



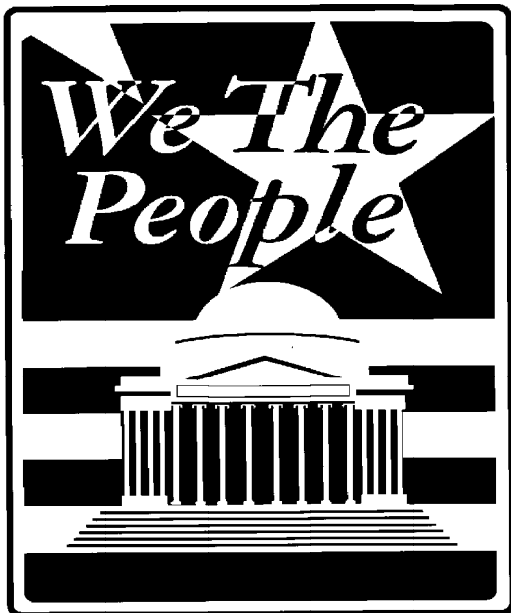
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# **Tax Highlights for Persons with Disabilities**



## Introduction

This publication gives you a brief introduction to certain tax laws of particular interest to people with disabilities. It includes highlights of tax laws pertaining to:

- Income,
- Itemized deductions, and
- Tax credits.

You will find most of the information you need to complete your tax return in your form instruction package. If you need additional information, you may want to order a free tax publication. You may also want to take advantage of the other free tax help services that IRS provides.

**Ordering publications and forms.** To order free publications and forms, call our toll-free telephone number 1-800-TAX-FORM (1-800-829-3676). If you have access to TDD equipment, you can call 1-800-829-4059. See your tax package for the hours of operation. You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

**Asking tax questions.** You can call the IRS with your tax question Monday through Friday during regular business hours. Check your telephone book or your tax package for the local number or you can call toll-free 1-800-829-1040 (1-800-829-4059 for TDD users).

**Braille tax materials.** Braille tax materials are available for review from any of 142 *Regional Libraries for the Visually Impaired* in conjunction with the National Library Service for the Blind and Physically Handicapped. To locate your nearest library write to the National Library Service for the Blind and Physically Handicapped, Library of Congress, 1291 Taylor St., NW, Washington, DC 20542. Braille materials currently available for review are:

- Publication 17, *Your Federal Income Tax*,
- Publication 334, *Tax Guide for Small Business*,
- *Forms 1040, 1040A, 1040EZ*, and related instructions, and
- *Tax Tables*.

## Income

All income that is not specifically exempt is taxable. The following discussions highlight some income items (both taxable and nontaxable) that are of particular interest to persons with disabilities. See Publication 525, *Taxable and Nontaxable Income*, for more information.

## Dependent Care Assistance

You can exclude from income benefits provided under your employer's qualified dependent care assistance plan. You may be able to exclude up to \$5,000. The care must be provided for your dependent under the age of 13 or your spouse or dependent who is not capable of self-care.

For more information get Form 2441, *Child and Dependent Care Expenses*, and instructions if you file Form 1040. If you file Form 1040A, get Schedule 2 (Form 1040A), *Child and Dependent Care Expenses for Form 1040A Filers*, and the instructions. For more detailed information, get Publication 503, *Child and Dependent Care Expenses*.

## Social Security and Equivalent Tier 1 Railroad Retirement Benefits

If you received social security or equivalent tier 1 railroad retirement benefits in 1994, part of the amount you received may be taxable.

**Supplemental security income (SSI) payments.** If you received any SSI payments during the year, do not include these payments in your total social security benefits received. They are not taxable for federal income tax purposes.

**Are any of your benefits taxable?** If the only income you received during 1994 was your social security or equivalent tier 1 railroad retirement benefits, your benefits generally are not taxable and you probably do not have to file a return.

If you received income during 1994 in addition to social security or equivalent tier 1 railroad retirement benefits, part of your benefits generally are taxable if your income is more than:

- \$25,000 if you are single, head of household, or qualifying widow(er),
- \$25,000 if you are married filing separately and lived apart from your spouse for all of 1994,
- \$32,000 if you are married filing jointly, or
- \$-0- if you are married filing separately and lived with your spouse at any time during 1994.

For more information, see the Form 1040 instructions for lines 20a and 20b or the Form 1040A instructions for lines 13a and 13b. More detailed information can be found in Publication 915, *Social Security Benefits and Equivalent Railroad Retirement Benefits*.

## Disability Pensions

Generally, you must report as income any amount you receive for your disability through an accident or health insurance plan that is paid for by your employer. If both you and your employer pay for the plan, report only the amount you receive for your disability that is due to your employer's payments as income. However, certain payments may not be taxable to you. Your employer should be able to give you specific details about your pension plan and tell you the amount you paid for your disability pension. See Publication 525 for more information.

## Military and Government Disability Pensions

Generally, you must report disability pensions as income. But certain military and government disability pensions are not taxable. For more information about military and government disability pensions and VA benefits see Publication 525.

**Veterans' benefits.** Disability benefits you receive from the Department of Veterans Affairs (VA) are not included in your gross income. If you are a military retiree and do not receive your disability benefits from the VA, do not include in your income the amount of disability benefits equal to the VA benefits to which you are entitled.

Veterans' benefits paid under any law, regulation, or administrative practice that was in effect on September 9, 1986, and administered by the VA are not included in gross income. These include:

- Education, training, or subsistence allowances
- Grants for specially adapted homes for veterans with disabilities
- Grants for motor vehicles and adaptive equipment for veterans with disabilities.

## Other Payments

You may receive other payments that are related to your disability. The following payments are not taxable.

- Benefit payments from a public welfare fund, such as payments due to blindness
- Workers' compensation for an occupational sickness or injury
- Compensatory and punitive damages for physical injury or illness
- Disability benefits under a "no-fault" car insurance policy for loss of income or earning capacity as a result of injuries
- Compensation for permanent loss or loss of use of a part or function of your body, or for your permanent disfigurement.

# Itemized Deductions

If you file Form 1040, you can claim either the standard deduction or itemize your deductions. You must use Schedule A (Form 1040) to itemize your deductions. See your form instructions for information on the standard deduction and the deductions you can itemize. The following discussions highlight some itemized deductions that are of particular interest to persons with disabilities.

## Medical Expenses

You can deduct medical and dental expenses for you, your spouse, and your dependents.

Medical expenses include payments you make for the diagnosis, cure, mitigation, treatment, or prevention of disease or for treatment affecting any part or function of the body. They also include the cost of transportation for needed medical care and payments for medical insurance.

You can deduct only the part of your medical and dental expenses that is more than 7.5% of your adjusted gross income shown on line 32, Form 1040.

In the discussions that follow, only the highlights are given. For more detailed information, get Publication 502, *Medical and Dental Expenses*.

## Special Items and Equipment

Your medical expenses can include payments for:

Artificial limbs, eyeglasses, and hearing aids

The part of the cost of braille books and magazines that exceeds the price of regular books and magazines

Cost and repair of special telephone equipment for hearing-impaired persons

Cost of equipment that displays the audio part of television programs as subtitles for hearing-impaired persons

The cost and maintenance of a wheelchair or autoette

Cost and care of a guide dog or other animals aiding persons with disabilities

A therapist or other person who gives "patterning" exercises to a mentally retarded child

Special schools, if the main reason for using the school is its resources for relieving the mental or physical disability, such as schools that teach Braille or lip reading

Remedial language training to correct a condition caused by a birth defect.

## Capital Expenses

Generally, if you pay for improvements to your home and the main purpose is medical care, you can include the payments in your medical expenses. Some of these improvements are:

- Constructing entrance or exit ramps to your residence
- Widening doorways at entrances or exits to your residence
- Widening or otherwise modifying hallways and interior doorways
- Lowering or modifying kitchen cabinets and equipment.

## Impairment-Related Work Expenses

If you are an employee and have a physical or mental disability that functionally limits your employment, or a physical or mental impairment that substantially limits one or more of your major life activities, you may be able to claim impairment-related work expenses. These are your allowable business expenses for attendant care at your workplace and other expenses in connection with your workplace that allow you to work. Generally, this includes those expenses that are:

- 1) Necessary for you to do your work satisfactorily,
- 2) For goods and services not required or used (other than incidentally) in your personal activities, and
- 3) Not specifically covered under other income tax laws.

Employee business expenses are subject to a 2% of adjusted gross income limit. However, the limit does not apply to impairment-related work expenses.

If you have impairment-related work expenses, complete Form 2106, *Employee Business Expenses*, or Form 2106–EZ, *Unreimbursed Employee Expenses* and attach it to your Form 1040.

## Tax Credits

This discussion highlights three tax credits that are of interest to persons with disabilities.

### Child and Dependent Care Credit

Generally, if you pay someone to care for your dependent under age 13 or your spouse or dependent who is not capable of self-care, you may be able to get a credit of up to 30% of your expenses. You must pay these expenses so you can work or look for work.

You can only claim the credit if you file Form 1040 or 1040A. You figure the credit on Form 2441 (Form 1040) or Schedule 2 (Form 1040A).

For more information, see the Form 1040 instructions for line 41 or the Form 1040A instructions for line 24a. More detailed information can be found in Publication 503.

## Credit for the Elderly or the Disabled

You may claim this credit if you are 65 or older, or retired on disability and were permanently and totally disabled when you retired.

You can only claim the credit if you file Form 1040 or 1040A. You figure the credit on Schedule R (Form 1040), *Credit for the Elderly or the Disabled*, or on Schedule 3 (Form 1040A), *Credit for the Elderly or the Disabled for Form 1040A Filers*.

For more information, see the Form 1040 instructions for line 42 or the Form 1040A instructions for line 24b. More detailed information can be found in Publication 524, *Credit for the Elderly or the Disabled*.

## Earned Income Credit

Generally, you can get this credit if you worked and earned less than:

- \$ 9,000 and did not have a qualifying child,
- \$23,755 and had one qualifying child, or
- \$25,296 and had more than one qualifying child.

You have a **qualifying child** if the child:

- Is your son, daughter, adopted child, grandchild, stepchild, or foster child, **and**
- Was at the end of the year under age 19 or a student under age 24, or at any time during the year permanently and totally disabled, **and**
- Lived with you in the United States for more than half the year (for all of the year if the child is your foster child).

To figure the credit, use the Earned Income Credit Worksheet in the instructions for Form 1040, 1040A, or 1040EZ. If you have a qualifying child, you also have to complete Schedule EIC and attach it to your Form 1040 or 1040A.

For more information, see the Form 1040 instructions for line 56, or the Form 1040A instructions for line 28c, or the Form 1040EZ instructions for line 7. More detailed information can be found in Publication 596, *Earned Income Credit*.

## Household Employers

Generally, if you pay someone to work in your home, such as a babysitter or housekeeper, you may be a household employer who has to pay employment taxes.

A person you get through a placement agency to work in your home to care for a child or an elderly or disabled person is not your employee if the agency sets the fee and exercises control over the worker, such as requiring regular reports and providing rules of conduct and appearance. In such cases you do not have to pay employment taxes on the amount you pay. But if an agency merely gives you a list of workers and you hire one from that list, the worker may be your employee.

To find out if you have to pay employment taxes, see Publication 926, *Employment Taxes for Household Employers*.

## **Business Tax Incentives**

If you own or operate a business, you should be aware of three tax incentives for helping persons with disabilities. They are:

- 1) **Deduction for costs of removing architectural or transportation barriers**—This is a deduction you can take for making your facility or public transportation vehicle more accessible to and useable by persons who are disabled or elderly. See Chapter 11 in Publication 535, *Business Expenses*.
- 2) **Disabled Access Credit**—This credit is for expenses incurred to provide access to persons with disabilities. See Chapter 32 in Publication 334, *Tax Guide for Small Business*.
- 3) **Jobs Credit**—This credit is for wages paid to persons from targeted groups that have a particularly high unemployment rate or other special employment needs. See Chapter 32 in Publication 334 for more information.