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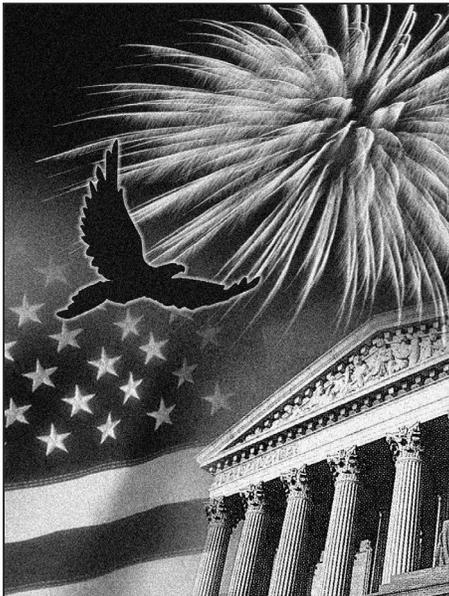
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Tax Highlights for Persons with Disabilities

For use in preparing

2007 Returns



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What's New

Rehabilitative program payment. VA payments to hospital patients and resident veterans for their services under the VA's therapeutic or rehabilitative programs are no longer included in income.

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 Tax Help*, at the end of this publication, for information about getting publications, forms, and free tax services.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:

Internal Revenue Service
Individual Forms and Publications Branch
SE:W:CAR:MP:T:I
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can email us at **taxforms@irs.gov*. (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

Ordering forms and publications. Visit *www.irs.gov/formspubs* to download forms and publications, call 1-800-829-3676, or write to the address below and receive a response within 10 days after your request is received.

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Tax questions. If you have a tax question, check the information available on www.irs.gov or call 1-800-829-1040. We cannot answer tax questions sent to either of the above addresses.

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 people with disabilities and those who care for people with disabilities.

Dependent Care Benefits

You can exclude from income benefits provided under your employer's qualified dependent care benefit plan. You may be able to exclude up to \$5,000 (\$2,500 if married filing separately). The care must be provided for:

1. Your qualifying child who is your dependent and who was under age 13 when the care was provided,
2. Your spouse who was physically or mentally not able to care for himself or herself and lived with you for more than half the year, or
3. A person who was physically or mentally not able to care for himself or herself, lived with you for more than half the year, and either:
 - a. Was your dependent, or
 - b. Would have been your dependent except that:
 - i. He or she received gross income of \$3,400 or more,
 - ii. He or she filed a joint return, or
 - iii. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2007 return.

For information about excluding benefits on Form 1040, see Form 2441, Child and Dependent Care Expenses, and its instructions. For information about excluding benefits on Form 1040A, see Schedule 2 (Form 1040A), Child and Dependent Care Expenses for Form 1040A Filers.

Social Security and 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 are 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 Form 1040, lines 20a and 20b, or Form 1040A, lines 14a and 14b. Publication 915, Social Security and Equivalent Railroad Retirement Benefits, contains more detailed information.

Supplemental security income (SSI) payments. Social security benefits do not include SSI payments, which are not taxable. Do not include these 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.

If you paid the entire cost of the plan, do not report as income any amounts you get from the plan for your disability. See Publication 525, Taxable and Nontaxable Income, for more information.

Military and Government Disability Pensions

Generally, you must report disability pensions as income, but do not include certain military and government disability pensions. For information about military and government disability pensions, see Publication 525.

VA disability benefits. Do not 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, see Publication 525 for more information.

Do not include in your income any 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 homes designed for wheelchair living,
- Grants for motor vehicles for veterans who lost their sight or the use of their limbs,
- Veterans' insurance proceeds and dividends paid either to veterans or their beneficiaries, including the proceeds of a veteran's endowment policy paid before death,
- Interest on insurance dividends left on deposit with the VA,
- Benefits under a dependent-care assistance program, or
- The death gratuity paid to a survivor of a member of the Armed Forces who died after September 10, 2001.

Rehabilitative program payments. VA payments to hospital patients and resident veterans for their services under the VA's therapeutic or rehabilitative programs are not included in income.

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

Accelerated Death Benefits

You can exclude from income accelerated death benefits you receive on the life of an insured individual if certain requirements are met. Accelerated death benefits are amounts received under a life insurance contract before the death of the insured. These benefits also include amounts received on the sale or assignment of the contract to a viatical settlement provider. This exclusion applies only if the insured was a terminally ill individual or a chronically ill individual. For more information, see Publication 525.

Itemized Deductions

If you file Form 1040, you generally 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 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 Form 1040, line 38.

The following list highlights some of the medical expenses you may have for special items and equipment related to a disability. For more detailed information, see Publication 502, Medical and Dental Expenses.

- 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 physical disability.
- A therapist or other person who gives “patterning” exercises to a mentally retarded child.
- A special school, 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.
- Premiums for qualified long-term care insurance, up to certain amounts.
- Improvements to a home that do not increase its value if the main purpose is medical care. An example is constructing entrance or exit ramps.



Improvements that increase a home's value, if the main purpose is medical care, may be partly included as a medical expense. See Publication 502 for more information.

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.

Publication 502, Medical and Dental Expenses, contains more detailed information.



Generally, 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 may be of interest to people with disabilities and those who care for people with disabilities.

Child and Dependent Care Credit

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 35% of your expenses. To qualify, you must pay these expenses so you can work or look for work. The care must be provided for:

1. Your qualifying child who is your dependent and who was under age 13 when the care was provided,
2. Your spouse who was physically or mentally not able to care for himself or herself and lived with you for more than half the year, or
3. A person who was physically or mentally not able to care for himself or herself, lived with you for more than half the year, and either:
 - a. Was your dependent, or
 - b. Would have been your dependent except that:
 - i. He or she received gross income of \$3,400 or more,
 - ii. He or she filed a joint return, or
 - iii. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2007 return.

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 Form 1040, line 47, or Form 1040A, line 29. 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 are under 65 and 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 Form 1040, line 48, or Form 1040A, line 30. Publication 524, Credit for the Elderly or the Disabled, contains more detailed information.

Earned Income Credit

This credit is based on the amount of your earned income. But you can get the credit only if your earned income for 2007 was less than:

- \$12,590 (\$14,590 for married filing jointly) if you did not have a qualifying child,
- \$33,241 (\$35,241 for married filing jointly) if you had one qualifying child, or
- \$37,783 (\$39,783 for married filing jointly) if you 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.

Qualifying child. A qualifying child must be under age 19 at the end of 2007, or a full-time student under age 24 at the end of 2007, or permanently and totally disabled at any time during 2007, regardless of age.

Earned income. If you are retired on disability, benefits you receive under your employer's disability retirement plan are considered earned income until you reach minimum retirement age. However, payments you received from a disability insurance policy that you paid the premiums for are not earned income.

More information. For more information, including all the requirements to claim the credit, see the instructions for Form 1040, line 66a; Form 1040A, line 40a; or Form 1040EZ, line 8a. Publication 596, Earned Income Credit (EIC), contains more detailed information.

Household Employers

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 926, Household Employer's Tax Guide.

Business Tax Incentives

If you own or operate a business, or you are looking for work, you should be aware of the following tax incentives for businesses to help persons with disabilities.

- **Deduction for costs of removing barriers to the disabled and the elderly**—This is a deduction a business can take for making a facility or public transportation vehicle more accessible to and usable by persons who are disabled or elderly. For more information, see chapter 7 of Publication 535, Business Expenses.
- **Disabled access credit**—This is a nonrefundable 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 credit provides businesses with an incentive to hire individuals from targeted groups that have a particularly high unemployment rate or other special employment needs. 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. See the instructions for Form 5884, Work Opportunity Credit, and Publication 954, Tax Incentives for Distressed Communities, for more information. Under current law, an employer cannot claim the credit for the wages of an employee who begins work for the employer after August 31, 2011.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get 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.

Contacting your Taxpayer Advocate. The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should.

You can contact the TAS by calling the TAS toll-free case intake line at 1-877-777-4778 or TTY/TDD 1-800-829-4059 to see if you are eligible for assistance. You can also call or write to your local taxpayer advocate, whose phone number and address are listed in your local telephone directory and in Publication 1546, Taxpayer Advocate Service – Your Voice at the IRS. You can file

Form 911, Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order), or ask an IRS employee to complete it on your behalf. For more information, go to www.irs.gov/advocate.

Taxpayer Advocacy Panel (TAP). The TAP listens to taxpayers, identifies taxpayer issues, and makes suggestions for improving IRS services and customer satisfaction. If you have suggestions for improvements, contact the TAP, toll free at 1-888-912-1227 or go to www.improveirs.org.

Low Income Taxpayer Clinics (LITCs). LITCs are independent organizations that provide low income taxpayers with representation in federal tax controversies with the IRS for free or for a nominal charge. The clinics also provide tax education and outreach for taxpayers with limited English proficiency or who speak English as a second language. Publication 4134, Low Income Taxpayer Clinic List, provides information on clinics in your area. It is available at www.irs.gov or at your local IRS office.

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

Accessible versions of IRS published products are available on request in a variety of alternative formats for people with disabilities.



Internet. You can access the IRS website at www.irs.gov 24 hours a day, 7 days a week to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2007 refund. Click on *Where's My Refund*. Wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2007 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.

- Figure your withholding allowances using the withholding calculator online at www.irs.gov/individuals.
- Determine if Form 6251 must be filed using our Alternative Minimum Tax (AMT) Assistant.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.



Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.
- *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.
- *Refund information.* To check the status of your 2007 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2007 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to listen in on

or record random telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



Walk-in. Many products and services are available on a walk-in basis.

- **Products.** You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- **Services.** You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you're more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary, but if you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.



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CD/DVD for tax products. You can order Publication 1796, IRS Tax Products CD/DVD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.

- Bonus: Historical Tax Products DVD - Ships with the final release.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- The CD which is released twice during the year.
 - The first release will ship the beginning of January 2008.
 - The final release will ship the beginning of March 2008.

Purchase the CD/DVD from National Technical Information Service (NTIS) at www.irs.gov/cdorders for \$35 (no handling fee) or call 1-877-CDFORMS (1-877-233-6767) toll free to buy the CD/DVD for \$35 (plus a \$5 handling fee). Price is subject to change.



CD for small businesses. Publication 3207, The Small Business Resource Guide CD for 2007, is a must for every small business owner or any taxpayer about to start a business. This year's CD includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.
- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2007.
- Tax Map: an electronic research tool and finding aid.
- Web links to various government agencies, business associations, and IRS organizations.
- "Rate the Product" survey—your opportunity to suggest changes for future editions.
- A site map of the CD to help you navigate the pages of the CD with ease.
- An interactive "Teens in Biz" module that gives practical tips for teens about starting their own business, creating a business plan, and filing taxes.

An updated version of this CD is available each year in early April. You can get a free copy by calling 1-800-829-3676 or by visiting www.irs.gov/smallbiz.