



## Unclaimed Millions

### *Tax Credits Can Save Families Serious Money, But Many Don't Claim Them*

Every year, millions of working families fail to claim federal tax credits that could save them hundreds if not thousands of dollars. Most lose the chance to save for the simple reason they are not aware they qualify for any number of credits sprinkled throughout federal tax laws.

“When I do outreach and tell people they are entitled to this money, even when they don’t have any tax liability, they say, ‘Are you telling me the IRS is going to send me a check?’ The answer is, yes. But I don’t think a lot of people believe it,” said Lucas Pavlovich, a Senior Internal Revenue Service Tax Specialist based in Pittsburgh.

Pavlovich works for Stakeholder Partnership, Education and Communication (SPEC), a little-known section of the IRS responsible for getting the word out about the various credits and helping eligible taxpayers take advantage of them. Many of these credits help people who need the money most – low-income families and the elderly.

SPEC has set up 350 sites in western Pennsylvania alone. Staffed mostly with volunteers, these sites help low-income taxpayers and the elderly with tax issues.

In recent years, welfare-to-work policies placed a premium on making sure qualified low-income families receive the tax credits they are entitled to. Studies suggest welfare reforms, while significantly increasing employment among the poor, have done little so far to improve overall family income.

#### **Earned Income Tax Credit**

For low-income families, the Earned Income Tax Credit (EITC) can offer significant benefits. For example, a family with two children and an annual income of \$12,000 could receive more than \$4,000 in earned income credit, even if they didn’t owe the IRS a dime.

If taxes aren’t owed, families receive their earned income credit in the form of a check or, if they prefer, the amount can be deposited directly into their bank account.

Depending on the number of children, a family can earn as much as \$34,201 and still qualify for the EITC.

For those who qualify, an Advance Earned Income Tax Credit can be applied throughout the year and fewer dollars would be withheld from their paychecks.

Again, the taxpayer must claim the

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Lucas Pavlovich  
Senior IRS Tax Specialist

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credit to receive the benefits.

#### **Use It Or Lose It**

Most of low-income taxpayers eligible for credits receive them. As many as 19 million people receive an EITC, reaping a total of \$31 billion in benefits. Still, millions of eligible taxpayers are losing out.

The IRS estimates that 14%-25% of the nearly 27 million EITC-eligible taxpayers fail to claim the credit. In other words, as many as 6.75 million Americans most in need of extra income are passing up hundreds if not thousands of dollars.

They fail to collect this money for several reasons. Some aren’t aware of the various credits or that they qualify. Some may rely on people to prepare their returns who may not realize the full credits due them. And some simply don’t know how to file for the credit.

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## Some Federal Tax Credits That Benefit Families

### Earned Income Tax Credit (EITC)

This credit can mean tax savings or refunds for low income families. To be eligible, both the earned income and the adjusted gross income must be less than \$29,201 for a taxpayer with one qualifying child (\$30,201 for married filing jointly), and less than \$33,178 for a taxpayer with more than one child (\$34,178 for married filing jointly).

### Child and Dependent Care Expenses

Taxpayers may be able to claim a credit for expenses paid for care of a child under the age of 13 years or for dependent care expenses. The credit can be up to 30% of the actual expenses.

### Child Tax Credit

The most widely used family-related credit provides fixed deductions for each child. The maximum tax credit per child increased to \$600 in 2001. Amounts depend on income. A couple filing jointly is able to deduct up to the maximum credit per child as long as their adjusted gross income is under \$110,000.

### Saver's Tax Credit

This new credit for 2002 was enacted to encourage workers to contribute to a retirement plan or an Individual Retirement Account (IRA). Workers can receive a tax credit worth up to 50% of a maximum \$2,000 contribution. In addition, they are allowed to defer the taxes on the contribution itself.

*Source: Internal Revenue Service*

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"It can be a complicated situation, especially for an ordinary person who does not do a lot of tax work," Pavlovich said.

Many elderly Americans, for example, may not be aware they may be entitled to an Earned Income Tax Credit if a grandchild is living with them, no matter how small their earned income is.

Under such circumstances, \$3,000 in earned income may yield a \$1,000 credit – if a return is filed and the credit claimed.

### Volunteer-Driven Tax Help

It is SPEC's job to figure out ways to spread the word about the various tax credits, educate taxpayers, and even help them prepare their returns. Special attention is paid to helping low income

taxpayers and the elderly. But even when narrowed to those groups, the target population is far too large of a workload for the IRS specialists alone. SPEC relies heavily on volunteers.

In western Pennsylvania, for example, 1,500 volunteers are the core of the two primary IRS community service programs: Tax Counseling for the Elderly (TCE) and Volunteer Income Tax Assistance (VITA), which shoulders most of the responsibility for helping low-income taxpayers.

Recent welfare-to-work rules have contributed to an increase in demand for tax services. The IRS, in fact, is working with several agencies that address the needs of families leaving welfare.

But the heightened demand for their services is straining resources. "We find that we just don't have enough volunteers," Pavlovich said.

The IRS, he said, is looking to establish more VITA and TCE sites with the help of community organizations.

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### contacts

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