2026 INCOME TAX GUIDE

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The Arc Michigan®

2026 Income Tax Guide prepared for persons
supporting children and/or adults with intellectual impairment
and/or related developmental disabilities.

2026 INCOME TAX GUIDE

**** for use in preparing your federal return for tax year* ***2025*** *****

The Arc Michigan®
Lansing, MI
(517) 487-5426
(800) 292-7851
www.arcmi.org

Thomas F. Kendziorski
Retired Attorney at Law
Immediate Past President, The Arc Michigan
Former Executive Director, The Arc of Oakland County

Introduction

This authoritative income tax guide has proven invaluable for families and individuals concerned about tax deductions and credits related to the care and support of a child or an adult with an intellectual or developmental disability. After fifty-two issues, this booklet has become an annual "must-have" for the informed parent. Some of the figures contained within this guide are calculations by CCH, Inc., based on its Consumer Price Index estimates due to official IRS tables not being released in time for either publication.

Thomas F. Kendziorski, B.A., J.D., retired Attorney at Law and a retired Executive Director, The Arc of Oakland County, Troy, Michigan, authored this revision of the 2026 edition of The Arc Michigan's annual Income Tax Guide. Mr. Kendziorski currently serves as the Immediate Past President of the Board of Directors for The Arc Michigan.

Special acknowledgments for the technical editing of this booklet, good counsel and professional tax advice go to: **Matthew Partyka**, C.P.A., and **Philip Partyka**, Associate, of Partyka and Company, P.C., Warren, Michigan (586-751-7100).

The information contained within the 2026 INCOME TAX GUIDE concerning your income tax and special deductions and/or credits is not intended to be all-inclusive. Although this guide is designed to provide accurate guidance, The Arc Michigan as publisher is not engaged in rendering legal, accounting or other professional service. Please refer to the sources referenced for complete information. Bring this 2026 Income Tax Guide to your appointment with a knowledgeable tax consultant to facilitate preparation of your return. While multiple resources were used to research and confirm relevant information, current materials were also verified through the 2026 U.S. MASTER TAX GUIDE, Wolters Kluwer - Commerce Clearing House, Inc., 2700 Lake Cook Road, Riverwoods, Illinois 60015; (109th Edition).

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Highlights of Tax Changes for Tax Year 2025

The passage of the "One Big Beautiful Bill Act" (OBBBA) (P.L. 119-21), love it or hate it, was signed into law by President Trump on July 4, 2025. The OBBBA provides for the permanent and limited modification of many tax provisions that were set to expire at the end of 2025 (§1 – 2026 U.S. Master Tax Guide). Many of the highlights are incorporated throughout this booklet. The provisions include (see: IRS News – dated, December 17, 2025):

- Tax inflation adjustments
- Deduction for seniors
- No tax on tips, overtime pay, or car loan interest
- Health Savings Account expansion for participants
- Trump Accounts under the Working Families Tax Cuts
- Adoption credit enhancement

- Passenger vehicle loan interest transition relief for 2025
- Employee Retention Credit (ERC) limitation
- Rural Opportunity Zones
- Tax Benefit for agricultural and rural lending
- Clean vehicle and home energy credit expirations
- Indian tribal governments and the Adoption Credit
- Tax credit for donations to scholarship organizations
- Excise tax on certain remittance transfers

Each of us has no choice but to carefully navigate the challenging financial waters of the present day. We have all been subject to lowered inflation, good, a $38-plus trillion dollar national debt, bad, but higher costs persist for many basic goods and services, bad. We still experience an unrelenting and highly partisan federal political environment that unfortunately disagrees on vital domestic economic issues. Even though the Middle East conflict has quieted down for now, our country remains indirectly involved in assisting Ukraine against Russia, re-evaluating its import tariff structure, and continues to experience extremely contentious trade difficulties with the People's Republic of China. We must also factor in the civil wars in Sudan and Nigeria, along with the foreign policy uncertainties with Venezuela and Syria. These issues create significant policy and expenditure decisions for the Trump Administration and Congress.

As the recent election year proved to be extremely interesting for all sectors of the political spectrum, where do the answers lie for taxpayers? For starters, always keep the lines of communication open with your elected officials about the needs of those with intellectual impairment and/or related developmental disabilities. Next, increase your volunteer and charitable financial support for the advocacy efforts of your local, state and national chapters of The Arc. Finally, be keenly aware of the issues affecting our cause, but keep things positive!

This tax guide is for members of The Arc. It updates a multitude of the usual numbers and dollar amounts that have been changed due to automatic increases in statutory cost-of-living adjustments, or new legislative mandates. It is NOT intended to cover every circumstance, and The Arc is NOT engaged in providing legal, accounting or other related professional services.

The topics and information are meant to provide a "heads up" for taxpayers as we sit down during 2026 to figure our 2025 income taxes. Professional tax advice is always the key to detailed information. The highlights described below are important to every taxpayer. Read and discuss each carefully with your tax advisor to determine how it all relates to your specific tax situation. Once again, this listing is NOT intended to be all-inclusive.

★ **Individual Tax Rates** – The tax brackets for tax year 2025 are set at: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. During 2025, the 10% tax bracket, for married couples filing jointly, has the first $23,850 of taxable income subject to this rate ($11,925 for single persons). For married couples filing jointly, taxable income over $23,850 and up to $96,950 is subject to the 12% rate (over $11,925 and up to $48,475 for single persons). Likewise, income over $96,950 and up to $206,700 (over $48,475 and up to $103,350 for single persons) is taxed at the 22% rate. Income over $206,700 for married filing jointly ($103,350 for single persons) and up to $394,600 ($197,300 for single persons) is taxed at the 24% rate. Income over $394,600 for married filing jointly ($197,300 for single persons) and up to $501,050 ($250,525 for single persons) is taxed at the 32% rate. Income over $501,050 for married filing jointly ($250,525 for single persons) but up to $751,600 ($626,350 for single persons) is taxed at the 35% rate. Finally, all income over $751,600 (married filing jointly) or $626,350 (single persons) is taxed at the 37% rate. (§11 and §13 – 2026 U.S. Master Tax Guide) (OBBBA, P.L. 119-21)

★ **Personal Exemptions (FEDERAL)** – The exemption amount is zero (*"... zilch, zippo, nada, nothing ..."*) for tax years beginning with 2018 and that have now been permanently extended beyond tax year 2025 by the OBBBA. No deduction may be claimed for personal and dependency *exemptions*, but the rules for determining who is a *dependent* of the taxpayer remain applicable for claiming other tax benefits (e.g., a Qualified Dependent Relative). When determining who is a dependent for these tax benefits, the exemption amount is $5,200 for 2025 ($5,300 for 2026), which is adjusted for inflation in future years (IRS Notice 2018-70) (Rev. Proc. 2025-32). [IRC §151(d)(3)]; and, (§§131 and 143 – 2026 U.S. Master Tax Guide)

★ **Personal Exemptions (MICHIGAN)** – The Michigan legislature enacted changes to its tax laws during 2018 to continue this state's personal and dependent exemptions in response to the then "temporary" repeal of the federal exemptions made by the "Tax Cuts & Jobs Act of 2017" (TCJA), but now made permanent by the OBBBA. Michigan previously tied its personal and dependent exemptions to the number of exemptions allowed on a taxpayer's federal return. (See: §2 – 2020 U.S. Master Tax Guide)

A long-established provision in Michigan tax law states that a parent of a dependent minor or adult child with a severe intellectual and/or physical disability may claim an additional "Totally and Permanently Disabled" exemption (see: Line 9(b), 2025 MI 1040). The definition for what constitutes a disability is that used by the Social Security Administration (42 U.S.C. 416) for the Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI) programs.

★ **Earned Income Tax Credit (MICHIGAN)** – There is a refundable Michigan Earned Income Tax Credit equaling 30% of the federal credit available for tax year 2025. You must file a Michigan income tax return to receive this credit for 2025. (See: Line 28, 2025 MI 1040) (See also: Gov. Whitmer Press Release, dated 12/14/2023; "Working Families Tax Credit")

★ **Social Security and Medicare Tax** - The wage base for the SOCIAL SECURITY portion of the Federal Insurance Contributions Act (FICA) is set at $176,100 for 2025 ($184,500 for 2026). The tax rate for employees was 6.2% for 2025, while the employer's portion was also at 6.2%.

All 2025 wages and salaries are subject to the MEDICARE portion of the FICA. The first $250,000 of earned income (married filing jointly) and $200,000 (single persons) are taxed at a 1.45% rate (employees), 1.45% rate (employers), or a 2.9% rate (self-employed). The rate increases by 0.9% to 2.35% for wages and 3.8% for self-employment income in excess of $250,000 (married filing jointly) and $200,000 (single persons). These thresholds are based on the combined wages for joint returns.

Thus, the tax rates for the self-employed during 2025 was 15.3% on taxable earnings up to $176,100, plus 2.9% on $176,101 to $250,000 ($200,000 single), plus 3.8% on earnings in excess of $250,000 ($200,000 single), with no limit. Self-employed workers may deduct one-half (50%) of the Social Security tax as an adjustment to gross income. (§§47, 49 and 923 – 2026 U.S. Master Tax Guide)

The standard Medicare "Part B" monthly premium [i.e., single persons with annual modified adjusted gross incomes below $106,000 ($109,000 for 2026) and married filing jointly below $212,000 ($218,000 for 2026)] for 2025 was $185.00, and for 2026 it is increased to $202.90. Some longer-term enrollees may pay less each month due to special "hold harmless" premium calculations. Persons with higher incomes pay a significantly higher monthly Part B premium. (See: CMS Newsroom Fact Sheets – dated 11/14/25)

Most persons with <u>Medicaid</u> coverage in Michigan do not pay a Medicare Part B premium; this also applies to individuals who had to forego their Supplemental Security Income (SSI) benefits because they exclusively receive Social Security Disability Insurance (SSDI) as a "Disabled Adult Child" (a.k.a., "D.A.C.") based on a parent's Social Security Administration work record. If the State of Michigan already pays the Medicare Part B premium due to your Medicaid eligibility, it must now pay, for all recipients, the 2026 rate of $202.90.

★ **Standard Deductions** – Adjusted annually for inflation, the flat standard deduction for non-itemizing taxpayers during 2025 is $31,500 for joint filers, $23,625 for heads of households, and $15,570 for both single persons and married filing separately.

An extra standard deduction of $1,600 in 2025 exists for each married person age 65 and over, and each blind taxpayer. This extra deduction is $2,000 for 2025 if the blind or elderly person is single or head of household. Two additional amounts will be allowed to an individual who is both over 65 and blind. Each is in addition to the full standard deduction. (§131 – 2026 U.S. Master Tax Guide) **NOTE:** See next page for discussion of the new "Senior Deduction."

A taxpayer who can be claimed as a dependent on another taxpayer's return during 2025 can use the greater of $1,350 or the sum of $450 and the single individual's earned income up to the applicable standard deduction amount ($15,570 in 2025) of his/her standard deduction to off-set unearned income. The next $1,350 is taxed at the individual's own tax rate, unless the following election is made [IRC §63(c)(5)] (§131 – 2026 U.S. Master Tax Guide):

> To avoid the so-called "kiddie tax," parents may elect to include on their return the unearned income of a child under age 18 whose income is more than $1,350 but less than $13,500 in 2025, which consists solely of interest and dividends. The child is treated as having no gross income and does not have to file a tax return if the election is made for the tax year. This election is not available if estimated tax payments have been made in the child's name and taxpayer identification number for the tax year. Use IRS Form 8814 for this election and report the child's interest and dividends on a parent's return. (§§101 and 115 – 2026 U.S. Master Tax Guide)

The "kiddie tax" applies to a child who is required to file a tax return (use IRS Form 8615), does not file a joint return, has at least one living parent, has more than $2,700 of unearned income, and is in one of the following categories:

- Under age 18 at the end of 2025 tax year;
- Age 18 and did not have earned income that was more than half of his or her support; or,
- At least age 19 and under age 24 at the end of the 2025 tax year and did not acquire earned income that was more than half of his or her support.

In summary, a child's income tax liability is generally computed in the same manner as for any other individual taking into account the limits on the standard deduction, unless an election is made to use the child's parent's tax rate if it would result in a higher tax liability. (§115 – 2026 U.S. Master Tax Guide)

★ **NEW!** **Temporary Senior Deduction** – For tax years 2025 through 2028, an individual age 65 or older may claim an additional deduction of up to $6,000. The deduction is phased out when the taxpayer's "modified adjusted gross income" (MAGI) exceeds $75,000 ($150,000 for married filing jointly). The deduction is calculated on the new Schedule 1-A (Form 1040) and reported as a below-the-line deduction on Form 1040 and Form 1040-SR after determining AGI. [IRC 151(d)(5)(C)] (OBBBA) (§133 – 2026 U.S. Master Tax Guide)

★ **NEW!** **Temporary Qualified Tips Deduction ("No Tax on Tips")** – For tax years 2025 through 2028, an individual can claim an income tax deduction for qualified tips as reported on a Form W-2, Form 1099, or other specified statement furnished to the individual or reported directly by the individual on Form 4137. The deduction amount cannot exceed more than $25,000 per tax year. Further, the deduction amount is reduced (but not below zero) by $100 for each $1,000 by which the taxpayer's MAGI exceeds $150,000 ($300,000 for married filing jointly). The deduction phases out completely when the MAGI reaches $400,000 ($500,000 for married filing jointly). The deduction is calculated on the new Schedule 1-A (Form 1040) and reported as a below-the-line deduction on Form 1040 and Form 1040-SR after determining AGI. [IRC §224] (OBBBA) (§135 – 2026 U.S. Master Tax Guide)

★ **NEW!** **Temporary Qualified Overtime Deduction ("No Tax on Overtime")** – For tax years 2025 through 2028, an individual can claim an income tax deduction for qualified overtime compensation and is reported on a Form W-2, Form 1099, or other specified statement furnished to the individual. The deduction amount cannot exceed more than $12,500 ($25,000 for married filing jointly) per tax year. Further, the deduction amount is reduced (but not below zero) by $100 for each $1,000 by which the taxpayer's MAGI exceeds $150,000 ($300,000 for married filing jointly). The deduction phases out completely when the MAGI reaches $275,000 ($550,000 for married filing jointly). The deduction is calculated on the new Schedule 1-A (Form 1040) and reported as a below-the-line deduction on Form 1040 and Form 1040-SR after determining AGI. An eligible individual can claim this deduction on his or her income tax return regardless of whether the taxpayer itemizes deductions or claims the standard deduction. If an individual is married the deduction may be claimed only if the individual and his or her spouse file a joint return. [IRC §225] (OBBBA) (§137 – 2026 U.S. Master Tax Guide)

★ **Miscellaneous Itemized Deductions Subject to 2% AGI Limit –** All but a few of the former "Miscellaneous Itemized Deductions" may be claimed after tax year 2018 and now beyond, thanks to the OBBBA. The following deductions still remain not subject to the 2% of Adjusted Gross Income (AGI) limitation: medical and dental expenses, local-state-foreign taxes, home mortgage interest, investment interest, charitable contributions, casualty and theft losses, and certain other miscellaneous expenses (e.g., impairment-related work expenses). (See: Page 28) (§§ 1014, 1079, and 1095 – 2026 U.S. Master Tax Guide)

★ **Social Security Number for Children** - Minors claimed as dependents must have a Social Security number. (§109 – 2026 U.S. Master Tax Guide)

★ **Tax Return for Persons with a Disability -** A guardian for a minor or a legally disabled person is required to file a Form 1040 as an agent for such person if the individual would be required to file a return. However, a minor may file a return for him/herself or have someone else do so to relieve the guardian of this obligation. An agent making the return for another should file Form 2848 ("Power of Attorney and Declaration of Representative") with the taxpayer's return. BEWARE: both the agent and the taxpayer for whom the return is made may be liable for penalties. (§504 – 2026 U.S. Master Tax Guide)

★ **Child Tax Credit ("CTC") -** Taxpayers of qualifying children (i.e., child, descendant, step-child, or an eligible foster child who is a U.S. citizen that the taxpayer supports during the tax year, may be claimed as a dependent, and is under age 17 at the close of the tax year) are entitled to a "Child Tax Credit." For tax year 2025, the credit amount is $2,200 per qualifying child, again, under the age of 17. The CTC is further modified to provide for a $500 non-refundable credit for qualifying dependents who are not children. (§1401 – 2026 U.S. Master Tax Guide)

For the CTC a qualifying child is defined under IRC §152 (§142 – 2026 U.S. Master Tax Guide). Although the relationship requirements remain the same, a taxpayer no longer must prove that they supplied over one-half the support but rather that the child did not provide more than one-half of his or her own support. The same is true for the residence requirement. A qualifying child need only have the same principal place of abode as the taxpayer for more than six months in the year. This same definitional language also applies to the Earned Income Credit (See: Page 11), and the Child and Disabled Dependent Care Credit (See: Page 26).

This credit begins to phase out when the modified adjusted gross income ("MAGI") reaches $400,000 for joint filers, $200,000 for all other filers.

If a taxpayer has three or more qualifying children, the threshold is the excess of the taxpayer's share of Social Security taxes, over earned income for the year. This credit is generally viewed as a non-refundable personal credit. (§1401 – 2026 U.S. Master Tax Guide).

★ **Volunteer Mileage** - The charitable deduction for individuals using their passenger cars in volunteer work for qualified charities is 14¢ per mile (2025 and 2026) plus parking fees and tolls, instead of actual expenses. This rate is not indexed for inflation, it is set by statute. (IR Notice 2025-128) (§1061 – 2026 U.S. Master Tax Guide)

★ **Medical Deductions** – Medical expenses, which includes medical insurance premiums, are subject to a 7.5% (made permanent with the January 2021 "Consolidated Appropriations Act") of "adjusted gross income" (AGI) medical expense deduction floor for 2025; this applies to all taxpayers. On joint returns, the percentage limitation is based on the total AGI of both spouses. (§1015 – 2026 U.S. Master Tax Guide)

★ **Tax Rates for Non-Grantor Trusts & Estates** - (§19 – 2026 U.S. Master Tax Guide):

2025 Taxable Income	Rate
0 - 3,150	10%
3,150 - 11,450	24%
11,450 - 15,650	35%
15,650 - over	37%

★ **Estate Tax Chart -** (§§40, 41, 2901 and 2942 – 2026 U.S. Master Tax Guide)

Year	Top Estate Tax Rate	Exemption Amount
2022	40%	$12,060,000
2023	40%	$12,920.000
2024	40%	$13,610,000
2025	40%	$13,990,000
2026	40%	$15,000,000

The estate tax rate and the "Generation-Skipping Transfer" (GST) tax exemption exclusions are annually indexed for inflation. The chart above applies to the estates of all decedents dying and gifts made during the stated year. For married couples during 2025, the exclusion is $27,220,000 ($30,000,000 for 2026) upon the death of the first spouse.

★ **Earned Income Credit ("EIC") –** The EIC is a refundable credit available to certain low-income individuals who have earned income, meet the adjusted gross income thresholds, and do not have investment income above a certain amount. Taxpayers claiming the EIC must provide a Social Security number and that of their spouse and for each qualifying child. Failure to do so is considered a mathematical error. (See: "American Tax-payer Relief Act of 2012;" and Wolters Kluwer/CCHGroup "Tax Briefing" dated 12/18/15)

Different credit percentages and phaseout percentages are provided for low-income individuals who have no qualifying children (See: CTC, Page 10, for definitional language), one qualifying child, and more than one qualifying child. An individual who is a qualifying child may not also claim such a credit in the same tax year.

An individual who does not have a qualifying child may be eligible for this credit if: (1) the principal residence of such individual is in the United States for more than one-half of the tax year; (2) the individual (or the spouse of the individual) is at least age 25 and under age 65 before the close of the tax year; and (3) the individual is not claimed as a dependent by another.

Married persons must file a joint return to claim this credit. A married person living apart from a spouse under certain circumstances need not file a joint return to claim the credit. Except in the case of death, the credit may be claimed only for the full 12-month tax year.

For 2025, the maximum credit is as follows: one qualifying child - $4,328; two - $7,152; three or more is $8,046; with no qualifying children, $649 is the maximum credit. (See: Rev. Proc. 2024-40).

The EIC is reduced through a limitation amount determined by multiplying the applicable phase-out percentage by the excess of the amount of the individual's adjusted gross income (or earned income, if greater) over the phaseout amount. The earned income amount and the phaseout amount are adjusted yearly for inflation.

Taxpayers should complete Schedule EIC with Form 1040 or Form 1040-SR to determine whether they are eligible for the credit. A taxpayer claiming the EIC must include their taxpayer identification number and that of their spouse (if married) and any qualifying children on their income tax return. (§1407 – 2026 U.S. Master Tax Guide)

★ **Adult Home Help Services** - Adult Home Help Services (AHHS) is not taxable as income to parents, and others, who are live-in care providers. That being said, all caregivers receiving AHHS payments <u>must account</u> for them on their tax return. (Complete details on pages 23 - 25)

★ **Standard Business Mileage Deduction** – The amount during 2025 was 70.0¢. The new deduction amount beginning 1/1/2026 is 72.5¢ [IR Notice 2025-128]. (§947 – 2026 U.S. Master Tax Guide)

★ **Business Expenses** – Entertainment expenses are generally not deductible as trade or business expenses including those for a facility used in connection with entertainment. However, certain entertainment expenses are not subject to these limits. For example, if food and beverages are provided at an entertainment activity, 50% of the meal and beverage expenses may be deductible so long as they are invoiced separately. (§§910, 914 and 916 – 2026 U.S. Master Tax Guide) [IR Notice 2021-25]

Meal expenditures incurred separately from any entertainment activity remain 50% deductible if they are an ordinary and necessary expense incurred in carrying on a trade or business. The meal must directly precede or follow a substantial and *bona fide* business discussion, including a business meeting at a convention. The taxpayer must always be able to substantiate the expense. [IRC §274 (k) and (n)]

Many specific requirements exist relative to business expenses; always seek the counsel of a qualified tax consultant for more detail. (§§910-919 and 1079 – 2026 U.S. Master Tax Guide)

★ **NEW!** **Car Loan Interest Deduction ("No Tax on Car Loan Interest")** – For tax years 2025 through 2028, an individual can claim an income tax deduction for qualified (i.e., a car, minivan, SUV, pick-up truck or motorcycle with a gross weight less than 14,000 pounds) passenger vehicle loan interest. The vehicle must have undergone final assembly in the United States as listed on the dealer's window vehicle sales sticker. The deduction amount cannot exceed more than $10,000 per tax year. Further, the deduction amount is reduced (but not below zero) by $200 for each $1,000 (or portion thereof) by which the taxpayer's MAGI exceeds $100,000 ($200,000 for married filing jointly). Qualified passenger vehicle loan interest is interest paid or accrued during the tax year on a loan originated AFTER December 31, 2024, for the purchase of a NEW passenger vehicle for personal use and secured by a lien (NOT a personal debt) on the vehicle. The deduction is calculated on the new Schedule 1-A (Form 1040) and reported as a below-the-line deduction on Form 1040 and Form 1040-SR after determining AGI. The "vehicle identification number ("VIN") must be included on the tax return.
[IRC §163(h)(4)] (OBBBA) (§1054 – 2026 U.S. Master Tax Guide)

★ INDIVIUDAL RETIREMENT ACCOUNTS ("IRAs")

[§§2155 - 2177 – 2026 U.S. Master Tax Guide]

The rules for traditional IRAs are complex. Individuals also have access to Roth IRAs and Education IRA's. Always consult a tax professional relative to this subject-matter.

Generally, an individual who receives compensation ("earned income" in the case of a self-employed individual) that is includable in gross income may establish and make contributions to their own IRA. Compensation includes alimony, but does not include pensions, annuities or other forms of deferred compensation.

The maximum combined contribution to a traditional IRA and Roth IRA for tax year 2025 is $7,000 ($7,500 for 2026) [See: IRC §219(b)]. The age limit of 70½ was eliminated effective for *contributions* made for tax years beginning after 2019 (See: SECURE ACT of 2019, P.L. 116-94; IRS Notice 2020-68). Contributions to a traditional IRA may be deducted within certain limitations. Any individual who will be at least 50 years old by the end of tax year 2025 is able to make an additional maximum contribution of $1,000 to either a traditional or Roth IRA. The amount of the "catch-up" is set at $1,000 for 2025 and $1,100 for 2026, this amount is indexed for inflation. [See: IRC 219(b)(5)(C)(iii), as amended by SECURE 2.0 Act of 2022]

- **"Traditional" IRA** – IRA earnings are still tax-deferred for everyone until withdrawal. Distributions from a traditional IRA to a participant prior to reaching age 59½ are generally subject to a 10% penalty similar to such a requirement within qualified plans (e.g., 401(k)'s, 403(b)'s, or 457's). A "Required Minimum Distribution" (RMD) to a traditional IRA owner must start no later than April 1st following the calendar year in which the owner reaches age 73 (for those born 1/1/1951 through 12/31/1959). For those born after 1/1/1960, the RMD age mark increases to age 75 beginning on 1/1/2033 [See: "Secure 2.0 Act of 2022"]. Finally, there are several penalty-free withdrawals allowed, for example: first-time home buyers, qualified higher education expenses, and unemployed individuals who pay medical premiums.

- **Roth IRA** - an alternative to the traditional IRA. Instead of the contributions being deductible, the tax advantages will be "back-loaded," that is, the buildup of interest, dividends and appreciation within this type of IRA may be tax-free depending on how and when the taxpayer withdraws money from the account. Tax-free withdrawals typically will not be allowed within the five-taxable-year period beginning with the first taxable year for which a contribution was made. A Roth IRA must be designated as such when it is first established.

Funds from a Roth IRA may be distributed tax-free if the individual has owned the IRA for five years prior to the year of withdrawal <u>and</u>: (1) the individual attains age 59½; (2) it is to the beneficiary or estate, after the death of the individual; (3) it is on account of the individual's becoming disabled; or (4) made for qualified first-time homebuyer expenses.

Contributions to Roth IRA's are subject to income limitations. The maximum yearly contribution that can be made to a Roth IRA is phased out for single taxpayers with modified adjusted gross income during 2025 above $150,000 ($236,000 for married filing jointly). No contribution to a Roth IRA is allowed once the modified adjusted gross income exceeds $165,000 for the single taxpayer ($246,000 for married filing jointly).

Roth IRA contributions may be made even after the individual for whom the account is maintained has reached age 73. The traditional IRA rules requiring minimum distributions to persons over 73 and older do not apply. [See: "Secure 2.0 Act of 2022"]

- **Coverdell Education Savings Account (CESA) (formerly: "Education IRA")** - designed to be used by those saving for a child's (under age 18, or any age if the adult child has special needs) future educational expenses. In general, contributions to CESA's are treated as gifts to the beneficiaries, but distributions are excludable from gross income once a distribution for education expenses is made. Annual <u>non-deductible</u> contributions of up to $2,000 per year (excluding rollovers) per beneficiary may be made until the time the beneficiary turns age 18.

Withdrawals to pay qualified higher education expenses of the child (the designated account beneficiary) during the year are tax-free. For tax year 2025, the annual contribution is phased-out for joint filers with modified adjusted gross income at or above $190,000 and less than $220,000 (at or above $95,000 and less than $110,000 for single filers).

"Qualified education expenses" are those incurred within public or private (including religious-based) elementary, secondary, undergraduate, and graduate level education settings. Such expenses incorporate services in the case of a special needs beneficiary, which includes tutoring and expenses for room, board and/or transportation.

Although the IRS has not released a formal definition of a "special needs beneficiary," it may use something along the lines of the following: "*an individual who because of a physical, mental or emotional condition (including a hearing disability) requires more time to complete his or her education*." The age limit mentioned earlier in this section does not apply to beneficiaries with special needs. Always consult a qualified tax professional for specific details on this topic. (§867 – 2026 U.S. Master Tax Guide) (IRS Publication 970)

● **NEW!** **Trump Accounts** – A tax-advantaged savings account for children that is treated like a traditional IRA. These accounts are available for tax years beginning AFTER 2025 to any person who has not attained the age of 18 before the close of the calendar year in which an election to establish a Trump Account is made and for whom a Social Security Number has been issued. A pilot program will seed the accounts of children born after December 31, 2024, and before January 1, 2029, who are U.S. citizens at birth with $1,000.

Unlike contributions to traditional IRA's, those made to Trump Accounts are NOT deductible and may not be made after the close of the tax year. The total amount of contributions may not exceed $5,000 per calendar year --- adjusted for inflation after 2027. An employer may contribute up to $2,500 annually (adjusted for inflation after 2027) on behalf of employees or employee's dependents, and those contributions are excluded from income. Contributions may not be made prior to July 4, 2026. All contributions prior to age 18 must be invested in low-cost index funds.

Distributions are allowed prior to age 18, but only if rolled over into another Trump or ABLE Act account. [IRC §530A] (OBBBA) (§2170 – 2026 U.S. Master Tax Guide)

★ **Dependency of Students** – Generally, an adult child, disabled or not, who is a full-time student and under the age of 24 at the end of the calendar year may be claimed as a "qualifying child" dependent. After age 24, this adult child may be considered a "qualifying relative" and a dependent if his/her gross earned income is less than the "exemption" amount ($5,200 for 2025; $5,300 for 2026) and the parent has furnished over half of that individual's total support during the calendar year (§§131, 141, 142, 143, and 147 – 2026 U.S. Master Tax Guide). An individual who is totally and permanently disabled (§1403 – 2026 U.S. Master Tax Guide) at any time during the year satisfies the age requirement regardless of his or her age. REMEMBER, no deductions may be claimed for personal and dependency exemptions beginning with tax year 2018 and now beyond, thanks to the OBBBA.

★ **Self-Employed Health Insurance Deduction –** The self-employed may deduct 100% of amounts paid from gross income amounts paid for health insurance coverage for themselves, a spouse, and dependents (§908 – 2026 U. S. Master Tax Guide). The deduction is limited to the extent of the taxpayer's earned income from that business. For premiums paid through an insurance ("Marketplace") exchange, a taxpayer may qualify for a "Premium Assistance Tax Credit," which is calculated on IRS Form 8962. This credit is determined on a sliding scale depending on the size of the family and household income (§1447 – 2026 U.S. Master Tax Guide). Children under the age of 27 will be considered dependents of a taxpayer for purposes of the deduction for the health insurance costs of a self-employed person, spouse, and dependents [IRC §162(L)(1)]. A child includes: a son, daughter, stepson, or stepdaughter of the taxpayer; a foster child placed with the taxpayer by an authorized placement agency or by judgment, decree, or other order of any court or competent jurisdiction; and a legally adopted child of the taxpayer or a child who has been lawfully placed with the taxpayer for legal adoption [IRC §152(f)(1)].

★ **Domestic Employees ("Nanny Tax")** – The cash wage threshold for reporting and paying ***Social Security*** taxes (i.e., F.I.C.A.) for domestic workers, (e.g., babysitters, housekeepers, gardeners) during 2025 is $2,800 ($3,000 for 2026) a year. Employers must report Social Security and federal unemployment tax obligations on their federal income tax forms (1040) using Schedule H. (§2650 and 2652 – 2026 U. S. Master Tax Guide)

The general wage threshold for reporting and paying Michigan and federal ***unemployment*** taxes on a quarterly basis is $1,500 in a calendar quarter during 2025 or preceding year, except if the total wages are paid to household employees (i.e., “domestic labor”). That wage threshold then becomes $1,000 per calendar quarter in the current or preceding year where state and federal unemployment taxes are due on all wages. (§2649 – 2026 U.S. Master Tax Guide)

Beware! This section may also apply to families receiving respite care dollars (or other such payments termed “vouchers”) either directly from a county Community Mental Health Agency/Authority (“CMHA”) or through a contracted services entity. If the entity pays funds directly to a parent, who in turn pays a respite provider, the threshold of $1,000 may be exceeded not only by the CMHA stipend, but also by any additional amount supplemented by a parent.

★ **NEW! State, Local and Property Taxes (“SALT”)** – Annual itemized deductions for all non-business state and local taxes, including property taxes were temporarily increased by the OBBBA. For tax years 2025 through 2029, the amount is capped at $40,000 ($20,000 for married filing separately) and will have a 1% cost-of-living increase for each year after 2025. The amount reverts to $10,000 ($5,000 for married filing separately) with tax year 2030 unless Congress acts. A reduction of this deduction amount begins after an annualized Modified Adjusted Gross Income exceeds $500,000. Sales taxes may be included as an alternative to claiming state and local income taxes. (§§1023 and 1026 – 2026 U.S. Master Tax Guide)

★ **Mortgage Interest and Home Equity Loans** – A home mortgage interest deduction is limited to $750,000 of the debt ($375,000 married filing separately) taken after 12/15/17 --- now extended indefinitely by the OBBBA. On such debt incurred before 12/15/17, the numbers remain at $1,000,000 married ($500,000 married filing separately). This mortgage interest deduction is also available on second homes. (§1047 – 2026 U.S. Master Tax Guide)

No interest deduction will be allowed for interest on home equity indebtedness, <u>except</u> where the loan is used to buy, build or substantially improve the taxpayer’s home that secures the loan. (See: IR Notice 2018-32; February 21, 2018) (§1048 – 2026 U.S. Master Tax Guide)

★ **Who Must File an Individual Tax Return** – A federal income tax return generally must be filed each tax year by a citizen or resident alien whose gross income equals or exceeds a threshold amount based on his or her filing status. For tax years beginning with 2025, the basic filing threshold is the standard deduction amount for the year. The threshold amounts are: $15,750 single and $31,500 for married filing jointly; for those age 65 or older, add another $8,000 for a single person and $7,600 (one age 65+ spouse) or $15,200 (both spouses age 65+) for married jointly. (OBBBA) (§101 – 2026 U.S. Master Tax Guide)

CHARITABLE CONTRIBUTIONS

The “Protecting Americans from Tax Hikes Act of 2015” made permanent a long-standing provision that allows donors to make certain charitable gifts from a traditional IRA (or in certain circumstances a Roth IRA) without having to pay income tax on the distribution. To make a “Qualified Charitable Distribution (QCD)” of an IRA to a non-profit organization and not incur income tax:

- the donor must be at least 70½ years of age;
- the QCD must be made directly from the IRA to the public charity (such as, The Arc);
- the amount distributed from an IRA by an individual cannot exceed $108,000 ($111,000 for 2026) --- now adjusted annually for inflation --- in any one year;
- Married couples (who both own the IRA) filing jointly may donate up to $216,000 ($222,000 for 2026);
- the QCD cannot be claimed as a regular charitable deduction; and,
- the QCD must be made in 2025.

The charity must provide the donor with a specific and contemporaneous written acknowledgement of the gift. [IRC §408(d)(8)] (§§1058, 1070A, and 2165 – 2026 U.S. Master Tax Guide) (See also: Wolters Kluwer/CCHGroup "Tax Briefing" dated 12/18/15)

A. Deduction for Itemizers

Since the "standard deduction" was nearly doubled (See: Page 8) for tax years beginning in 2018 --- and, now beyond 2025 due to the OBBBA --- the necessity for most individuals to itemize their deductions was essentially eliminated, except for some higher income taxpayers. Many people still donate to charitable causes despite not being able to itemize deductions.

If a contribution is $250 or more, it must be substantiated by a contemporaneous written acknowledgment from the charitable organization. The taxpayer must obtain this written confirmation *before* filing the tax return. Generally, the acknowledgment must include the amount of cash and a description of non-cash contributions, together with a description and a good-faith estimate of the value of any goods or services received for the contributions.

The Pension Protection Act of 2006 changed the cash-contributions-to-charities substantiation rules. Deductions are not allowed for contributions of cash, checks or other monetary gifts, *regardless of the amount*, unless the donor maintains either: (1) a bank record (e.g., canceled check; financial institution or credit card statements), or (2) a receipt, letter, or other written communication from the charity, indicating the charity's name, the contribution date and amount. [IRC §170(f)(17)] (Publication 526) (§§1059 and 1070A – 2026 U.S. Master Tax Guide)

Contributions charged to a bank credit card are deductible in the year charged even though paid in a later year. Contributions made by payroll deduction may be substantiated with an employer-provided document, (e.g., a pay-stub or W-2) showing the amount deducted and a donee-prepared document stating that there were no goods or services provided, in whole or part, as consideration for such contributions. Substantiation is required only if $250 or more is deducted from a single paycheck. (§§1058-1071 – 2026 U.S. Master Tax Guide)

B. NEW! Deduction for Non-Itemizers

An individual generally must itemize deductions on Schedule A (Form 1040) to claim the charitable contribution deduction. For tax years beginning January 1, 2026, an individual who does not itemize deductions can claim a deduction for charitable contributions in cash of up to $1,000 ($2,000 for joint returns) in calculating taxable income. [IRC §170(p), as amended by the OBBBA] (§1058 – 2026 U.S. Master Tax Guide)

C. Volunteer Activities

The value of services rendered to a charitable institution/organization is not deductible as a contribution. However, an out-of-pocket, unreimbursed expense, such as for transportation, travel, uniform, telephone, equipment, etc., incurred in rendering such a service is deductible as a contribution. This includes reasonable payments for necessary meals and lodging while away from home overnight donating services to a "qualified" charitable organization (The Arc Michigan is a qualified charitable organization and this section applies to volunteer advocates).

The cost of travel on behalf of charitable organizations is deductible if there is no significant amount of personal pleasure, recreation or vacation involved.

In lieu of deducting the actual expenses incurred while using a vehicle for transportation, the IRS standard volunteer mileage rate is 14¢ per mile for 2025 and 2026. A taxpayer must use this rate when computing the cost of operating an automobile where this expense is deductible as a charitable contribution. Parking fees and tolls are also deductible, but depreciation and insurance are not. (IR Notice 2025-128) (§1061 – 2026 U.S. Master Tax Guide)

D. Convention Delegates

Persons representing The Arc, their church, or an American Legion Post, for example, at a convention for that qualified charitable organization, may deduct as charitable contributions the unreimbursed costs of attending the convention. However, the mere fact that a member of a particular church or charitable organization attends a convention "on his/her own" rather than as a delegate, does not provide an entitlement to deduct expenses unless incurred while actually performing some service at the convention. [IRC §170]

E. Clothing and Household Items

A deduction for donating clothing or household items is allowed, but only if the donated property is in good, used condition. "Household items" do not include food, paintings, and antiques, other objects of art, jewelry, gems or collections. The IRS can deny a deduction for donated property that is of minimal value. These restrictions do not apply if: (1) a deduction of more than $500 is claimed for a single clothing or household item, and (2) a qualified appraisal for that item is attached to the income tax return. (§1061 – 2026 U.S. Master Tax Guide)

MEDICAL EXPENSE DEDUCTIONS

A. In General

Unless otherwise noted, information on most medical deductions may be found in the most current edition of ***<u>IRS Publication 502</u>***.

It is well-established that, under current tax law, taxpayers may include in computing their *<u>itemized</u>* medical expense deductions amounts paid on behalf of a dependent or a person who could be claimed as a dependent, unless that person had annual earned income of $5,200 or more. (§143 – 2026 U.S. Master Tax Guide)

Beginning with tax year 2020, all taxpayers are subject to a 7.5% [See: IRC §213, as amended by the "Taxpayer Certainty and Disaster Tax Relief Act of 2020" (P.L. 116-260); IRS Reg. §1.213-1] of AGI medical expense deduction floor. On joint returns, the percentage limitation is based on the total AGI of both spouses.

For premiums paid through an insurance ("Marketplace") exchange, a taxpayer may qualify for a "Health Insurance Premium Assistance Tax Credit," which is calculated on IRS Form 8962. This credit is determined on a sliding scale depending on the size of the family and household income (§§1015-1019, and §1447 – 2026 U.S. Master Tax Guide)

B. Special Schools and Special Training for Children with Disabilities

As you consider this area of "medical expenses," keep in mind that some deductions may be proper under the IRS rules, but may not necessarily conform to the receipt of Supplemental Security Income (SSI) benefits or Medicaid due to income limits. *(Refer also to page 21, part "O," and page 28, "Amounts Expended by State ...")*

You may deduct as "medical expenses" the costs of:

1. A special school attended by your child if the principal purpose of the schooling is to *alleviate his or her disability* (including tuition, room and board as applicable); [IRC §213]; [Rev. Rul. 78-340]; (§1016 – 2026 U.S. Master Tax Guide)
2. Tests and evaluations at the special school;
3. Special instruction or training such as Braille, lip reading, speech instruction;
4. Tutoring fees paid on a doctor's recommendation for your child's tutoring by a teacher specially trained and qualified to work with children who have severe learning disabilities; and,
5. Other medical expenses that your student-child may require, even though the dependent child may have earned more than $5,200 in annual earned income.

C. Medicine, Drugs and Vitamins

A deduction for the cost of medicine and drugs (including insulin) is limited to those that may be obtained **ONLY** by prescription. Vitamins and other medicines or preparations that are normally purchased over-the-counter, notwithstanding a prescription from a doctor, are non-deductible. However, an over-the-counter medicine or drug qualifies for tax-free reimbursement through a flexible spending plan or a health reimbursement arrangement if a prescription is obtained. (Federal Tax Coord. 2d; K-2102) (§1016 – 2026 U.S. Master Tax Guide).

D. Sheltered Workshop Cost

If you must pay out-of-pocket for your adult dependent child to attend a sheltered workshop (or, "special school"), you may deduct as a "medical expense" the cost of the workshop if the primary purpose of the program is to *alleviate the disability*. If the service of the workshop is designed to "alleviate" a disability, it will generally constitute "medical care" within the Internal Revenue Code. Usually, the service of teaching someone to perform a job is not considered "medical care." However, services, which assist a person with an intellectual impairment toward the goal of achieving everyday community living skills, may be considered to "alleviate" the disability and therefore qualify as deductible "medical care." This service is comparable to the service of teaching Braille to a child who is blind, thus alleviating the blindness, or teaching lip reading and sign language to a child with a hearing impairment, thereby alleviating the child's inability to hear. (§1016 – 2026 U.S. Master Tax Guide)

E. Transportation

Transportation costs are deductible as a "medical expense" if they are incurred going to and from the following locations:

1. Special schools (as defined by IRS);
2. Institutions and hospitals;
3. Special therapy programs that have been prescribed; or,
4. Pharmacies or drugstores.

Medical transportation costs for taxicabs or other public transportation modes must be verified with proof of all expenditures, such as receipts or canceled checks. The transportation costs to a parent accompanying a sick child to obtain medical care are also deductible. If a parent pays for the transportation costs of a nurse to attend a sick child --- that too is a deductible expense. If a child who attends a special school cannot travel alone, the cost of someone to accompany the child to the special school is deductible. A further deduction is available for persons with physical disabilities who utilize taxicabs to and from work where a physician, as part of a therapy program, recommended the employment.

The costs of transportation for all of the above by private car are considered a deductible "medical expense" and includes [IR Notice 2021-251] (§1016 – 2026 U.S. Master Tax Guide):

1. Medical transportation mileage rate for 2025 is 21¢ (reduced to 20.5¢ for 2026) [IR Notice 2025-128]
2. Parking fees; and
3. Tolls.

If your child with a disability lives away from home, transportation costs to visit your child may be deductible as a "medical expense" if medical experts deem your visit a necessary part of treatment. This applies only to transportation costs and not to meals and/or lodging. (Rev. Rul. 58-533; 1958-2 CB 108)

Away-from-home lodging expenses, such as for hospital stays, are deductible up to $50 per night, per person primarily for and essential to medical care provided by a physician in a licensed hospital, including a medical care facility related to or the equivalent of a licensed hospital. This expense is available to certain eligible persons accompanying the person seeking medical care.

F. Cost of Special Equipment to Alleviate a Disability (Including Installation)

In the examples of elevators for heart patients, air conditioning for persons with asthma, ramps for persons who use wheelchairs, and the like, medical experts must deem the items necessary to alleviate the disabling condition. This deduction is allowed to the extent that it exceeds the improved value of your property [IRC §213]. Example #1: if air conditioning your home improves its value by $700 and the actual cost is $1,000; you are allowed to deduct the difference of $300. If the special equipment does not increase the value of the home, the entire cost is deductible. Example #2: The additional cost to modify a van for a wheelchair lift and raising the vehicle roof is deductible; depreciation of the van is not (*Henderson* v. C*ommissioner*, T.C. Memo 2000-321). A 1987 ruling enumerates a listing of special equipment that qualifies for this type of deduction and it indicates which items will not be considered as increasing the value of property (Rev. Rul. 87-106). (§1016 – 2026 U.S. Master Tax Guide)

G. Lifetime Care Payments

Non-refundable advance payments to a private institution for lifetime care, supervision, treatment, and training of your dependent with physical and intellectual disabilities in the event of your death, or other inability to care for your dependent, are deductible in the year paid, provided that the payments are required as a condition for the institution's future acceptance of your dependent. (§1015 – 2026 U.S. Master Tax Guide)

H. Aids for Persons with Visual Impairments

Costs of specific aids to assist in the education of a child becoming blind, such as an audio recorder, special typewriter, projection lamp for enlarging written material, and special lenses are deductible as medical expenses because the use of such things mitigates the condition of losing the sense of sight. (Rev. Rul. 58-223, 1958-1 CB 156)

I. Expenses for Patterning Exercises

Amounts paid to a non-professional for administering "patterning" exercises --- coordinated physical manipulation of limbs to stimulate normal movement in a child with an intellectual impairment --- qualifies as deductible medical care expense. (Rev. Rul. 70-170, 1970-1 CB 51)

J. Wages for Nursing Service

Payments of wages for an attendant who provides nursing services are deductible medical expenses. You may also include as medical expenses the out-of-pocket amounts paid for the attendant's meals. Divide the total food expense among the household members to find the cost of the attendant's food. If you must pay additional out-of-pocket amounts for household up-keep because of the attendant, include as a medical expense the extra amount you paid. This includes such items as extra rent you paid because you moved to a larger apartment to provide space for the attendant or extra cost of utilities for the attendant; if the attendant also provides personal and household services, you must further divide these amounts between the time spent on performing household and personal services.

K. Special Telephone

The repair cost of special telephone equipment that allows a person who is deaf to communicate over a regular telephone.

L. Close-Captioned TV

The extra cost of a specially-equipped television set and the cost of an adapter that provides sub-titles for a person who is deaf.

M. Removal of Lead-Based Paint

The cost of removing lead-based paints from walls and woodwork in a home to prevent a child, who has lead poisoning or had lead poisoning, from eating the paint is deductible as a medical expense. The areas covered with lead-based paint must be in poor repair or within the child's reach.

N. Disposable Diapers

Disposable diapers are deductible as a medical expense when verified by a physician as being necessary for a child or adult who is totally incontinent as the result of a neurological disease or brain damage. (IRS Letter Ruling 8137085)

O. Expenses Incurred for a Person with an Intellectual Impairment Residing in a Group Home or Other Community Setting

The out-of-pocket cost to a person or family of maintaining a person with an intellectual impairment in a specially selected home, to aid in the adjustment from institutional to community living, qualifies as a medical expense and is deductible (Rev. Rul. 69-499, 1967-2 CB 39). Please refer to page 18, part "B" of this tax guide for possible SSI and Medicaid considerations.

P. Special Food and Beverages

The IRS has held that the cost of special foods and beverages may qualify as a deductible medical expense if prescribed by a physician for alleviation or treatment of an illness and are in addition to the taxpayer's (or dependent's) normal diet. The special food or beverage must not be a part of the nutritional needs of the patient. But the Tax Court has allowed as a medical deduction the *additional* cost of special foods or beverages (e.g., Osmolite®, for persons requiring tube feeding) over the cost of a normal diet where prescribed by a physician for alleviation or treatment of an illness. [Randolph (1976) 67 TC 481; Cohn (1962) 38 TC 387 (NA); Rev. Rul. 76-80; Fed. Tax Coord. 2d, K-2138].

Q. Legal Fees

Legal fees and other related costs arising with respect to the commitment for treatment of an individual experiencing a mental health disability at an institution for special care are deductible as medical expenses (Rev. Rul. 71-281, 1971-2 CB 165; distinguished by Rev. Rul. 78-266). A taxpayer cannot include in medical expenses the fees for the management of a guardianship estate, fees for conducting the affairs of the person being treated, or other fees that are not necessary for medical care.

R. Medical Conferences Attended by Parent

Amounts paid by an individual for expenses of admission and transportation to a medical conference relating to the chronic disease of the individual's dependent is deductible as a medical expense; meals and lodging are not (Rev Rul. 2000-24).

S. Miscellaneous *

1. Dental care;
2. Eyeglasses, contacts, examinations;
3. Hearing aid; examination, batteries;
4. Wheelchair, braces or other adaptive equipment;
5. Birth control pills; or,
6. Psychologist fees.

For a complete listing of available medical deductions, please consult* ***IRS Publication 502*.

NON-TAXABILITY OF SUPPLEMENTAL SECURITY INCOME (SSI)

SSI is **not** taxable for the person receiving the benefit. If the SSI recipient in Michigan is receiving a combined federal and state benefit at the Sharing/Independent level (a total of $981.00 for 2025; $1,008.00 for 2026) and is paying his/her "pro-rata share" of the household expenses, then that share is not taxable income to the householder who receives the money. This is true whether the householder is a parent or other relative or an unrelated person. The share is not taxable income because it is merely a reimbursement to the householder for that portion of expenses attributed to the SSI recipient. This may be more easily understood by likening it to four college students sharing an apartment. Each student is responsible for a quarter of the household's expenses and no one individual share is considered as income to anyone else.

In a different set of circumstances, if the SSI recipient is paying either "rent" or "room and board" to his/her parents (or anyone else for that matter), then those "rent" or "room" payments (minus expenses incurred) are considered income to the parent (or another landlord).

CAN SSI RECIPIENTS BE CLAIMED AS A DEPENDENT?

All SSI recipients in Michigan who receive, again, a combined federal and state benefit at either the Sharing/Independent level (a total of $981.00 for 2025; $1,008.00 for 2026) or Personal Care (adult foster care home or group home) level ($1,124.50 for 2025; $1,151.50 for 2026) **cannot** be claimed as a dependent for income tax purposes. This is because a person on SSI at a rate other than the combined federal-state Household of Another level (a total of $654.00 for 2025; $672.00 for 2026) is by SSI regulations defined as someone who is **not** someone else's dependent. If the SSI recipient is claimed as a dependent according to the I.R.S. regulations, then the SSI program will consider such support against the SSI recipient and only the Household of Another level of benefits will be paid.

An adult SSI recipient who receives the combined federal and state benefit at the Household of Another level ($654.00 for 2025; $672.00 for 2026) may be claimed as a dependent by a person who can show that they provided more than half the SSI recipient's support. In figuring total support, the SSI income must be counted. If the yearly total of SSI received is less than the amount of support provided by a parent or another person, the SSI recipient may be claimed as a dependent if all other dependency requirements are met.

SPECIAL NOTE: Michigan provides a monthly state SSI supplement for both the Household of Another and the Sharing/Independent rates. Although recipients of SSI in Michigan, during 2026, will receive a check or a direct deposit from the **federal** government (either $662.67 – Household of Another, or $994.00 – Sharing/Independent) on the first of every month, the State of **Michigan** sends its monthly supplement amount (either $9.33 – Household of Another, or $14.00 – Sharing/Independent) on a quarterly basis included within one state check, or via direct deposit, on or about the 10th of March, June, September, and December.

Individual recipients in Michigan who only qualify for a "state supplement" amount of SSI each month (due to the receipt of other income like Social Security disability benefits, and/or some work earnings) must forego not only this money, but they are required to go through a local Michigan Department of Health and Human Services office (or, on-line) and annually re-apply for Medicaid benefits.

TAXABILITY OF SOCIAL SECURITY BENEFITS

Social Security benefits have the **possibility** of becoming taxable income. This applies to benefits [**not** Supplemental Security Income ("SSI")] received by retired persons, disabled workers, disabled adult children, survivors of deceased workers, or spouses of beneficiaries. In specific terms, up to 50% of Social Security benefits **could** become taxable if combined with other income, such as bank interest, annuities, private pensions, wages, *et cetera*, and the total is more than an adjusted base amount ($25,000 single; $32,000 married filing jointly).

A married couple whose "combined income" is more than $44,000 and single persons with income over $34,000 will pay income tax on up to 85% of their Social Security benefits.

The "combined income" mentioned above is an individual's or married couple's adjusted gross income as reported on either IRS Form 1040 or 1040-SR, plus one-half (50%) of the total Social Security benefits received for the year, plus non-taxable interest.

For beneficiaries whose income is below either the $25,000 or $32,000 levels during 2025, Social Security benefits are not taxed. (§716 – 2026 U.S. Master Tax Guide)

This provision will not affect persons receiving Supplemental Security Income (SSI) benefits or those receiving both SSI and Social Security checks, since substantial outside income will terminate eligibility for SSI benefits long before income levels became taxable (IRS Notice 703, August 1984).

Recipients of Social Security benefits will receive a yearly statement showing the sum of all benefits received during the year. This statement may then be used when figuring taxable income on the worksheet the Social Security Administration will enclose with its mailing.

Any questions should be directed to a qualified tax advisor.

PAYMENTS FROM THE MICHIGAN D.H.H.S.

A. GA, ADC, ENP, SNAP

Someone who experiences a disability may be receiving payments via what is known as a "Bridge Card" from Michigan's "Department of Health and Human Services" (DHHS) under General Assistance (GA), Aid to Dependent Children (ADC), Emergency Needs Program (ENP), or the Supplemental Nutrition Assistance Program [(SNAP); a.k.a., "food stamps"], among others. **NONE** of these payments are considered taxable (gross) income to the person with a disability, even if the checks come to a parent or other person as payee on behalf of the person with a disability.

The federal government will consider these payments as **OUTSIDE SUPPORT** for purposes of determining whether parents or another person can claim the person with a disability as a dependent. As with SSI, if a parent or anyone else provides more financial support than the yearly total of any DHHS payment(s) and all other dependency tests are met, then the parent or other person may claim the DHHS payment recipient as a dependent.

B. Independent Living Services Program (Formerly, "Adult Home Help" or "Chore")

NOTE: ***AHHS payments are not considered taxable income for live-in, parent-caregiver providers of such services. The IRS changed its position at the beginning of 2014.***

Independent Living Services Program ("ILSP") or Adult Home Help Services ("AHHS") payments are provided through the Michigan Department of Health and Human Services ("DHHS") to persons who deliver unskilled and non-specialized service or personal care activities essential to a person with a disabling condition who cannot perform such things without assistance. The goal of the AHHS program is to maintain the person with the disability in his/her natural home instead of in a costlier alternative residential care arrangement.

These "personal care services" are defined by the Centers for Medicare and Medicaid Services (CMS) as: assistance with eating, bathing, dressing, toileting, transferring, maintaining continence, personal hygiene, light housework, laundry, meal preparation, transportation, grocery shopping, using the telephone, medication management, and money management. Most of these personal care services are also found in the listing of "chores" under Michigan's AHHS rules contained within the DHHS "Adult Services Manual" at §101.

The local area Internal Revenue Service ("IRS") policy-position until tax year 1990 was that parents could exclude AHHS payments from their gross income each year. However, that stance was eventually reversed by the IRS national office because of a contrary decision from the U.S. Tax Court. In <u>Bannon</u> *v.* <u>Commissioner of Internal Revenue</u>, 99 T.C. No. 3, Docket No. 26900-90 (July 20, 1992), Dorothy Bannon lost her bid to have AHHS payments declared non-taxable income to a parent or relative caregiver. The Tax Court held that under California law, Ms. Bannon's daughter was a welfare recipient under that state's version of AHHS and was "... intended to be the ultimate beneficiary ..." of the welfare payments. The parent in this case was employed by her daughter to provide supportive services. Therefore, the AHHS payments were includable in the parent's income for federal income tax purposes.

On January 3, 2014, the IRS issued its "Notice 2014-7" addressing the income tax treatment of certain payments to an individual care provider under a state Home and Community-Based Waiver ("Medicaid Waiver") program. The notice provides that the IRS will treat "qualified Medicaid Waiver payments" as "difficulty-of-care" payments excludable from gross income under §131 of the Internal Revenue Code. (See also: §883 – 2026 U.S. Master Tax Guide) Accordingly, the IRS stated that it will no longer assert the position of its own "Program Manager Technical Advice" memorandum (PMTA 2010-007) where it held that "*a biological parent of a disabled child may not exclude payments under §131 because the ordinary meaning of foster care excludes care by a biological parent*." For purposes of IRS Notice 2014-7, qualified Medicaid Waiver payments are those issued by a state, a political subdivision of a state, or a certified Medicaid provider under a Medicaid Waiver program to an individual care provider for non-medical support services provided under a plan of care to an individual (whether related or unrelated) living in the individual care provider's home. (See: IRS FAQ's at: https://www.irs.gov/individuals/certain-medicaid-waiver-payments-may-be-excludable-from-income)

<u>IMPORTANT NOTE</u>: Although the IRS Notice 2014-7 primarily involves the Medicaid Waiver program, it also clearly states that the IRS would no longer apply §131 to the 1992 <u>*Bannon*</u> case decision, which dealt exclusively with the income taxability of AHHS payments.

The following is how a parent (or other) live-in caregiver **<u>must account</u>** on their federal IRS Form 1040 (See: IRS 1040, 2025 Instructions, at page 92; or IRS Pub. 525) for the funds from the Michigan W-2 that are received each year from the DHHS for AHHS payments:

- On IRS <u>Form 1040</u> line 1a ("Wages, salaries, tips, etc."), enter the W-2 amount; [on line 1d, if payments are not reported on a W-2];

- On IRS Schedule 1, line 8(s) ("Other Income") write on the dotted line: ***"Notice 2014-7"*** --- then enter the W-2 amount with a minus (" - ") sign in front of it.

If you received such payments (including AHHS) described in IRS Notice 2014-7 in an earlier year, you may file an amended return via IRS Form 1040X to exclude the payments from gross income. Generally, for a credit or refund, you must file an amended return within 3 years (including extensions) [4 years for Michigan returns] after the date you filed your original return or within 2 years after the date you paid the tax, whichever is later. (See: IRS 1040x Instruction booklet; IRC §6511; and, https://www.irs.gov/individuals/certain-medicaid-waiver-payments-may-be-excludable-from-income)

IRS Notice 2014-7 does not address whether qualified Medicaid Waiver (and/or AHHS) payments excluded from income under this IRS Notice may be subject to tax under the Federal Insurance Contributions Act (FICA) or the Federal Unemployment Tax Act (FUTA) in certain circumstances. There appears to be an arguable position about whether a parent who is the provider/caregiver must pay the FICA at all. In the Federal Tax Advisor; Section 58,655; 1992, Commerce Clearing House, Inc., it states:

> *"... services performed by a parent for a child generally are covered employment for FICA purposes and are subject to withholding. However, an exception is provided for domestic services performed by a parent. That is, in most cases, a parent performing services of a household nature in the private home of a son or daughter will not be engaged in covered employment under FICA and will be exempt from withholding."*

On a related area, the same section of the Federal Tax Advisor goes on to state:

> *"... services performed by an individual for a son, daughter, husband or wife, and services performed by a child under the age of 21 in the employ of a parent, are specifically excluded from the statutory definition of "employment" under FUTA [("Federal Unemployment Tax Act")]."*

The FICA and FUTA issues are rather complex and the taxpayer is strongly advised to seek professional assistance for individual situations.

Finally, it is important to keep in mind that AHHS payments remain income taxable to third-party caregivers, that is, those who live elsewhere but provide these chore services at the home of the individual with special needs.

FAMILY SUPPORT SUBSIDY (Michigan)

Since 1984, Michigan has had a Family Support Subsidy program that provides monthly payments to qualified families. These are families that have a member who is a special education student with the educational label of either a Cognitive Impairment – Severe (CI-S), Severe Multiple Impairment (SXI) or Autism Spectrum Disorder (ASD) **and** have a taxable income of less than $60,000 on their state of Michigan tax return. Please also note that children with ASD must be receiving special education services in a program that qualifies under the Family Support Subsidy law.

The Family Support Subsidy payment remains at $300.36 per month (eff. 10/1/2022) for 2025 and is not counted as income for any programs administered by the Michigan Department of Health and Human Services (GA, ADC, ENP, SNAP, etc.), the federal SSI Program, or

Michigan Children's Special Health Care Services. Family Support Subsidy payments are also considered non-taxable to parents for both federal and Michigan state income tax purposes. This non-taxability situation results from the payments being considered as those made by a governmental unit. (Michigan Mental Health Code, §R330.1611)

Note: During the 2025 Michigan legislative year, no bill was introduced that would expand coverage beyond those children having the special educational labels of Cognitive Impairment – Severe (CI-S), Severe Multiple Impairment (SXI), or Autism Spectrum Disorder (ASD).

DISABILITY-RELATED TAX CREDITS

Child and Disabled Dependent Care Credit - If you are among the millions of parents who must pay someone to care for your child or disabled dependent while you earn a living, you may use those same expenses to help reduce your personal income tax liability. This credit was made permanent by the "American Taxpayer Relief Act of 2012."

Child and disabled dependent care expenses are handled as a tax credit, instead of a deduction, enabling you to reduce your tax liability by the amount of credit you have coming.

No credit is allowed unless you supply identifying information concerning the service provider on Form 2441. This credit must be claimed by using Form 1040. If you cannot obtain this information, then attach a statement to the form describing your good faith efforts to do so. The IRS will probably allow the credit.

To be eligible for the credit, the taxpayer must maintain a household for one of the following individuals:

1. A dependent under age 13 for whom a dependent exemption may be claimed;

2. Any other dependent that is physically or mentally incapable of self-care. The taxpayer must be able to claim either (a) the person as a dependent, or (b) the person as a dependent except for the fact that the person had income exceeding the exemption amount; or

3. The taxpayer's spouse if he or she is physically or mentally incapable of self-care.

The Working Families Tax Relief Act of 2004 changed the relationship, support and residence requirements for a qualifying child and a dependent (See: Page 10). The residency and/or disabled individuals and spouse's incapable of self-care rules, now only require that they have the same principal place of abode as the taxpayer for more than half of the taxable year.

Qualifying expenses include expenses paid for household services and for the care of a qualifying individual. Services outside the home qualify if concerning the care of a child under age 13 or a disabled spouse or dependent that regularly spends at least 8 hours a day in the taxpayer's home.

NEW! For tax years beginning <u>before</u> 2026, the credit is equal to 35% of *employment-related expenses* reduced (but not below 20%) by one percentage point for each $2,000 of the taxpayer's AGI or fraction thereof over $15,000. The maximum amount of *employment-related expenses* to which the credit can be applied is $1,050 if one qualifying child or dependent is involved and $2,100 if more than one is involved.

NEW! For tax years beginning after 2025, the credit rate is 50% of *employment-related expenses* reduced (but not below 35%) by one percentage point for each $2,000 of the taxpayer's AGI or fraction thereof over $15,000. The credit rate is further reduced (but not below 20%) by one percentage point for each $2,000 ($4,000 if married filing jointly) of AGI or fraction thereof over $75,000 ($150,000 if married filing jointly).

A married taxpayer generally must file a joint return to claim the credit. For married taxpayers, expenses are limited to the earned income of the spouse earning the lesser amount. Income limitations affect the percentage and amount of credit allowed. Usually, if one spouse is not working, no credit is allowed. If the non-working spouse is physically or mentally incapable of self-care or is a full-time student for at least five months during the year, then the law will assume an earned income --- for each month of being disabled or going to school --- of $250 per month if there is one qualifying child or dependent or of $500 per month if there are two or more qualifying individuals. (OBBBA) (§1403 – 2026 U.S. Master Tax Guide)

Work Opportunity Tax Credit – Originally a part of the Small Business and Work Opportunity Tax Act of 2007 (P.L. 110-28), this important law may be elected by employers who hire hard-to-employ individuals from within certain targeted groups (for example, those with a disability). It is based on first-year wages paid to these eligible workers.

The "Taxpayer Certainty and Disaster Tax Relief Act of 2020" (P.L. 116-260) amended the IRC at §51 and extends this credit through December 31, 2025.

The deduction for such wages must be reduced by the amount of the credit and is computed on Form 5884 ("Work Opportunity Credit"). It is a general business credit. No credit is allowed for wages paid to an individual for services rendered at the employer's plant or facility that is substantially similar to services performed by employees who are participants in a strike or who are affected by a lockout.

The credit is 40% of the first $6,000 ($3,000 for qualified summer youth employees) of wages paid to a "targeted group" member during the first year of employment and 25% in the case of wages attributable to individuals meeting only minimum employment levels. Included among the "targeted groups:" ... a "vocational rehabilitation referral;" a "qualified food stamp recipient;" or a "qualified SSI recipient."

The minimum employment period that must be completed by an employee is 120 hours of work. The hour-of-service test is the only measurement for a minimum employment period for Work Opportunity Tax Credit purposes. If the 120-hour test is met, an employer is entitled to a credit of 25% if the employee performs less than 400 hours of service. For 400 or more hours of service, the percentage is 40% of the employee's wages. (§1505 – 2026 U.S. Master Tax Guide)

Disabled Access Credit - An eligible small business is entitled to this non-refundable tax credit for costs incurred to make a business accessible to disabled individuals. The credit amount is 50% of the amount of eligible access expenditures for a year that exceed $250 but that do not exceed $10,250. The credit is computed on Form 8826. (§1577 – 2026 U.S. Master Tax Guide)

Low-Income Housing Credit - A non-refundable income tax credit is available on a per-unit basis for low-income units in qualified low-income buildings of qualified low-income housing projects. Calculate the credit on Form 8586 and claim it as a part of the general business credit. An owner must utilize an enforceable 30-year low-income use agreement with the appropriate housing agency. Credits are allowed to both profit and non-profit ventures. [IRC §42] (§1575 – 2026 U.S. Master Tax Guide).

Credit for Persons Who Are Elderly or Who Are Permanently Disabled - A 15% tax credit that applies to persons who are either 65 years of age or older, or who are under age 65, retired on disability, and were totally and permanently disabled when they retired. An individual is considered permanently and totally disabled for tax credit purposes if he is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or to last for a continuous period of not less than 12 months. The credit is computed on Schedule R (Form 1040). [IRC §22] (§1409 – 2026 U.S. Master Tax Guide)

DEPENDENCY AND SHELTERED WORKSHOP SCHOOL INCOME

Income derived at a sheltered workshop school by an individual who is permanently and totally disabled is to be disregarded in determining that individual's status as a dependent.

No dependency claim is available for a student who has attained age 24 at the close of the calendar year unless the student's gross income for the year is less than the exemption amount ($5,200 for 2025; $5,300 for 2026). (§§141, 142 and 143 – 2026 U.S. Master Tax Guide)

Your individual tax advisor can assist you if there are any questions regarding what is a qualifying "sheltered workshop school" or "student." Also, please note that SSI and Medicaid rules may differ from those of the IRS when earned income is involved.

DEDUCTION FOR "IMPAIRMENT RELATED WORK EXPENSES"

Expenses of an individual with a disability for attendant care services at his place of employment, other expenses in connection with his place of employment that are necessary for the individual to be able to work, and all ordinary and necessary expenses paid or incurred during the tax year in carrying on any business, are **not** subject to the two-percent (2%) floor that applies to miscellaneous itemized deductions. Persons with a disability include any individuals who have a physical or mental disability (including blindness or deafness) that limits employment or who have any physical or intellectual impairment (including sight or hearing impairments) that substantially limits one or more major life activities. [IRC §67(d); IRS Publication 529] (§§1079 and 1095 – 2026 U.S. Master Tax Guide)

AMOUNTS EXPENDED BY STATE FOR TRAINING, EDUCATION, ROOM AND BOARD ARE NOT "SUPPORT" – DEPENDENCY CLAIM IS AVAILABLE

- **REV. RUL. 59-379**
- **REV. RUL. 60-190 (modified by Rev. Rul. 61-186)**
- **REV. RUL. 71-347**
- **§147 – 2026 U.S. Master Tax Guide**

While contemplating the following, please note that IRS rules differ from those of the SSI and Medicaid Program. The level of SSI benefits may determine one's status as a dependent. (See: Page 22)

For persons with an intellectual impairment residing in an institution where education and/or training is being provided to the individual, the amount furnished by the state for room and board and education is considered a "scholarship" and excluded from the computation of support for that individual. However, parents who may be paying for incidentals (clothing, toiletries, education, medical and dental care, gifts, transportation, church contributions and entertainment and recreation) may still claim their child as a dependent, allowing a deduction, if more than one-half of the year's total support for that dependent child was paid by the taxpayer.

The current ruling on the support test to claim someone as a dependent who is also a person with an intellectual impairment extends an earlier ruling that held that the cost of room and board for a dependent who resides in an institution for persons with an intellectual impairment may be considered a scholarship grant that will not be taken into account in determining whether the parents have provided more than one-half of his/her support. The extension no longer limits such care to state institutions and includes all who are persons with an intellectual impairment regardless of age.

The actual ruling reads as follows: "Revenue Ruling 64-221, DB 1964-2, 46 amplifies the earlier ruling (61-186-CB 1961-2, 30) which refers to the status as 'students' under section 151(e)(4) of the Internal Revenue Code of 1954, of handicapped children who are placed for purposes of education and training in a state institution which specializes in the care, treatment, education and training free of charge, of minor children who are severely handicapped both physically and mentally. However, the principles therefore are not necessarily restricted to state institutions."

"Therefore, where any institution for persons with mental retardation or division thereof, which qualified as an educational institution under section 151(e)(4) of the Code, accepts any individuals for purposes of education and training and certifies that it is making an effort to educate or train him/her to use his/her faculties to the extent that he/she is physically or mentally able to do so, the individual will qualify as a student under section 151(e)(4) of the Code - regardless of age, the education or training received or the extent of his disability. If such certification is made, the amounts expended by the institution for room and board and tuition of the individual will be taken into account in determining whether such an individual received more than one-half of his support from his parents or step-parents for the purpose of determining exemption for dependents for Federal income tax purposes."

<u>**NOTE**</u> **#1:** *Remember, no deductions may be claimed for personal and dependency exemptions after tax year 2018, as extended beyond 2025 by the OBBBA.*

<u>**NOTE**</u> **#2:** *Consult with your tax advisor to determine whether specific institutions in your state qualify for the dependency exemption explained above. Keep in mind that there may also be negative implications relative to Supplemental Security Income (SSI) and/or Medicaid eligibility should this exemption be used.*

WORKING SSI/SSDI RECIPIENTS: TO FILE OR NOT TO FILE?

As more persons receiving SSI/SSDI benefits engage in gainful work activity, families should determine whether a federal income tax return must (or, may) be filed. Refer to the exemption amount and standard deductions portions of the Tax Change Highlights to help determine if the federal return **MUST** be filed. If a federal filing were not required, it would be desirable only if the worker would be due a refund of any federal tax withheld from 2025 wages, or a child tax credit refund.

Even if a federal tax filing is not done, families should consider filing State of Michigan tax returns if there is the likelihood of a refund due because of a **Homestead Property Tax Credit** or **Home Heating Credit** (each is potentially available to renters as well). Consult your tax advisor to assure that your family and any member who is a (working) recipient of SSI or Social Security benefits are receiving all the credits to which you/they may be entitled.

FOSTER CARE PROVIDERS

Foster parents can exclude from income qualified reimbursements of their expenses for caring for foster children under the age of 19 who are placed in their home by a government agency, a tax-exempt child placement agency, or a placement agency that is licensed or certified by a state to make foster care payments. They can also exclude "difficulty-of-care" payments paid to care for children with disabilities, up to a maximum amount of payments for ten (10) children. Foster parents do not have to keep records of all expenses for each child.

An exclusion from income for foster care payments (including difficulty-of-care payments) includes payments for foster care individuals age 18 and over. These individuals must have been placed in the foster care provider's home by a government agency. The exclusion applies only to payments (including difficulty-of-care payments) for up to five individuals age 18 or older.

A key provision of the "Job Creation and Worker Assistance Act of 2002" (P.L. 107-147) expanded the exclusion beyond only a state agency or a tax-exempt child placement agency making such payments to also include payments made by a placement agency that is licensed or certified by a state to make foster care payments.

In summary, most foster care providers, for children and/or adults, can exclude from their income the foster care payments that they receive (including difficulty-of-care payments) with the above-stated limitations and with no record-keeping of expenses. This DOES NOT apply to corporation-operated group homes.

(LTR-RUL 200039006 of June 8, 2000) [IRC §131] (§883 – 2026 U.S. Master Tax Guide)

PROPERTY TAX CREDIT - MICHIGAN

Persons living in rental situations, including residents of Adult Foster Care Homes, are eligible to file for Michigan's refundable Homestead Property Tax Credit based on the portion of property taxes they pay in their rental (or AFC) payment. Instructions for filing are in Michigan's **2025 Income Tax Return and the Homestead Property Tax Credit Claim** booklets, which is available on-line at *www.michigan.gov/taxes*. It contains specific reference to Adult Foster Care residents.

ADOPTION SUBSIDY & EXPENSES CREDIT

The State of Michigan has an "adoption subsidy" program that pays for many "non-recurring" adoption expenses in connection with adopting a child with special needs. Also, the state provides a non-taxable monthly financial stipend to adoptive families, along with limited medical coverage for qualifying children.

Michigan in the past offered a refundable "Qualified Adoption Expenses Credit," spanning tax years 2001 through 2011, for excess adoption expenses. This credit is no longer available to Michigan taxpayers.

On 2025 federal returns, qualified adoption expenses and fees (including those of an attorney) may be claimed as a non-refundable "tax credit" (not a "tax deduction"). On IRS form 8839, the maximum credit is $17,280 for 2025, and the phase-out range begins for taxpayers with a modified adjusted gross income (MAGI) of $259,190 for 2025, with no credit allowed for taxpayers with a MAGI over $299,189 for 2025. If the child is one with special needs, the full amount of the tax credit is allowed regardless of actual expenses paid or incurred in the year the adoption became final.

NEW! The OBBBA brought some significant changes to this credit for tax year 2025 and beyond. The credit is now partially refundable, meaning that taxpayers may get back more than what is owed in taxes. The refundable amount is up to $5,000 (adjusted annually for inflation) per qualifying child for tax years 2025 and after. However, any nonrefundable amount carried forward cannot be used to calculate a refundable portion for future tax years. Further, taxpayers who adopt their spouse's child cannot claim this credit, and taxpayers who carry out a surrogate parenting agreement also do not qualify for the credit.

Employers may offer a fringe benefit for payment of qualified adoption expenses. The American Taxpayer Relief Act of 2012 extended permanently the Bush-era enhancements to the adoption credit and the income exclusion for employer-paid or reimbursed adoption expenses up to $17,280 for 2025 --- identical to the maximum credit listed above; and is indexed for inflation --- both for non-special needs adoptions and special needs adoptions. However, any expenses incurred in excess of the amount provided under an employer's adoption assistance program may be used to claim the adoption credit.

An eligible child is an individual not yet 18 years of age as of the time of the adoption or who is physically or mentally incapable of providing self-care. To qualify as a child with special needs, the child must be a citizen or resident of the United States.

(Rev. Proc. 2024-40, and 2025-32) (IRS Tax Tip 2025-71 dated 12/11/25) (OBBBA) (§1405 – 2026 U.S. Master Tax Guide)

ACHIEVING a BETTER LIFE EXPERIENCE ACT ("ABLE ACT")

The ABLE Act arose out of the federal "Tax Increase Prevention Act of 2014." It creates tax-favored savings accounts for individuals with disabilities for tax years beginning after December 31, 2014. The ABLE Act authorizes states to create an ABLE Act program (similar to the Internal Revenue Code §529 college savings programs). (See: IRC §529A)

An eligible individual's onset of a qualified disability must have occurred prior to age 26 (age 46 for tax years beginning after 1/1/26; see: ABLE Age Adjustment Act – SECURE 2.0 Act of 2022). The person must have either a medically-certified disability or be a recipient of Social Security Disability Insurance ("SSDI") and/or Supplemental Security Income ("SSI").

Qualified distributions include amounts used to cover medical expenses as well as costs of education, transportation, housing, employment support, health and wellness, training, assistive technology, personal support, and much more. Another key component of the ABLE Act provisions is that the placing of funds into such an account would not disqualify the individual with a disability from most state or federal aid, for example, Medicaid or SSI. Distributions used for non-qualified expenses would be subject to income tax on the portion of the distributions attributable to earnings from the account, plus a 10% penalty.

PLEASE NOTE: Upon the death of the designated beneficiary, any balance remaining in the ABLE Act account is distributed to the state – up to whatever the state has paid out in Medicaid over the individual's lifetime. The state is treated as a creditor, rather than as a beneficiary, and distribution of any excess funds is not subject to taxation.

Individuals with disabilities are limited to only one ABLE Act account and the total annual contributions by all individuals to any one ABLE Act account was $19,000 for calendar year 2025 (this amount reflects the federal Gift Tax Exclusion, which is set at $20,000 for 2026 (See: Rev. Proc. 2025-32). Further, such an account is capped at $100,000 according to the federal SSI guidelines. If SSI is not an issue, a person may save up to $500,000 under Michigan law before losing eligibility for Medicaid; other states rules may vary.

The **Michigan ABLE Act** was signed into law on October 28, 2015, made effective January 26, 2016, and became fully operational on November 1, 2016. It created this savings program under the authority of Internal Revenue Code Section 529A, which is aimed at encouraging and assisting individuals and families to save private funds to support individuals with disabilities. A deduction may be taken on the Michigan income tax return (Schedule 1, line 17) for contributions made to an ABLE account to the extent included in Adjusted Gross Income (AGI). The maximum deduction is $5,000 for a single filer ($10,000 for a jointly filed return). The amount deducted includes total contributions made to the plan less qualified withdrawals made during the tax year. Distributions from the account must be used to pay for qualified disability expenses of the eligible designated beneficiary of the account. The program is administered by the Michigan Department of Treasury and is similar to that office's administration of higher education savings accounts ("529 Plans"). For detailed information, the website link for ABLE plans in Michigan is: **www.savewithable.com/mi** .

An ABLE Act beneficiary who earns **income from a job** may save up to the Federal Poverty Level, which was $15,650 for 2025 (projected: $16,430 for 2026), in addition to their **annual contribution limit of** $19,000 for 2025, and $20,000 for 2026. Be aware that although such earnings may enhance annual ABLE Act account contributions, it may negatively affect receipt of SSI due to higher monthly earned income.

An ABLE Act beneficiary may now receive a **rollover** from a traditional §529 ("Qualified Tuition Plan") into a §529A account, but still must adhere to the annual contribution limit of $19,000 for 2025, and $20,000 for 2026. This allows individuals who may have been saving for their child's college tuition, which is now no longer needed, to roll-over up to the maximum contribution each year until the §529 account has been depleted.

Primary sources: ♦ 2025 and 2026 Federal Poverty Levels located at: www.healthcare.gov ; ♦ OBBBA of 7/4/2025; and, ♦ (§§870 and 2905 – 2026 U.S. Master Tax Guide)

APPEAL RIGHTS

From time-to-time some taxpayers are selected for auditing. During an audit, the IRS examiner may propose certain changes to the return(s) as filed. If you don't agree with the proposed changes of the examining officer and the examination was made in an Internal Revenue Service office, you may request an immediate conference with a supervisor and explain your Position.

Except in an unusual circumstance, such a conference will be granted. If an agreement is reached at this conference, your case will be closed. If agreement is not reached at this conference, or if the non-agreement examination was made outside of an Internal Revenue office, you will receive: (1) copy of the examination report explaining proposed adjustments, and (2) a transmittal letter detailing the further appeals available to you and giving you 30 days to respond. The "Technical and Miscellaneous Revenue Act of 1988", the "1996 Taxpayer Bill of Rights 2" (P.L. 104-168), the IRS Restructuring and Reform Act of 1998 (P.L. 105-206), and the Taxpayer First Act of 2019 (P.L. 116-25) provide many safeguards against I.R.S. abuses of tax collection procedures.

See your tax advisor for details.

APPEAL WITHIN THE SERVICE

The Internal Revenue Service now has a single appeal level. Your appeal from the findings of the examiner is to the Appeals Office in the region. Conferences are conducted as informally as possible.

If you want an appeal conference, address your request to your district director in accordance with the transmittal letter sent to you by the Internal Revenue Service in the transmittal letter concerning your tax case.

You may represent yourself at an appeals conference. You may also engage an attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service to represent your interests.

LETTER RULINGS

If your particular tax situation is unique or a "close call," it may be advantageous to secure the opinion of the Internal Revenue Services (IRS). This may be done by mail. Your tax professional will have detailed procedures, but the <u>regular U.S. mail</u> address for obtaining such "Letter Rulings" is as follows:

Internal Revenue Service
Ruling Request Submission
ATTN: CC:PA:LPD:TSS
P.O. Box 7604
Ben Franklin Station
Washington, D.C. 20044

If you use a <u>private delivery service</u> (e.g., FEDEX or UPS), the address is as follows:

Internal Revenue Service
Ruling Request Submission
ATTN: CC:PA:LPD:TSS, Room #5336
1111 Constitution Ave., NW
Washington, D.C. 20224

There is a “user” fee that must be paid to IRS when submitting a Letter Ruling Request. A taxpayer may submit a user fee request for a standard fee of $14,500 made after 1/29/2026.

This fee is reduced to $3,450 if submitted after 1/29/2026 for individuals, trusts and estates that report less than $400,000 of income on a federal tax return (as amended) for the last tax year ending before the date the Letter Ruling request is filed.

For those taxpayers reporting more than $400,000 but less than $10,000,000 of income, the fee is $9,775 if submitted after 1/29/2026.

[Please refer to: IRB/Rev. Proc. 2026-1, at Appendix (A)(3)(c), and (A)(4)(a) and (b)]

ADDITIONAL TAXPAYER PROTECTIONS

As a result of the Internal Revenue Service Restructuring and Reform Act of 1998 (P.L. 105-206), taxpayers have additional protections and rights. Examples include: (1) a re-organization of the IRS into units serving groups of taxpayers with similar needs rather than by geographic region; (2) appointment of a “National Taxpayer Advocate” who reports directly to the Commissioner of the IRS, and who directs independent Local Advocates; (3) possible civil damages up to $100,000 if an IRS employee negligently disregards the Tax Code or regulations; (4) notice and right-to-hearing requirements when the IRS files property liens; and (5) the statute of limitations on refund claims may be tolled during any period in which financially disabled taxpayers with determinable medical or physical impairments are unable to manage their financial affairs due to such impairments.

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