. Generally, you can use it if your filing status is single or married filing jointly, you (and your spouse) are under age 65, you do not claim dependents, your taxable income is less than \$50,000, your income is only from certain sources, you did not receive advanced earned income credit payments, you do not claim adjustments to your income or any credits other than the EITC, and you do not owe any household employment taxes. See IRS Publication 17 for more information.

Form 1040A – If you do not qualify to use the 1040EZ, you may be able to use Form 1040A if your income is only from certain sources and below \$50,000, you have only certain types of adjustments to your income, you do not itemize your deductions, your taxes are from only certain items and claim only certain credits. See IRS Publication 17 for more information

Form 1040 – If you cannot use Form 1040EZ or Form 1040A, you must use Form 1040, which can be used to report all types of income, deductions and credits. You must use it if your taxable income is \$50,000 or more and you itemize your deductions. Use Schedule A to itemize your deductions and Schedule B to report interest and ordinary dividends over \$1500. See IRS Publication 17 for more information.

Form 1098T – Academic institutions issue this form to students who paid tuition during the tax year. It helps students calculate education credits.

Form 1099 MISC – This form is used to report payments made in the course of trade or business.

Form W-2 – The Wage and Tax Statement form is a form employers must file with the Social Security Administration and IRS to report wages paid to each employee from whom income, social security or Medicare tax was withheld. The employer also must send a copy of Form W-2 to each employee.

Internal Revenue Service – The federal agency that collects income taxes in the United States.

Per Capita Distributions – The distribution of money or other things of value to all members of a tribe that are paid from the net revenues of sources of income such as gaming or income from unallotted common tribal lands. This income is generally taxable and is usually reported on Form 1099 MISC.

Predatory tax preparer – A commercial tax preparer that preys on a person’s needs, fears and lack of knowledge about tax filing options. They usually offer Refund Anticipation Loans with high interest rates and fees.

Publication 596 –The IRS tax booklet that contains the EITC requirements, examples, and worksheets to calculate the EITC. This booklet is available in both English and Spanish and can be found at www.irs.gov.

Qualifying child – For the purposes of claiming the EITC, a qualifying child must meet three tests: relationship, age and residency. 1) *Relationship*. The child must be your son, daughter, adopted child, stepchild, descendant of any of them (e.g. your grandchild) or eligible foster child. Your brother, sister, stepbrother, stepsister or a descendant of any of them (e.g. your niece or nephew) may also qualify if you care for this individual as you would your own child. 2) *Age*. At the end of the tax year, the child must be under age 19, under age 24 and a full-time student, a full-time student under age 24, or any age if permanently and totally disabled. 3) *Residency*. The child must live with you in the United States for more than half of the tax year (at least 184 days during the tax year). This includes the time that the taxpayer and the child are temporarily apart due to a special circumstance, such as military service, school attendance, hospitalization or juvenile detention. A qualifying child can only be claimed once.

An eligible foster child is a child placed with the taxpayer by an authorized placement agency when the taxpayer cares for as his or her own child. An authorized placement agency is an agency of a state or political subdivision of a state, or a tax-exempt organization licensed by a state, court, and Indian tribal government, or an Indian organization authorized to place Indian children.

Refund Anticipation Loan (RALs) – These are short-term loans with high interest rates and fees that are made to the taxpayer and repaid by the taxpayer’s expected tax refund.

Schedule EIC – A form that provides information on qualifying children (e.g., names, ages, Social Security numbers). It must be completed and attached to the taxpayer’s tax return claiming EITC.

Tax Counseling for the Elderly (TCE) – A program run by trained volunteers offering free tax preparation services for low-to-middle income individuals with special attention to those 60 years of age or older.

Volunteer Income Tax Assistance (VITA) – A program run by trained volunteers offering free tax preparation services for low-income taxpayers.

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



The Commemorative Quilt of the National Museum of the American Indian, 1997. This commemorative quilt was made by 20 Native artists in honor of the exhibit, "To Honor and Comfort: Native Quilting Traditions." The purchase of the quilt by the National Museum of the American Indian was made possible by a major grant from the Metropolitan Life Foundation. Native quilters from North America and Hawaii were asked to submit a block of their own design to this unique quilt. Ina McNeil (Hunkpapa Lakota) and Margot Cohen assembled and quilted the blocks.

Each row is numbered from left to right starting with the top left corner.

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| 1. Paula White, Chippewa | 11. Nancy Naranjo, Eastern Cherokee |
| 2. Mary Bighorse, Osage | 12. Harriet Soong (Hawaiian) |
| 3. Ina McNeil, Hunkpapa Lakota | 13. Shirley Grady, Mandan/Hidatsa/Sioux/Crow |
| 4. Margaret Wood, Navajo/Seminole | 14. J. Carole Stewart, Creek |
| 5. Anastasia Cooke Hoffman, Yup'ik | 15. Alice Olsen Williams, Anishinaabe |
| 6. Gussie Bento, Native Hawaiian | 16. Rita Corbiere, Ojibwe |
| 7. Judy Toppings, Ojibwe | 17. Marlene Sekaquatewa, Hopi |
| 8. Share Bonaparte, Akwesasne Mohawk | 18. Ollie Napesni, Lakota Sioux |
| 9. Lula Red Cloud, Oglala Lakota | 19. Virginia Osceola, Seminole |
| 10. Conrad House, Dinéh/Oneida | 20. Bernyce (B.K.) Courtney, Wasco/Tlingit |

All photos are courtesy of the National Museum of the American Indian.



The Annie E. Casey Foundation

The Annie E. Casey Foundation
701 St. Paul Street
Baltimore, MD 21202

(410) 547-6600
(410) 547-6624 fax

www.aecf.org



First Nations Development Institute
2300 Fall Hill Avenue, Suite 412
Fredericksburg, VA 22401

(540) 371-5615
(540) 371-3505 fax

www.firstnations.org