

# Tax credits can mean big savings

At tax filing time it is a fortunate taxpayer who qualifies for tax credits. For unlike deductions, exemptions or exclusions, which reduce taxable income, credits reduce dollar for dollar the amount of tax owed. Thus a dollar of credit is almost as good as a dollar in your pocket.

The Tax Reform Act of 1976 changed a couple of deductions into credits, while liberalizing conditions under which other credits could be claimed.

The general tax credit introduced in 1973 has been retained through 1977. Individual taxpayers can take a credit equal to the greater of \$35 per individual personal exemption, or two per cent of the first \$9,000 of taxable income.

The earned income credit of 10 per cent of the first \$4,000 of earnings will be available through Dec. 31, 1977. This credit is phased out as adjusted gross income rises from \$4,000 to \$8,000. Any excess of the credit over taxes owed is refundable in cash, and such refunds do not affect eligibility for federal or federally-assisted welfare programs.

More people have been made eligible for this earned income credit. Previously, it was available only to a taxpayer who maintained a household for a dependent child under 19 or a student for whom the taxpayer could take a personal exemption.

For 1976 and 1977 the credit is also available to taxpayers with adult disabled dependents and to those who maintain a household for a child who is either a student or under 19, even if the youngest cannot be claimed as a personal exemption.

An important change in the tax law benefits persons 65 years of age or over. The old retirement income credit has been liberalized in a number of ways. One of these is that all kinds of income, including earned income, and not just retirement income, is now included. Thus, the credit is now called credit for the elderly.

It is also much easier now to qualify for the credit, since the requirement that an individual must have received more than \$600 of earned income in each of the preceding 10 years has been dropped.

Not only does the credit now apply to all income, including earned income, but the maximum amount of income against which the 15 per cent credit can be claimed has been increased.

For single persons and for married couples filing jointly if only one spouse is 65 or over, the new credit base is \$2,500. For married couples filing jointly if both are over 65, the base is \$3,750. However, as under the old credit, the maximum credit base must be reduced dollar for dollar by social security, railroad retirement benefits, or other exempt pension benefits.

To limit the broadened credit to low and middle income taxpayers, the new law also adds a reduction based on income level.

There is also an investment credit of up to 10 per cent of the cost of machinery or equipment purchased for use in business. If last year you bought a car, for example, for use in business, that cost might qualify.

Another credit that should have widespread application in a presiden-

tial election year is that for political contributions. There is an option here—you could take the contribution as a deduction instead. The tax bracket you are in will determine which is preferable.

The Michigan Association of CPAs notes an important factor for many: the old child care deduction has now become a child care credit equal to 20 per cent of the employment-related expenses for care of a qualifying child or disabled dependent. The credit, which is non-refundable, is limited to \$400 per year for the care of one individual or \$800 for two or more.

There are several new wrinkles in this aspect of the law. Child care payments to relatives now qualify for the new credit. But there are important "ifs." The relative cannot be a dependent, and the relative's wages must be subject to social security taxes which you, the employer, must remit. In ordinary circumstances, putting a member of your family on

the payroll for social security purposes is extremely difficult.

The credit is now available to married couples even if one works full-time and the other is a part-time worker or a full-time student.

There is no longer any distinction between care rendered inside or outside the home, although no credit is allowed for the care outside the home for a disabled spouse or dependent over 15.

## Teen risks

Pregnant teenagers have the highest rate of any group of dead or damaged babies, according to the National Foundation-March of Dimes. Medical complications in their pregnancies are common.

Magnifying the problem is a virtual epidemic of adolescent pregnancies: among 17-year-old girls in America, one out of 16 is a mother.

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