

Income Tax Update

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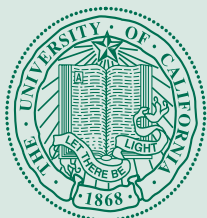
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It's tax time again. Time to gather all of your records and crunch the numbers. Below are a few tax changes you may want to consider when making your calculations.

The deduction for **educators**, which had expired in 2003, has been restored for two more years. Teachers who spend their own money on books or supplies for their classrooms may deduct up to \$250 from their Federal Income Taxes in 2004 and in 2005.

The **clean fuel vehicle** deduction has also been retained at the \$2,000 level through 2005. This deduction allows taxpayers who purchase a new motor vehicle that is propelled by a clean-burning fuel to take a deduction on their Form 1040. The one-time deduction must be taken in the year the vehicle is originally used and the taxpayer must be the original owner. Taxpayers do not have to itemize deductions to claim the deduction. The deduction will be limited to \$500 for vehicles placed in service in 2006 and no deduction will be allowed after that year. IRS approved vehicles include the Toyota Prius, Honda Insight, and Honda Civic Hybrid.

Taxpayers may also benefit from a **sales tax** deduction available for 2004 and 2005. Taxpayers who itemize deductions will have a choice of claiming a state and local tax deduction for either sales or

income taxes. In states with no income tax, this deduction will be a huge tax benefit. For those of us in California, the benefit may be minuscule or non-existent, but it is still worth doing the comparison to see which option is more advantageous. The IRS will provide tables which can be used to determine the amount of the deduction so taxpayers don't have to keep receipts throughout the year. Any sales tax paid on a motor vehicle or boat can be added to the amount in the table. So figure out which is the best option for you.

The rules regarding tax deductions for **donating your old vehicle** changed starting January 1, 2005. You can no longer claim "blue book" value as the fair market value of the vehicle. Now you can only claim the actual selling price received by the charity when the vehicle is auctioned.

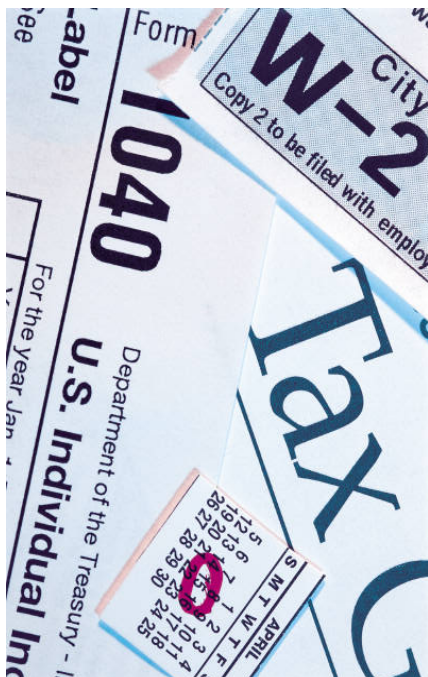
Under the new rules, the charitable organization must provide an acknowledgement to the donor within 30 days of the sale stating the amount of gross proceeds. Alternatively, if the charity significantly uses or materially improves the vehicle, generally, the donor may deduct the vehicle's market value.

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Taxpayers can call IRS Tax Exempt/Government Entities Customer Service at 1-877-829-5500 or visit the IRS web site to check that an organization is qualified by searching Publication 78. Be sure to have the organization's correct name and its headquarters location. Churches, synagogues, temples, mosques and governments are not required to apply for this exemption in order to be qualified. Donations to these institutions are tax deductible.

Both Publication 526, *Charitable Deductions*, and Publication 561, *Determining the Value of Donated Property*, provide detailed instructions on calculating the fair market value of your vehicle. IRS Publication 526 details requirements for the types of receipts taxpayers must obtain and the forms they must file.



Earned Income Credit Update

For the 2004 tax season, the Earned Income Credit can put up to \$4,300 into the pockets of low-income workers. Working families do not have to owe any income to be eligible for the credit, but they must file an income tax return. See tables below for details:

Families with two or more qualifying children:

Filing status	Adjusted gross income	Maximum credit
Single		
Head of household Qualifying widow(er)	Up to \$34,458	\$4,300
Married filing jointly	Up to \$35,458	\$4,300

The maximum amount is paid to those with income between \$10,750 and \$14,050, or \$15,050 if filing jointly.

Families with only one qualifying child:

Filing status	Adjusted gross income	Maximum credit
Single		
Head of household Qualifying widow(er)	Up to \$30,338	\$2,604
Married filing jointly	Up to \$31,338	\$2,604

The maximum amount is paid to those with income between \$7,650 and \$14,050, or \$15,050 if filing jointly.

Workers between 25 and 64 with no qualifying children:

Filing status	Adjusted gross income	Maximum credit
Single		
Head of household Qualifying widow(er)	Up to \$11,490	\$390
Married filing jointly	Up to \$12,490	\$390

The maximum amount is paid to those with income between \$5,100 and \$6,400, or \$7,400 if filing jointly.

To hear prerecorded information about the EIC, call 1-800-829-4477 and request topic number 601. To obtain IRS publications and tax forms, including Pub 596, *Earned Income Credit*, and Schedule EIC, call 1-800-829-3676 or visit www.irs.gov.

The Impact of California's Working Women

The share of working-age California women who participate in the labor market climbed from less than half in the late 1960s to over 70 percent in recent years. Most of the growth was driven by increased work participation of married women and mothers of young children. The changes of the last three decades have improved the earnings of women relative to men, yet on average women still earn only 80 cents per dollar earned by men in California. (Nationally women only earn 76 cents for every dollar earned by men.)

According to the editors of *California Counts*, women's work participation is linked to other major social and economic trends of the last quarter century including declining rates of marriage, growth in divorce, delayed childbirth and smaller family sizes, rising educational attainment and occupational status of women, and declining earnings of men. These broad trends have contributed to the growth in women's labor force participation and, in part, may have resulted from this growth.

Labor Force Participation and Social Trends

- In the late 1960s just under 50 percent of California working-age women worked, compared to 72 percent in 2003.
- In the late 1960s 30 percent of California's working women worked full-time, compared to 47 percent in 2003.

Women's Labor Force Participation:

	Late 1960s	2002
Unmarried, no young child	78%	79%
Unmarried, with young child	50%	72%
Married, no young child	Under 50%	73%
Married, with young child	Under 30%	55%

Social Changes:

	1967	2003
Unmarried, no young child	17%	33%
Unmarried, with young child	2%	4%
Married, no young child	57%	46%
Married, with young child	24%	17%

- Labor force participation among working-age men has declined slightly in California from about 95 percent in the late 1960s to just under 90 percent in recent years, however, over 70 percent of men work full-time.

As the study points out, single women with no young child are more likely than other women to work in the labor force, therefore growth in this group is related to higher levels of work participation. Furthermore, as rates of divorce have increased, married women may anticipate a greater potential for their own marriage to dissolve and may thus feel a stronger need to have a career as a source of earnings that could be relied on in the event of divorce. These factors also may operate in a reverse manner whereby growth in earnings potential and career opportunities encourages some women to remain or

become single.

Growth in women's labor force participation has also coincided with a rising age at which women have their first child, up from an average of 21.8 years in California in 1970 to 25.3 years in 2000. Other related trends include: growth in women's educational attainment, occupational status, and earnings potential, and a reduction in the number of children. Among women ages 30 to 40, the average number of children was 2.5 in the late 1960s and 1.5 in recent years.

Some of these changes may be directly related to policy changes such as the expansion of the Earned Income Tax Credit which provides work incentives by offering tax credits to low-income families based on

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-Working Women cont'd-

earnings. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 reformed welfare in ways that further encourage work, including time limits, workforce training, and child care subsidies. Under the previous welfare program, implicit in the policy was a sense that it was appropriate for low-income women to receive government assistance to care for their children rather than to work in the labor market. The 1996 welfare reform reflected the many changes in society by imposing work requirements and time limits, implying that it is now more appropriate for low-income women to work in the labor force while others care for their young children.

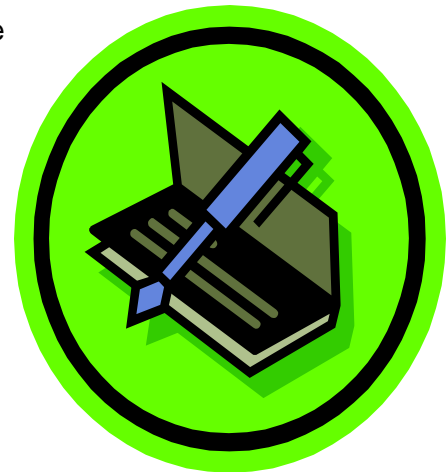
Although married women often earn less than their husbands, their contribution to family income has become increasingly important over the last three decades. In recent years, wives' earnings have contributed about one-fourth of all income on average for married-couple families.

The rising labor force participation and earnings of married women and young mothers have important implications for families and for California. On the positive side, women's earnings contribute substantially to family income and the state economy. Yet, growth in women's work participation leads to new concerns about how to provide

and pay for services that have traditionally been done by wives and mothers who are not working in the labor market. In addition, meeting the demands of the labor force and family and home care can create a stressful "balancing act" of time and resources for women and families.

Over the last three decades, the lives of women have changed as they increasingly take part in the labor force. The lives of children have changed as they are increasingly cared for by relatives other than their mothers and in paid child care settings. The lives of families have changed as they face a tougher balancing act between work, family, and home care responsibilities. The face of the workplace has changed as the share of women has grown to nearly half. For women, families, employers, and the state it has indeed been a period of new opportunities and new challenges.

For more details on the Women in the Workforce study, visit the Public Policy Institute of California's web site at: www.ppic.org.



Check 21

Checking accounts have changed recently due to the Check 21 law. Checks are being processed more quickly, your checking account statement may look a little different, and you may receive a substitute check rather than your cancelled check. What do these changes mean to you?

First of all, with checks being processed more quickly it is really important that you have enough money in your account to cover your check at the time you write it. New technology is eliminating your "float time."

Secondly, you may notice some changes on your checking account statement. Some items may be listed by check number, and others may be listed by the name of the company you paid. Be sure to review all of the charges listed on your statement to make sure they match your receipts or records.

The last major change you may notice is that you may receive a

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-Check 21 cont'd-

substitute check with your statement, instead of your cancelled check. A substitute check is a special paper copy of the front and back of your original check. The front of a substitute check should state "This is a legal copy of your check. You can use it the same way you would use the original check." Keep in mind, not all copies of a check are substitute checks. If you need a check for proof of payment, make sure the copy you receive indicates

Free Credit Report

The Fair and Accurate Credit Transactions Act of 2003 requires the three major credit reporting agencies to provide you a free copy of your credit report annually upon request. The free annual reports will be phased in across the country from west to east over a nine-month period. Free reports for Californians became available beginning December 1, 2004. There are three ways to order your report. You can visit www.annualcreditreport.com, call 877-322-8228, or mail a standardized form to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. A revised version of the *Free Credit Report Offer* handout from the Gateway to a Better Life curriculum is included in this newsletter for your use.

Gift Certificates

Holiday purchases of gift cards for the 2004 season was projected to go over \$219 billion. California has been a forerunner in consumer protection against practices such as charging dormancy fees and imposing expiration dates. Here are three important California laws you should be aware of when using or giving gift certificates.

AB 2466 provides that it is unlawful for any person or entity to sell a gift certificate containing an expiration date, unless the gift certificate clearly indicates that it may be redeemed in cash for its face value, or replaced with a new gift certificate, at any time after the expiration date, at no cost to the purchaser or recipient. (1996)

AB 2473 requires the issuer of a gift certificate to honor the gift certificate if the issuer files for bankruptcy. (2002)

AB 1092 prohibits the sale of retail gift certificates containing maintenance or service fees and clarifies that "gift certificate" includes a gift card. Specifies that these provisions apply only to gift certificates issued on or after January 1, 2004, and that this bill creates no inference with respect to the validity or invalidity of any service fee imposed prior to the effective date. (2003)



Money Facts Did You Know?

- Only 32% of American parents talk to their children regularly about personal finance.
- 20% of employees are unable to carry out normal work activities three days per week due to financial concerns.
- 2 out of 3 households will probably not be able to accomplish one of their major life goals because they did not plan for the future.
- Only 21% of student between the ages of 16 and 22 say they have taken a personal finance course at school.
- Teenagers, age 12 to 19, spent \$169 billion in 2004.
- 33% of high school seniors already use a credit card.
- 40% of Americans say they live beyond their means.

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-Money Facts cont'd-

Sixty percent of American households carry over some portion of their credit card debt every month. The average balance is more than \$4,000

- Half of American households have savings of less than \$1,200.
- The average American will spend 18 years in their retirement phase. Less than half of Americans have put aside money specifically for retirement.
- Today's average 50 year old has only \$2,300 saved toward retirement.

ID Theft

The California Department of Consumer Affairs, Office of Privacy Protection, has created a new tip sheet.

Top 10 Tips for Identity Theft Prevention is included in this newsletter for your information.



New Study on Financial Education for Teens

Young people who studied the High School Financial Planning Program for as little as 10 hours not only significantly increased their understanding of money management, but also improved their financial behavior in the ensuing months. The impact evaluation, conducted during the 2003-2004 academic year, posed a series of questions to students at three points in time. At the completion of the program, students were asked 14 core questions related to what they gained from the curriculum. Using their answers as a foundation, the students then were asked the same questions in relation to what they knew before they studied the curriculum. Finally, students were asked the same questions again three months later.

In the area of behavior, 18.5% of students said that before they studied the curriculum they “almost always” set aside money for future needs and wants; after the program, the percentage increased to 28%. Three months later, the number had grown to 36.5%. Likewise, the percentage of students who said they “almost always” set goals for managing money nearly tripled, from nine percent before the pro-

gram, to 15% immediately after the program and 24% three months later.

Other evaluation results showed that 42% of students said before studying the HSFPP, they strongly agreed that they knew the difference between needs and wants; immediately after the program, the number grew to 67% - an increase of 25%. The number rose further, to 80.5%, in the three-month follow-up. Similarly, 19% of students said they “almost always” felt confident about making financial decisions before studying the HSFPP. The percentage increased to 19% after the program, and three months later it had grown to 37.5%.

These results suggest that even relatively limited exposure to financial education can impart significant, lasting and practical personal financial knowledge to young people from all walks of life.

Of the 5,329 students surveyed who studied the HSFPP, 95% were in high school, and nearly 70% were juniors and seniors. Rural areas, small communities, medium-sized cities and large metropolitan areas were almost equally represented. A smaller number of students – 324 – took part in the three-month follow-up survey. A complete copy of the “Evaluation of the NEFE High School Financial Planning Program” is available on the NEFE web site, at www.nefe.org, in the Education Programs section.