

COMMON TAX Q&AS

Are scholarships and grants subject to federal income tax?

That depends on several factors. If you are a candidate for a degree at an educational institution and receive a qualified scholarship or fellowship that you use for tuition, fees and required expenses (e.g., books, supplies, and equipment), you need not include the scholarship amount in your taxable income. (Note: the IRS has provided specific guidance regarding the definitions of educational institution and degree candidate.) However, if your scholarship includes money for room, board and other incidentals, those dollars are taxable. If you are not a candidate for a degree, your entire scholarship is taxable. If you receive a grant in exchange for performing required services for the school (e.g., working as a teaching assistant), the amount of the grant is generally taxable. Note: Different rules may apply to tuition reductions and reimbursements.

How long should I keep copies of my tax returns?

Generally, you should keep your tax returns and supporting information (i.e., receipts, W-2 forms, bank statements) for six to seven years. The IRS has three years to audit a return, or two years after you have paid the tax, whichever is later. However, if income was underreported by at least 25%, the IRS can look back six years, and there is no time limit for fraudulent tax returns.

Can I take the credit for the elderly or disabled?

This federal income tax credit is available if you are a qualified individual and your income falls within specified limits. You are a qualified individual if you are either (1) age 65 or older at the end of the tax year or (2) are under age 65 and retired on permanent and total disability. You must also be a U.S. citizen or resident to qualify for the credit. If you are married, you and your spouse must file a joint tax return to qualify. However, if you and your spouse lived apart for the entire year, you have the option of filing either a joint return or separate returns.

Qualifying on the basis of age is straightforward. To qualify as disabled, though, you should note that the IRS considers you retired on disability as of the date you stopped working because of your disability. You are considered permanently and totally disabled if (1) you can't engage in any substantial gainful activity due to either your physical or mental condition and (2) the condition has lasted or will last for a continuous period of not less than one year (or is expected to result in death). You should obtain a physician's statement certifying your disability.

To qualify for the credit, you must also meet income requirements. Your income and nontaxable Social Security (or other nontaxable pension) must fall below specified amounts that vary with your filing status.

For more information, see Schedule R of your Form 1040.

If I prepay next year's taxes this year, can I deduct them this year?

It depends. Sometimes real estate taxes are prepaid. If you are the property owner, you can generally deduct prepaid real estate taxes in the year of the prepayment if (1) you are a cash basis taxpayer, (2) the taxes were assessed in the year they were paid, and (3) you don't live in a jurisdiction where the taxing authority considers prepayment a "deposit." Jurisdictions vary regarding how they treat prepaid tax. Be aware that taxes placed in escrow generally aren't deductible until they are paid to the taxing authority. Remember, the TCJA limits state and local tax deductions on Schedule A to \$10,000 per year. It may not benefit you to prepay taxes if you are already over the \$10,000 limit.

What is the difference between the child tax credit, the family tax credit and the child and dependent care tax credit?

These credits are quite different.

First, the child tax credit: The purpose of this credit is simply to provide tax relief for parents, working or not, who have qualifying children under the age of 17. A qualifying child may be a dependent child, stepchild, adopted child, sibling or stepsibling (or descendant of these individuals) or an eligible foster child. The child must be a U.S. citizen or resident with a valid Social Security Number and must live with you for more than half the year.

The family tax credit provides relief for dependents that did not have gross income in excess of certain amounts for that year. Generally, these dependents will be qualifying children who are older than the child tax credit age or qualifying relatives, such as dependent parents, stepparents, grandparents, siblings, aunts, uncles and in-laws. Your dependent must be a U.S. citizen or resident. A qualifying dependent is not required to have lived with you but is someone who received more than half of his or her financial support from you over the year.

If you're eligible, you may be able to take a credit on your federal income tax return of up to \$2,000 per child for the child tax credit and \$500 for the family tax credit. These credits begins to phase out if your modified adjusted gross income (MAGI) exceeds a certain level.

The child and dependent care tax credit offers relief to working people who must pay someone to care for their children or other dependents. You may qualify for a tax credit equal to 20% to 35% of expenses incurred when someone cares for your dependent child (under age 13), your disabled spouse or your disabled dependent so that you (and your spouse, if married) may work or look for work. The work-related expenses you can use when figuring the credit are limited to \$3,000 for one qualifying individual and \$6,000 for more than one qualifying individual.

For married persons to qualify for the credit, both spouses must work outside the home or one must work outside the home while the other is a full-time student, is disabled or is looking for work (provided that the spouse looking for work has earnings during the year). Married couples must also file a joint income tax return. The credit is also available if you're a single parent or a divorced custodial parent.

What is the earned income credit and who qualifies for it?

The earned income credit (EIC) is a refundable tax credit available to certain low-income individuals who have earned income, meet adjusted gross income thresholds and do not have more than a specified amount of disqualified income (excess investment income). If you file a federal tax return and meet all applicable requirements, your income tax (if any) will be reduced and you might receive a refund.

To qualify for the EIC, you must meet all of the following requirements:

- Must have earned income;
- Tax return must cover a full 12 months (unless a short period is filed due to taxpayer's death);
- Filing status cannot be married filing separately;
- Cannot be a qualifying child of another taxpayer;
- Must not have filed forms related to foreign earned income; and
- Must have no more than \$3,500 of disqualified income (stock dividends, rental income, inheritance, etc.);

In addition, special rules will apply to taxpayers who have qualifying children and to taxpayers who do not have qualifying children. If you are eligible to claim the EIC and have at least one qualifying child, you can receive part of your credit in your paycheck during the year, rather than all at once at tax time. This is known as the advance EIC. However, several requirements apply. For more information, consult a tax professional.

Where is my income tax refund?

If you electronically filed your tax return more than four weeks ago, you may want to check on the status of your refund. There is a link on the IRS website, [irs.gov](https://www.irs.gov), "Get Your Refund Status". Click on this link and it will walk you through the steps to obtain the status of your refund. To obtain your refund status, you will need the Social Security Number or ITIN, your filing status and the exact refund amount from your return. Remember, you will typically receive your refund sooner if you choose to have the refund directly deposited to your bank account as opposed to receiving a check in the mail.