



## Get Tax Savvy: What You Need to Know About Taxes

**You encounter taxes everywhere. When you buy things, you pay sales tax, if you're employed and you get a paystub, you'll probably see income taxes taken out, and then there is the April 15th tax-filing deadline every year. You probably pay some form of tax to the Federal government, some States have a State income tax, and maybe you even pay some tax to your town or city. The taxes you and everyone else pay contribute to the things and services provided by the government. The military, funding for education, food stamps, public benefits, public transportation, the roads we drive on, the police, and foster care services are all paid for with tax dollars. Even though paying taxes may seem like a burden, there are a lot of tax benefits that may be very valuable to you, especially if you have kids. Read on to learn more about how taxes work.**

**Decode your paystub:** If you look closely at your paycheck, you'll likely see a number of different subtractions for different types of taxes. These subtractions are called "withholdings"; money is withheld from your income in anticipation of the portion that you may owe based on your earnings. Some money is going to Social Security and Medicare programs so that when you retire or if you become disabled, you can receive income from the Social Security Administration. The amount you receive is based on how much was withheld from your previously earned income. Some of the money that is taken out of your paycheck goes to the Social Security Administration fund, and other income taxes withheld from your check go to the Federal and local governments. The more money you earn, the higher a percentage of your income you pay in income taxes. You can read more about the deductions on your paycheck here:

[workingworld.com/articles/Decoding-Your-Paycheck](http://workingworld.com/articles/Decoding-Your-Paycheck).

**But what if I don't get a paystub?** Many young people work at jobs where they earn money in cash or are paid "under the table." If you're paid this way, there's a good chance that you're not having taxes withheld from the income you earned. There are special guidelines defined by the government that define criteria for who is considered an employee and who can be considered an independent contractor. If you meet the legal definition of an employee, it is likely illegal for your employer to pay you as an independent contractor. Beware of employers who classify you as an independent contractor in an attempt to get out of paying payroll taxes, and avoid paying the legal minimum wage and overtime. If your income tax is not withheld from your pay, you will be responsible for paying the IRS directly. There are ways to get properly classified as an employee if you're misclassified as an independent contractor, but you may well lose that job if you assert your rights. A Low Income Taxpayer Clinic (follow the link to find the clinic nearest you <http://www.irs.gov/Advocate/Low-Income-Taxpayer-Clinics/Low-Income-Taxpayer-Clinic-Map>) can help you complete a Federal Form (Form SS-8) to get yourself properly classified. You can even take this step after you leave the employer. Regardless of how you're paid, you should still file a tax return. One reason is the law requires you to do so, and another, is considering your

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Get Tax Savvy: What You  
Need to Know About Taxes

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future; you don't want to rob yourself from your retirement or disability benefits you will be entitled to receive down the line. If you earn money in cash, be sure to keep good records to document your earnings to ensure you get all the tax benefits you're entitled.

### Am I an employee or an independent contractor?

How you pay your Federal income tax is determined by whether your earnings are classified as an employee or as an independent contractor (self-employed). You could be both. It is your responsibility to ensure that you are properly classified, and your taxes are filed and paid.

### How To File

**File your taxes for free:** There are private companies that prepare tax returns. Every year in January they pop up all over the country offering to file tax returns, promising they will get you more of the refund you are due, and will get your refund quicker. But these paid preparers charge a lot of money, often over \$100, even for very simple returns. You can read more about the cost of tax preparation fees at paid preparers here: <http://taxes.about.com/od/findataxpreparer/a/prices.htm>. Paid preparers also often offer a "Rapid Refund" option where they provide refunds on the spot, but the way "Rapid Refunds" works, is the preparer takes a chunk of your refund as their fee. Fortunately, there are other options. You can download the forms for free and complete them yourself, or you can access VITA (Volunteer Income Tax Assistance). Across the country there are thousands of VITA sites; these tax sites are staffed by IRS-certified volunteers where you can file your taxes for **free**. This link will help you find a VITA site near you: [irs.gov/Individuals/Find-a-Location-for-Free-Tax-Prep](http://irs.gov/Individuals/Find-a-Location-for-Free-Tax-Prep). If you're eligible for a refund, you will get your full refund within about two weeks.

**Problems with your taxes?** Youth in foster care or formerly in care have a high risk experiencing tax problems of which they may be unaware. If you are considered a dependent of someone else, you may be claimed on that person's tax return, making them eligible for a tax credit like a reduced tax debt. You may also be wrongly claimed as a dependent on someone's tax return, and may not know for some time. If you encounter problems filing your return, or receive a tax notice from the IRS or your state tax authority, do not ignore the issue. You should promptly contact a reliable expert, like a Low Income Tax Clinic ([irs.gov/Advocate/Low-Income-Taxpayer-Clinics/Low-Income-Taxpayer-Clinics](http://irs.gov/Advocate/Low-Income-Taxpayer-Clinics/Low-Income-Taxpayer-Clinics)) to get help.

### Tax credits can mean serious money!

Lizette is a 21-year old single mother with a 2-year-old daughter. She works part-time as a barista and earned \$10,000 in 2012. When she's not working, she attends community college. After student loans and grants, she still had to spend \$3000 for tuition, fees, and books.

Lizette went to a VITA site in February 2013 to file her taxes for free. It was her first time filing. She was really surprised. She ended up getting a refund of almost \$4000!

\$3169 came from the EITC and the rest came from the American Opportunity Credit and the Additional Child Tax Credit, which are both refundable tax credits.

Based on her income, Lizette actually owes no income tax, but she still gets a huge refund because of the refundable tax credits.

## Taxes That Pay You

**What is a tax credit?** A tax credit, like mentioned earlier, is a tax benefit that may qualify you for a reduced amount of tax on your income. To qualify, you must meet certain criteria. There are simple forms that help you figure out if you are eligible for credits. The most valuable type of tax credit is called “refundable” because it pays you, rather than simply allowing you to reduce the tax due. There are some examples of federal tax credits discussed below.

**Credits if you have kids:** The most prominent refundable tax credit is the Federal Earned Income Tax Credit (“EITC”). You can find out more here: [www.irs.gov/eitc](http://www.irs.gov/eitc). Almost half of states have their own EITC, which can add even more to your refund dollars. You can see which states have their own EITCs here: <http://www.cbpp.org/cms/?-fa=view&id=2506>. If no one else is claiming you as a dependent, you have a child(ren), and you have income from employment, you could be eligible for a sizeable tax refund of a few thousand dollars. However, if you’re under 25 and you don’t have a child(ren), you can’t claim the EITC. In addition to the EITC, individuals with children may be eligible for the Child Tax Credit ([www.irs.gov/uac/Ten-Facts-about-the-Child-Tax-Credit](http://www.irs.gov/uac/Ten-Facts-about-the-Child-Tax-Credit)) and the Child and Dependent Care Credit ([www.irs.gov/uac/Newsroom/Claiming-the-Child-and-Dependent-Care-Tax-Credit](http://www.irs.gov/uac/Newsroom/Claiming-the-Child-and-Dependent-Care-Tax-Credit)).

**Credits for college:** If you paid for educational expenses (like tuition and course materials), you are likely eligible for a valuable tax credit called the American Opportunity Credit. It can be worth as much as \$2,500 – while putting as much as \$1,000 in your pocket. You can read more about the American Opportunity Credit here: [www.irs.gov/uac/American-Opportunity-Tax-Credit](http://www.irs.gov/uac/American-Opportunity-Tax-Credit).

**But what if I miss the April 15 deadline to file?** Don’t worry about the deadline if you’re sure the government owes you a refund. You actually have three years to claim a refund. That means if you’re owed a refund for tax year 2011, which was due April 15, 2012, you have until April 15, 2015 to claim your refund. The only issue is that it can sometimes be difficult to find a VITA site that does past-year returns, but you can find one if you search. On the other hand, if you owe the government money and you miss the April 15 deadline, you may end up owing penalties and interest for the time since the date the return was due. If you file on time, and it turns out that you owe the government, you will know right away and have less penalties and interest to pay.