

TAXES AND BENEFITS MODULE

Outcomes

- Understanding of the function of taxes and benefits in our society.
- Raised expectations about controlling the use of taxes and savings.
- Familiarity with tax credits, including Earned Income Tax Credit.
- Familiarity with the filing process and resources for filing assistance.

Overview

While facilitators and participants alike may dread this module—after all, taxes fall in the same inevitable category as death—it is often among the most illuminating and fun (!) in the series.

Many participants have never given much thought to where their taxes go (“to FICA”), and find it empowering to know that their money is, in fact, funding public works, defense, government, and social services. Discussing the percentage of tax money that goes to different areas is another informative exercise, as is explaining the workings of tax cuts and trickle down economics. Exploration of taxes and benefits is a great way to integrate the “big economic picture” into participants’ experiences, and to look at the relationship between government policies and personal finance.

Reviewing the different tax refunds and credits, and methods of filing, can mean more money in participants’ pockets at the end of tax season. Encouraging participants to use free tax preparation services, or to file themselves, can mean even more savings.

Earned Income Tax Credit

The EITC is a federally funded, anti-poverty initiative that helps working people maintain their independence from the welfare system. Data from the U.S. Census Bureau, Current Population Survey, indicate that in 1999, the EITC lifted 4.7 million people above the federal poverty line — including 2.6 million children of low-income workers. Research shows that 80 percent of EITC recipients plan to use their credit to help pay immediate bills, such as rent or utilities, or to pay for better housing, transportation or educational needs. The Advance EITC payment option can help workers stay current with their monthly household bills.

Getting the maximum back

When low-income people pay to have their taxes prepared, the value of their EITC is diminished. Research shows that 60 percent of EITC recipients pay someone to prepare their tax returns, and that fewer than 10% have their tax forms prepared for free by VITA (Volunteer Income Tax Assistance). Increasing awareness about VITA and improving access to these services is critical (see the list of free tax preparers). Many people who use commercial tax preparers to get a “quick refund” — a refund they receive in just a few days — don’t realize that what they’re getting, and paying for, is a very high-interest loan from the tax preparer.

A new report¹, co-authored by the Brookings Urban Center and the Progressive Policy Institute, details how the use of tax preparation services and “fast cash” refund loans is concentrated

¹ *The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC.* Alan Berube, Anne Kim, Benjamin Forman, and Megan Burns: May 2002

among working poor families and neighborhoods. The authors estimate that in 1999, nearly **\$2 billion in EITC refunds nationwide were diverted to pay for “rapid refund”** type services, with more than half of all low-income families purchasing refund loans in some of the nation's largest cities and suburbs.

This module aims to give participants the skills and information they need to get the most money back from the government, whether it's by filing themselves, using a free tax preparer, choosing a better filing status, or filing for a tax credit. Given the relationship between what we give and what we get from the government, we've incorporated some information about benefits into the end of the module.

Considerations

- Tax laws change constantly, and have very specific criteria. This information is not meant to be exhaustive. Participants should consult with a tax expert (through a VITA site or the IRS 800 number) about their individual circumstances.
- It makes sense to limit in-depth discussions of the tax filing process to tax season. Otherwise, the discussion feels abstract, and participants are likely to forget the information.
- The issue of benefits deserves its own module (or even curriculum!). The last two activities in this module include information about rights to benefits, welfare time limits, and resources for legal advocacy. Like tax legislation, welfare legislation changes constantly. Participants and facilitators should look for updated advocacy information as it evolves.

List of Activities In The Tax Module

| ACTIVITY | DESCRIPTION | TIME |
|-------------------------------------|--|------------|
| Taxes 101 | Discussion of the different types of taxes and discuss their function in society. | 10-15 min. |
| Where Your Taxes Go | Comparison of different visions for spending tax dollars; participants make pie graphs depicting how they think tax money should be allocated. | 10-15 min. |
| Who Wants to be an Expert Taxpayer? | A game based on “Who wants to be a millionaire” reviewing basic tax terms and facts. | 15-20 min. |
| How to File | Discussion of the different methods of filing taxes. | 15-20 min. |
| EITC and Other Tax Help | Discussion of the process for filing for Earned Income Tax Credit and other forms of tax help. | 5-10 min. |
| Benefits: Know Your Rights | Overview of participants’ rights to benefits. | 10-15 min. |
| Benefits: Know your Choices | Overview of strategies for attaining and maintaining benefits. | 10-15 min. |

List of Materials in the Taxes and Benefits Module

- Key Tax Terms (Facilitator’s Guide)
- Government Spending (Activity Sheet)
- Where Your State and Local Taxes Go (Handout)
- Where Your Federal Taxes Go (Handout)
- Where Your Income Tax Money Really Goes (Handout)
- Who Wants to Be An Expert Taxpayer? (Game Cards)
- Frequently Asked Questions About Taxes (Handout)
- The Tax Process (Facilitator’s Guide)
- Filling Out Your W-4 (Handout)
- Tax Tips (Handout)
- Choose the Best Filing Status (Handout)
- How to File Taxes (Handout)
- Free Boston Tax Preparation Sites 2002 (Handout)
- Questions About the Earned Income Tax Credit (Handout)
- Education Tax Benefits (Handout)
- Tax Help for People with Dependents (Handout)
- Department of Transitional Assistance (DTA) Overview (Facilitator’s Guide)
- Section 8 (Facilitator’s Guide)

List of Materials in the Taxes and Benefits Module (Continued)

- TAFDC Work Requirement (Facilitator's Guide)
- Extensions of the TAFDC Time Limit (Facilitator's Guide)
- General Welfare Rights (Handout)
- The TAFDC Work Requirement: Know Your Rights! (Handout)
- 60 Month TAFDC Clock Restart (Handout)
- Checking Your 24 Month TAFDC Clock (Handout)
- Exemptions and Waivers for TAFDC Requirements (Handout)
- Access to Education and Training for TAFDC Recipients (Handout)
- Structured Job Search: The Right Choice for Me? (Handout)

TAXES AND BENEFITS ACTIVITY #1

Taxes 101

A. Objectives

- Participants identify the different types of taxes.
- Participants understand the function of taxes in our society.

B. Time Needed

10-15 minutes

Description

1. Introduce the concept of taxes to the participants and work with the group to generate a definition (“a contribution for the support of government required of persons, groups, or businesses within the domain of that government” or more simply, “money the government charges citizens and businesses in exchange for running the country”). Discuss concrete examples of how tax money funds things we rely on every day—roads, public works, schools, hospitals, social services, law enforcement . . . and the importance of “getting our money’s worth.” If we’re paying our legislators, we want to make sure we exercise our rights to choose them!
2. Ask the participants to identify the types of taxes they pay. The tax system is defined as the way the government gets its income; there are different levels - federal, state, city, and different types of taxes at each level (ex. property tax, excise tax, sales tax). List each type of tax under its broader category.
3. Once these categories are named, explain what the terms “progressive” and “regressive” mean, and discuss which taxes are progressive and which are regressive. (Regressive tax: a tax that takes a larger proportion of low incomes than of high. Progressive tax: a tax that takes a larger proportion of high incomes than of low.)

As part of this discussion, introduce the following concepts:

- The government uses the tax system to implement policy, such as using the mortgage interest deduction to encourage investment in the home-building industry, and the charitable contribution deduction to encourage support of nonprofit organizations.
- The difference between “direct expenditures”, like housing subsidies, and “indirect expenditures”, reduced tax revenues resulting from the deduction for mortgage interest and real estate taxes for homeowners.
- “Trickle down economics:” the idea, widely held during the Regan era, that tax cuts for the wealthy would free up capital for investment, resulting in economic growth, which would then “trickle down” to the working class, and ultimately raise tax revenue.

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TAXES AND BENEFITS ACTIVITY #1 (CONTINUED)

Taxes 101

What ultimately happened was that the federal deficit increased and wealth “gushed up” instead of “trickling down.” Overwhelmingly, tax cuts benefit corporations and the wealthy and reduce funding for social and public services. United for A Fair Economy’s book, *Economic Apartheid* contains a chapter on fair taxation that beautifully outlines this issue.

- While we all hate the idea of paying more taxes, it is tax revenue that funds shelters, social services, schools, and many vital public functions. That’s why it’s vital to be informed about how our tax money is spent, and advocate for sensible tax legislation.

FACILITATOR'S GUIDE: TAXES AND BENEFITS MODULE

Key Tax Terms

Allowance- On your W-4 form, the form the government uses to figure out how much money to take out of your pay check, you can also reduce the amount of taxes that are taken out if you plan to get certain credits, like the Earned Income Tax Credit (EITC). For more information, see the handout "Filling Out Your W-4."

Dependent- Someone (like a child or an elderly parent) who depends on you for more than half of their living expenses. You can claim dependents when filing taxes to reduce what you owe the government.

Exemption- On your W-4 form, the form the government uses to figure out how much money to take out of your pay check, you can reduce the amount of taxes that are taken out by claiming exemptions for people that you care for, or if you are married. For more information about how to do this, see the handout "Filling Out Your W-4."

File- Government term for turning in your taxes.

IRS- The Internal Revenue Service, an office of the government that is given the responsibility for collecting taxes.

Itemize- If you have a lot of deductions, you need to itemize, or list them. People who want to do this usually have big expenses on travel, medical care or charity.

Refund- Money that you get back from the government because it took too much tax out of your pay check based on your family and income. You can also get refunds for certain tax credits like the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC).

Schedule- IRS term for form.

Tax Credit- Money that the government takes away from the amount of taxes you have to pay, based on your income.

Tax Deduction- Money that the government takes away from what it counts as your income. You can get deductions for lots of things, but important deductions are for child and dependent care expenses (see handout "Tax Help for People with Children") and Student Loans and Tuition (see handout "Education Tax Help").

Withholding- When the government takes money out of your pay check to pay your taxes. You can control how much the government takes with a W-4 form. (See the handout "Filling Out Your W-4.")

TAXES AND BENEFITS ACTIVITY #2

Where Your Taxes Go

A. Objectives

- Participants understand how the government allocates their tax dollars.
- Participants compare the government's allocation to theirs.

B. Time Needed

10-15 minutes

C. Materials

- Activity Sheet: "Government Spending"
- Handout: "Where Your State and Local Taxes Go"
- Handout: "Where Your Federal Taxes Go"
- Optional Handout: "Where Your Income Tax Money Really Goes"
- Markers/Crayons

Description

1. Ask participants to list some of the ways the government uses their tax dollars.
2. Distribute the Activity Sheet "Where My Taxes Should Go." Explain that the "pie" represents the total federal budget that comes from tax revenue (2003 budget: about \$1696 billion).
3. Ask participants to allocate the proportion of money that should go to different areas, using different colors for different areas. Emphasize that the "pie" is divided into tenths, but that the number of spending areas is unlimited. Participants can use the areas listed (those are the ones used by the IRS) or use their own.
4. Ask participants to present their charts and explain the reasoning behind them. Discuss whether they expect the charts to correspond with the government's actual spending.
5. Distribute the handouts "Where Your State and Local Taxes Go" and "Where Your Federal Taxes Go." Compare and contrast with participants' charts.
6. Optional: distribute the War Resister's handout: "Where Your Tax Money Really Goes." Discuss the differences and ways we can learn about how our tax money is spent.

TAXES AND BENEFITS ACTIVITY #3

Who Wants to Be an Expert Taxpayer?

A. Objectives

Participants learn basic tax terms and facts.

B. Time Needed

30-40 minutes

C. Materials

- Cards: “Who Wants to Be an Expert Taxpayer?”
- Handout: “Frequently Asked Questions About Taxes”

Description

1. Designate a “host” and three contestants. Explain the premise of the game, modeled after “Who Wants to Be a Millionaire?” Each contestant is given a question and four possible answers. (S)he can select the right answer if (s)he knows it, but if (s)he is unsure, (s)he can use one of 3 “lifelines”: “50/50” (narrowing down the options to two) “Ask the audience” (the other participants vote on the answer), and “Phone a friend” (consulting with a friend).
2. The host asks 5 questions of each contestant (answers in bold). Discuss each answer. The “winner” is the one with the most correct answers.
3. Distribute and discuss the handout, “Frequently Asked Questions About Taxes.”

TAXES AND BENEFITS ACTIVITY #4

How to File

A. Objectives

- Participants understand how the tax process works.
- Participants understand the importance of filing taxes, and become familiar with the different methods and resources available for filing.
- Participants identify the best filing status for them.

B. Time Needed

15-20 minutes

C. Materials

Handouts: “Filling Out Your W-4”, “Tax Tips”, “Choose the Best Filing Status”, “How to File”, “Free Boston Tax Preparation Sites.”

Description

1. Work with participants to develop a shared understanding of how the government collects and refunds taxes (see “Facilitator’s Guide to the Tax Process” for reference).
2. Distribute the handout “Filling our Your W-4” and discuss the process of filling out one’s W-4 form and how employers can help. Distribute the handout “Choose the Best Filing Status” to participants and review it together, discussing pros and cons of each filing status. Because this document is dense and complex, it makes sense to go over it briefly and encourage participants to consult it more closely around tax time.
3. Distribute the handout “How to File.” Ask participants how they have filed taxes in the past, about the ways that have worked best for them. Discuss the pros and cons of filing by mail, phone, and Internet.
4. Emphasize the costs associated with commercial tax preparers and that “rapid refunds” are really high-interest loans (see introduction for more information on the effects of commercial tax preparation services on low-income tax refunds).
5. Encourage participants to get the money they deserve from they government by filing for all the credits/refunds they’re entitled to, and filing themselves, or making use of VITA (volunteer income tax assistance—listed in the handout “Free Boston Tax Preparation Sites.”)

FACILITATOR'S GUIDE: TAXES AND BENEFITS MODULE

The Tax Process

The Tax Process

Today, the American tax system can be likened to a perpetual motion machine. While most Americans tend to only think about the tax system and the Internal Revenue Service (IRS) as the month of April approaches, it's actually a never-ending process. Let's take a look inside the tax system and examine its various steps. For our purposes, a good way to explain how the system works is to watch one American income earner -- let's call him Joe -- as he goes through a year of the American tax process.

The tax process begins when Joe starts his new job. He and his employer agree on his compensation, which will be figured into his gross income at the end of the year. One of the first things he has to do when he's hired is fill out all of his tax forms, including a **W-4 form**. The W-4 form lists all of Joe's withholding allowance information, such as his number of dependents and childcare expenses. The information on this form tells your employer just how much money it needs to withhold from your paycheck for federal income tax. The IRS says that you should check this form each year, as your tax situation may change from year to year.

Once Joe is hired and given a salary, he can estimate how much he will pay in taxes for the year. Here's the formula:

How to Calculate Income Tax © 2001 HowStuffWorks

$$\begin{array}{r} \text{Gross Income} \\ - \text{Adjustments} \\ \hline \text{Adjusted Gross Income (AGI)} \\ \\ \text{AGI} \\ - \text{Standard Deductions or Itemized Deductions} \\ - \text{Personal Exemptions} \\ \hline \text{Taxable Income} \\ \\ \text{Taxable Income} \\ \times \text{Tax Rate*} \\ \hline \text{Gross Tax Liability} \\ \\ \text{Gross Tax Liability} \\ - \text{Credits} \\ \hline \text{Net Tax} \end{array}$$

*See IRS Tax rate schedules - http://www.irs.ustreas.gov/prod/forms_pubs/graphics/10311g87.gif

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FACILITATOR'S GUIDE TO THE TAX PROCESS (Continued)

1. Start by assessing **gross income**, which includes work income, interest income, pension and annuities.
2. Subtract any **adjustments** (examples: alimony, retirement plans, interest penalty on early withdrawal of savings, tax on self-employment, moving expenses, education loan interest paid). The difference is the **adjusted gross income** (AGI).
3. Once the AGI is calculated, there are two choices: Either subtract a **standard deduction**, or subtract **itemized deductions**, whichever is greater. Itemized deductions might include, but aren't limited to, some medical and dental expenses, charitable contributions, interest on home mortgages, state and local taxes and casualty loss.
4. Next, subtract **personal exemptions** to end up with **taxable income**.
5. Go to the IRS tax tables if taxable income is less than \$100,000, or to the IRS tax rate schedules if it's more than \$100,000. This is where it gets a little complicated, because the United States uses a **marginal tax rate** system. There are five **tax brackets**: 15 percent, 27.5 percent, 30.5 percent, 35.5 percent and 39.1 percent. How the tax rate works depends on income and marital status.
 - a. For those using the tax table, look for taxable income on the chart and to find **gross tax liability**. For those making more than \$100,000, use the tax-rate schedule to figure gross tax liability.
6. From your gross tax liability, subtract any **credits**. Credits may include such items as childcare. The difference is the **net tax**, which is how much to pay or how much of a refund to expect.

At the end of each pay period, Joe's company takes the withheld money, along with all of withheld tax money from all of its employees, and deposits the money in a **Federal Reserve Bank**. This is how the government maintains a steady stream of income while also drawing interest on your tax dollars.

Moving ahead to the end of the tax year, Joe's company has to send Joe a **W-2 form** in the mail. This form details how much money Joe made during the last year and how much federal tax was withheld from his income.

At some point between the time Joe receives his W-2 and April 15, Joe will have to fill out and return his taxes to the IRS. The IRS received 127 million returns in 2000. Also in that year, 35 million people filed their taxes online through e-File, and more than 3 million filed using the **TeleFile** phone-filing system. Once the IRS receives Joe's tax returns, an IRS employee keys in every piece of information on Joe's tax forms. If Joe is due a tax refund, he is sent a check in the mail in the next few weeks. About 94 million taxpayers received refunds in 2000, according to the IRS. If Joe uses e-File or TeleFile, his refund can be direct-deposited into his bank account.

From <http://www.howstuffworks.com>



TAXES AND BENEFITS ACTIVITY #5

EITC and Other Tax Help

A. Objectives

- Participants determine whether they are eligible for EITC.
- Participants identify the steps needed to claim EITC.
- Participants learn about other tax credits/refunds and their eligibility.

B. Time Needed

10-15 minutes.

C. Materials

Handouts: “Questions About the Earned Income Tax Credit (EITC)” “Education Tax Benefits”, “Tax Help for People With Dependents”

Description

1. Explain that the Earned Income Tax Credit (EITC) is money from the government, which helps working people with limited income, similar to TANF or SSI. Unlike those programs, however, EITC is given as a tax refund. EITC can be “credited” at tax time, added to one’s paycheck (“advance EITC”) and/or claimed retroactively. In 2002, a parent of one child with an income below \$28,281 could claim up to \$2,428; a parent of more than one child with an income below \$32,121 could claim up to \$4,008.
2. Review the eligibility requirements and the benefits (outlined in the handout “Questions About for the Earned Income Tax Credit?”). Review the process for claiming the credit, which requires filing either form 1040A or 1040 (NOT the 1040EZ).
3. Distribute the handouts “Education Tax Benefits” and “Tax Help for People with Dependents” and briefly explain the savings available for eligible participants. Be sure to differentiate between a tax credit, refund, and deduction. See “Key Tax Terms” for clarification of each term.

TAXES AND BENEFITS ACTIVITY #6

Benefits: Your Rights

A. Objectives

- Participants become familiar with their rights as recipients of benefits.
- Participants understand the importance of accessing benefits.

B. Time Needed

10-15 minutes

C. Materials

Handouts: “General Welfare Rights”, “TAFDC Work Requirement—Know Your Rights” “TAFDC Work Requirements—Know Your Rights”, “60 Month TAFDC Clock Restart”, “Checking Your 24 Month TAFDC Clock” “Exemptions and Waivers for TAFDC Requirements.”

Considerations

A discussion of benefits can not only raise sensitive issues, but also invite complaints about the injustice and bureaucracy of the welfare system. Complaints are only useful if they lead to action! See the manual’s resource list for a directory of organizations advocating for better welfare legislation, and refer interested participants to it.

Outlining individuals’ entitlement to benefits is not very helpful in a workshop setting, nor, given the rapidly changing regulations, is it very useful. The intent of this activity and the accompanying series of handouts (all developed by Greater Boston Legal Services) is to get participants thinking about the intricacies of the welfare system, how they can best take advantage of what they are entitled to. In many cases, free legal consultation can expand or prolong their access to benefits. Like all the activities, this one aims to inform and empower participants so that they can most effectively “work the system.”

Review the facilitator’s guides “Extensions of the TAFDC Time Limit” and “The TAFDC Work Requirement” for valuable background and advocacy tips.

Description

1. Discuss the relationship between what we give the government/society (our labor, our income tax, our presence and contributions to the community, our children/families) and what we get. Talk about how benefits fit into the spectrum of government services EVERYONE deserves and ultimately pays for. How does providing benefits to those who need them ultimately benefit EVERYONE? What happens when society “cuts corners?”
2. Discuss the importance of knowing and protecting our rights and making informed choices about benefits and “compliance” with TAFDC regulations.

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TAXES AND BENEFITS ACTIVITY #6 (Continued)

Benefits: Your Rights

3. Distribute and review the handouts “General Welfare Rights”, “TAFDC Work Requirement—Know Your Rights” “TAFDC Work Requirements—Know Your Rights”, “60 Month TAFDC Clock Restart”, “Checking Your 24 Month TAFDC Clock” (the aim of this content is to extend the time during which participants may receive TAFDC) “Exemptions and Waivers for TAFDC Requirements.” Encourage participants to seek legal counsel for help with individual situations.

FACILITATOR'S GUIDE: TAXES AND BENEFITS MODULE

Department Of Transitional Assistance (DTA) Overview

The Massachusetts Department of Transitional Assistance (DTA), formerly known as the Department of Public Welfare, is the state agency responsible for administering public assistance programs. DTA emphasizes temporary assistance and encourages participation in education, training and job search activities, which promote responsibility and self-sufficiency. In 2002, the Department provided services to nearly 363,000 families and individuals across the state. The Department of Transitional Assistance (DTA) administers the following benefit programs:

Transitional Aid to Families with Dependent Children (TAFDC)

TAFDC provides time-limited cash benefits to certain families with dependent children and pregnant women in the last 120 days of pregnancy. A recipient must meet income and asset limits; live in Massachusetts; be a U.S. citizen or a legal immigrant; and have a Social Security Number or have applied for a Social Security Number.

Emergency Aid to the Elderly, Disabled and Children (EAEDC)

EAEDC provides cash benefits to individuals who are eligible because they are:
A U.S. citizen or a legal immigrant, unable to work due to a physical or mental incapacity which has lasted or will last at least 60 days, and meets the Department-established medical standards for disability; or other specific state criteria.

Food Stamp Program, State Supplemental Food Stamp Program (SSFSP)

The Food Stamp benefit helps low-income people buy the food they need. The amount of food stamp benefits is based on the U.S. Department of Agriculture's Thrifty Food Plan, based on income and the cost of shelter and utilities. A food stamps recipient must be a U.S. citizen or a legal immigrant. The State Supplemental Food Stamp Program (SSFSP) provides state-funded food stamp benefits to noncitizens who are not eligible for the federal Food Stamp Program (FS) due to their noncitizen status. SSFSP benefits are provided only to those noncitizens who have resided in Massachusetts for a continuous 60 days or more before (re)application.

Emergency Assistance (EA)

Emergency Assistance (EA) may be available to needy families with dependent children under the age of 21 or to a pregnant woman without any dependent children. An EA household must have at least one member who is a U.S. citizen or a legal immigrant in accordance with the TAFDC program. Emergency Assistance may pay for accommodations in a family shelter if the family is homeless

SSI Supplemental Security Income (SSI) is a cash assistance program administered by the Social Security Administration for the elderly (over age 65) and disabled. Individuals receiving SSI are automatically eligible for MassHealth.

TAXES AND BENEFITS ACTIVITY #7

Benefits: Your Choices

A. Objectives

- Participants become familiar with their access to benefits.
- Participants understand the importance of legal consultation.

B. Time Needed

10-15 minutes

C. Materials

Handouts: “Structured Job Search—the Right Choice for Me?” “Access to Education and Training for TAFDC Recipients”

Description

1. Reiterate the importance of career ladders and sustainable career choices. Ask participants to make a connection between the discussion of benefits and that of careers. How are the two related?
2. Distribute and discuss the handouts, “Structured Job Search—the Right Choice for Me?” and “Access to Education and Training for TAFDC Recipients.” Discuss the ways furthering education and training while receiving benefits is possible, and how education and training fits into the plan for economic security. Outline the limitations and drawbacks of structured job search.
3. Encourage participants to access legal consultation if necessary.