

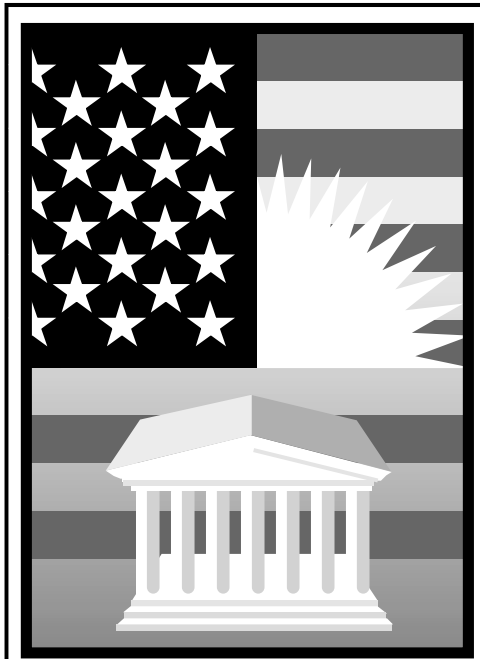


Department of the Treasury
Internal Revenue Service

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Tax Highlights for Persons with Disabilities

For use in preparing
1999 Returns



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Introduction

This publication gives you a brief introduction to certain parts of the tax law of particular interest to people with disabilities and those who care for people with disabilities. It includes highlights about:

- Income,
- Itemized deductions,
- Tax credits,
- Household employees, and
- Business tax incentives.

You will find most of the information you need to complete your tax return in your form instruction booklet. 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.

See *How To Get More Information*, at the end of this publication, for information about getting publications, forms, and free tax services.

Income

All income is taxable unless it is specifically excluded by law. The following discussions highlight some income items (both taxable and nontaxable) that are of particular interest to persons with disabilities and persons who care for people with disabilities. See Publication 525, *Taxable and Nontaxable Income*, for more information.

Dependent Care Benefits

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 able to care for himself or herself.

If you file Form 1040, get Form 2441, *Child and Dependent Care Expenses*, and its instructions. If you file Form 1040A, get Schedule 2 (Form 1040A), *Child and Dependent Care Expenses for Form 1040A Filers*, and the Form 1040A instructions.

Social Security and Equivalent Tier 1 Railroad Retirement Benefits

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

Are any of your benefits taxable? If the only income you received during the year 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 the year in addition to social security or equivalent tier 1 railroad retirement benefits, part of your benefits may be taxable if all of your other income, including tax-exempt interest, plus half of your benefits 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 the year,
- \$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 the year.

For more information, see the instructions for lines 20a and 20b (Form 1040) or lines 13a and 13b (Form 1040A). Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*, contains more detailed information.

Supplemental security income (SSI) payments. Do not include SSI payments in your income.

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 as income only the amount you receive for your disability that is due to your employer's payments. 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 you do not have to include certain military and government disability pensions. For more information about military and government disability pensions, see Publication 525.

VA disability benefits. You do not have to include disability benefits you receive from the Department of Veterans Affairs (VA) 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.

Do not include veterans' benefits paid under any law, regulation, or administrative practice administered by the VA. These include:

- Education, training, or subsistence allowances,

- Disability compensation and pension payments for disabilities paid either to veterans or their families,
- Grants for specially adapted homes for veterans with disabilities, or
- Grants for motor vehicles and adaptive equipment for veterans with disabilities.

For more information about VA benefits, see Publication 525.

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 if paid under a workers' compensation act or similar law.
- Compensatory (but not punitive) damages, for physical injury or physical sickness.
- 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.

Long-Term Care Insurance

Qualified long-term care insurance contracts are generally treated as accident and health insurance contracts. Amounts you receive from them (other than policyholder dividends or premium refund) generally are excludable from income as amounts received for personal injury or sickness. More detailed information can be found in Publication 525.

Itemized Deductions

If you file Form 1040, you can either claim 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 and for treatment affecting any part or function of the body. They also include the cost of trans-

portation 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 33, Form 1040.

The following list contains only highlights. For more detailed information, get Publication 502, *Medical and Dental Expenses*.

Special Items and Equipment

Your medical expenses can include payments for any of the following items.

- Artificial limbs, eyeglasses, and hearing aids.
- The part of the cost of braille books and magazines that is more than the price of regular printed editions.
- 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.
- Cost and maintenance of a wheelchair or autoette.
- Cost and care of a guide dog or other animal aiding a person with a disability.
- 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 a mental or physical disability. This includes the cost of teaching and the cost of remedial language training to correct a condition caused by a birth defect.
- Improvements to your home that do not increase its value if the main purpose is medical care. An example is constructing entrance or exit ramps to your home.
- Premiums for qualified long-term care insurance, up to certain amounts.

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 are necessary for you to work.

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



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

Tax Credits

This discussion highlights three tax credits that are of interest to people with disabilities and those who care for people with disabilities.

Child and Dependent Care Credit

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

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

For more information, see the instructions for line 41 (Form 1040) or line 26 (Form 1040A). Publication 503, *Child and Dependent Care Expenses*, contains more detailed information.

Credit for the Elderly or the Disabled

You may be able to claim this credit if you are 65 or older or if you retired on permanent and total disability.

You can claim the credit on Form 1040 or 1040A. You figure the credit on Schedule R (Form 1040) or on Schedule 3 (Form 1040A).

For more information, see the instructions for line 42 (Form 1040) or line 27 (Form 1040A). Publication 524, *Credit for the Elderly or the Disabled*, contains more detailed information.

Earned Income Credit

Generally, for 1999 you can get this credit if you worked and earned less than:

- \$10,200 and did not have a qualifying child,
- \$26,928 and had one qualifying child, or
- \$30,580 and had more than one qualifying child.

To figure the credit, use the worksheet in the instructions for Form 1040, 1040A, or 1040EZ. If you have a qualifying child, also complete Schedule EIC, *Earned Income Credit*, and attach it to your Form 1040 or 1040A. You cannot use Form 1040EZ if you have a qualifying child.

For more information, see the instructions for lines 59a and 59b (Form 1040), lines 37a and 37b (Form 1040A), or lines 8a and 8b (Form 1040EZ). Publication

596, *Earned Income Credit (EIC)*, contains more detailed information.

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 hire through an agency is not your employee if the agency controls what work is done and how it is done. This control could include setting the fee, requiring regular reports, and providing rules of conduct and appearance. In this case you do not have to pay employment taxes on the amount you pay. But if you control what work is done, and how it is done, the worker is your employee. If a worker is your employee, it does not matter that you hired the worker through an agency or from a list provided by an agency.

To find out if you have to pay employment taxes, see Publication 15-A, *Employer's Supplemental Tax Guide*.

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:

- Deduction for costs of removing barriers to the disabled and the elderly—This is a deduction you can take for making your facility or public transportation vehicle more accessible to and usable by persons who are disabled or elderly. See chapter 11 in Publication 535, *Business Expenses*.
- Disabled access credit—This is a tax credit for an eligible small business that pays or incurs expenses to provide access to persons with disabilities. The expenses must be to enable the eligible small business to comply with the Americans with Disabilities Act of 1990. See the instructions for Form 8826, *Disabled Access Credit*, for more information.
- Work opportunity credit—This is a tax credit for businesses that hire individuals from certain targeted groups. One targeted group consists of vocational rehabilitation referrals. These are individuals who have a physical or mental disability that results in a substantial handicap to employment. For 1999, you can only claim the credit for employees who began work before July 1, 1999. See Publication 334, *Tax Guide for Small Business*, and the instructions for Form 5884, *Work Opportunity Credit*, for more information.



Legislation affecting the work opportunity credit was pending at the time of printing. For guidance, visit the IRS's web site at www.irs.gov or see your tax forms instructions. Publication 553, Highlights of 1999 Tax Changes, will also contain information about this and other tax law changes.

How To Get More Information

You can order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Braille tax materials. Braille tax materials are available for review from any of the *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 (for Schedule C or C-EZ (Form 1040) Filers)*, and
- Forms 1040, 1040A, 1040EZ, and related instructions.

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services*. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



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- *Digital Dispatch* and *IRS Local News Net* (both located under *Tax Info For Business*) to receive our electronic newsletters on hot tax issues and news.
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TaxFax Service. Using the phone attached to your fax machine, you can receive forms and instructions by calling **703-368-9694**. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1-800-829-3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1-800-829-1040**.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1-800-829-4477** to listen to pre-recorded messages covering various tax topics.

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- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.



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The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1-877-233-6767** or on the Internet at **www.irs.gov/cdorders**. The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *Small Business Resource Guide*, is an interactive CD-ROM that contains information important to small busi-

nesses. It is available in mid-February. You can get one free copy by calling **1-800-829-3676**.