

An hourglass-shaped graphic with a globe in the top bulb and another globe in the bottom bulb. The hourglass is light blue and has a dark blue top and bottom. The globe in the top bulb is dark blue, and the globe in the bottom bulb is light blue. The text is centered within the hourglass.

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Federal Tax Provisions of Interest to the Disabled

Louis Alan Talley, Government and Finance Division

Updated August 29, 2002

Abstract. In determining tax liability under present income tax laws, some relief is provided to those individuals with physical and/or mental disability or to those who help care for them. The special needs of these individuals are recognized through a number of special Internal Revenue Code provisions, outlined in this report. Additionally, there are provisions especially designed to help businesses provide for the needs of the handicapped.

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Federal Tax Provisions of Interest to the Disabled

August 29, 2002

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<http://wikileaks.org/wiki/CRS-RL31563>

Federal Tax Provisions of Interest to the Disabled

Summary

In determining tax liability under present income tax laws, some relief is provided to those individuals with physical and/or mental disability or to those who help care for them. The special needs of these individuals are recognized through a number of special Internal Revenue Code provisions.

Among those provisions available to individuals are:

- an additional standard deduction amount for blind individuals (\$900 for elderly or blind married individuals or \$1,150 for elderly or blind single individuals for tax year 2002—with an inflation adjustment for future tax years);
- the itemized deduction for unreimbursed medical expenses to the extent that the total amount of such expenditures exceeds 7.5% of adjusted gross income;
- a special exception to the occupancy rule for individuals who have become mentally or physically incapable of self-care (and must enter a nursing home) and wish to use the exclusion of capital gains upon the sale of their former principal residence;
- the dependent care credit;
- the special tax treatment of disability benefits; and
- the deduction of employee business expenses (which are not subject to the 2% adjusted gross income floor in the case of handicapped workers).

Additionally, there are provisions especially designed to help businesses provide for the needs of the handicapped. Businesses may choose from either a \$15,000 deduction per year for the removal of architectural and transportation barriers or a tax credit for public accommodations expenditures made for disabled individuals. Also available to businesses is a provision to promote the hiring of disabled employees under the Work Opportunity Tax Credit.

This report will be updated periodically to reflect changes in either statutory or inflation-adjusted rates, or any changes in tax provisions that benefit the disabled.

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Federal Tax Provisions of Interest to the Disabled

Tax provisions with special application to the disabled are briefly described in this paper. In determining tax liability under present income tax laws, some relief is provided to those individuals with physical and/or mental disability. Their special needs are recognized through a number of provisions in the Internal Revenue Code. Among the provisions available to individuals are (1) an additional standard deduction amount for blind individuals; (2) the itemized deduction for unreimbursed medical expenses to the extent that the total amount of such expenditures exceed 7.5% of adjusted gross income; (3) a special exception to the occupancy rule for individuals who have become mentally or physically incapable of self-care and wish to use the exclusion of gain from the sale of a principal residence; (4) the dependent care credit; (5) the special tax treatment of disability benefits; and (6) employee business expenses of handicapped workers. In addition, businesses have available such provisions as a \$15,000 deduction per year for removal of architectural and transportation barriers or a tax credit for public accommodations expenditures made for disabled individuals.

The Senate Finance Committee has approved the Family Opportunity Act of 2001 (S. 321). This legislation gives states the option to allow families who have disabled children to purchase Medicaid coverage. The legislation would also allow treatment of inpatient psychiatric hospital services for individuals under age 21 using waivers to allow for payment of part or all of the cost of home or community-based services. The bill in the House of Representatives (H.R. 600) has 236 co-sponsors. It has been estimated that the bill would increase federal spending by \$5.8 billion over the next 10-year period. Budget procedures require that the bill be paid for through either tax increases or through entitlement savings until the budget procedure expires on September 30, 2002. Because of this, current tax provisions that provide benefits to the disabled are being reviewed.

President Bush has signed an executive order that provides that a single Internet site be created to provide information on all federal government services for people with disabilities. The President has asked all federal executive departments and agencies to provide information about their disability programs to the Department of Labor, which has been charged with coordinating the web site's development.

Personal/Dependency Exemption

Frequently, the dependency exemption arises in the case of a taxpayer supporting a handicapped or mentally impaired individual. The dependency exemption has a value of \$3,000 for 2002. (The personal/dependency exemption is indexed to inflation and, thus, is likely to rise in future years.)

In order to claim a dependency exemption for any person under present law, five tests must be met.

1. **Gross income test** – a taxpayer cannot claim a person (other than the taxpayer's child under the age of 19 or who qualifies as a student under the age of 24) as a dependent if the person had gross income of more than the exemption amount for the tax year in question (\$3,000 in 2002). Tax exempt income is not included in the dependent's gross income. Gross income is measured before allowing for expenses of earning income or other items deductible for income tax purposes. For example, an individual with rental property collecting \$3,200 in rent with \$1,000 in rental expenses could not be claimed as a dependent, since his or her gross income exceeds the personal/dependency exemption amount even though his or her adjusted gross income is only \$2,200.
2. **Support test** – the taxpayer must furnish more than one-half of the support of that person for the taxable year. Excludable income not counted in the gross income test (such as Social Security and railroad retirement) is counted in determining whether the taxpayer has furnished over half of the dependent's support.
3. **Member of household or relationship** – a person need not be related to the taxpayer to qualify as a dependent if he or she is a member of the taxpayer's household and lives with him or her for the entire year. Certain dependent relatives need not live with the taxpayer or be a member of the taxpayer's household to be claimed as an exemption. Parents and grandparents, for example, may be claimed as dependents even though they live in separate domiciles.
4. **Citizenship test** – a dependent must be a citizen or national of the United States or a resident of the United States or a resident of Canada, Mexico, the Panama Canal Zone, or the Republic of Panama for some part of the year to be claimed as an exemption by the taxpayer.
5. **Joint return test** – a taxpayer is not allowed an exemption for a dependent if the dependent files a joint tax return.

Head of Household Filing Status

Current law provides an additional benefit for single taxpayers with a qualifying dependent. A single taxpayer with a dependent not only receives the dependency exemption but also moves from single taxpayer status and tax rates to “head of household” taxpayer status and rates. Head of household rates are approximately in the middle between the higher rates of singles and the lower rates of married taxpayers filing jointly. Also, the standard deduction for head of household is higher than for singles but lower than for joint returns. There is no reduction in rates or increase in the standard deduction amount for married taxpayers who can claim a dependent.

Additional Standard Deduction for the Blind

In addition to the personal/dependency exemption and the standard deduction, a taxpayer is allowed an additional standard deduction¹ if he/she is elderly (65 years of age or older) or blind on the last day of the taxable year. This additional amount is \$900 for an elderly or blind married individual or surviving spouse and \$1,150 for an elderly or blind unmarried individual for tax year 2002. These additional amounts are subject to adjustment for inflation.

For purposes of claiming this additional standard deduction, the taxpayer is considered blind if the central visual acuity does not exceed 20/200 in the better eye with corrective lenses, or the widest diameter of the visual field is not greater than 20 degrees. The additional standard deduction for blindness may not be claimed for a dependent other than the spouse. An additional standard deduction for other forms of handicap is currently not allowed by federal tax laws.

Medical Deduction

Under present law, only those unreimbursed medical expenses² in excess of 7.5% of the adjusted gross income of the taxpayer may be deducted.³ A taxpayer may include amounts paid on behalf of a person who qualifies as a dependent. Additionally, he may include expenses on behalf of a person who would qualify as a dependent except for exceeding the limit for the gross income test or except for filing a joint return with his or her spouse. Qualified medical expenses counted towards this 7.5% limitation include health insurance premiums, unreimbursed

¹ Prior law provided an extra personal exemption for blindness. The *Tax Reform Act of 1986* provided an additional standard deduction in lieu of this personal exemption. For further information see CRS Report RS20555, *The Additional Standard Tax Deduction for the Blind: A Description and Assessment*, by Louis Alan Talley.

² A legislative history of the medical expense deduction can be obtained by ordering CRS Report RL30833, *Medical Expense Deduction: History and Rationale for Past Changes*, by Louis Alan Talley.

³ Please note that reimbursed expenses are not deductible (see page 9).

medical expenditures, and prescription drugs. The only nonprescription drug eligible for inclusion is insulin.

The determination of what constitutes medical care for purposes of the medical expense deduction is of special importance to the handicapped. Three special categories are enumerated below.

Residence in a Sanitarium or Nursing Home

If an individual is in a sanitarium or nursing home because of physical or mental disability, and the availability of medical care is a principal reason for his being there, the entire cost of maintenance (including meals and lodging) may be included in medical expenses for purposes of the medical expense deduction. The Tax Court found in *W. B. Counts and Mildred P. Counts, Petitioners, v. Commissioner of Internal Revenue, Respondent* that:

In summary, the present regulations provide that the cost of inpatient hospital care, including the costs of meals and lodging at the hospital, is an expenditure for medical care as that term is defined in section 213(e)(1)(A). It is recognized that such costs of maintenance at an institution other than a hospital may constitute expenses for medical care; that whether such costs incurred at an institution other than a hospital are deductible as medical expenses is a factual question the answer to which depends not upon the nature of the institution but upon the condition of the person and the care which he receives; that the cost of nursing attention is an expense for medical care; that if *a* – and we note that the regulations do not require *the* – principal reason for the person's presence in an institution is the availability of medical care for him, then the costs of meals and lodging, furnished as a necessary incident to such care, for as long as the person requires the care, are deductible; and that, if the availability of medical care is not a principal reason for the person's presence at the institution, the costs of meals and lodging are not deemed expenses for medical care, although, even in this event, the expenses for nursing attention are considered costs of medical care and are deductible. An example in subdivision (v) (b) of the regulations deals with the case of a person who resides at a home for the aged because of personal or family considerations and *not because he requires medical or nursing attention*; in this event, it is provided that the person's costs of meals and lodging are not embraced within the term "medical care" but that his costs of nursing attention are deductible.⁴

Special Schooling for Handicapped Dependents

Payments for sending a mentally or physically handicapped dependent to a special school may be deducted as medical expenses if the principal reason for his or her attendance is the institution's special resources for alleviating his or her handicap. The cost of meals and lodging supplied by such a special school, and the cost of ordinary education furnished that is incidental to the special services furnished by the school, may also be included as medical expenses. Deducting the cost of attending a school for the mentally retarded as a medical expense is expressly allowable under I.R.S. Regulation 1.213-1(e)(1)(v)(a).

⁴ *W. B. Counts*, 42 TC 755, 763-764 (July 23, 1964).

Capital Expenditures

Capital expenditures incurred by a physically handicapped individual for structural changes to his/her personal residence (made to accommodate the handicapping condition) are fully deductible as a medical expense. The *General Explanation of the Tax Reform Act of 1986* prepared by the Joint Committee on Taxation states that examples of qualifying expenditures are constructing entrance and exit ramps, enlarging doorways or hallways to accommodate wheelchairs, installing railings and support bars, modifying kitchen cabinets and bathroom fixtures, and adjusting the height of electric switches or outlets.

Exclusion of Gain from Sale of Principal Residence

Under present law, gain from the sale of a taxpayer's principal residence may be excluded from tax. The maximum exclusion is \$250,000 for single taxpayers and \$500,000 in the case of married couples. The taxpayer must have used the home as the taxpayer's principal residence for a period totaling at least two out of the last five-year period ending on the date of the sale. Short periods of absence, such as for vacations, even if rented during those periods, are counted towards the two-year period. This provision is available every two years. This provision is available to *all taxpayers regardless of age or handicapping condition*.

A special exception to the occupancy rule is provided if an individual becomes physically or mentally incapable of self-care. In such cases, the individual is deemed to have used the residence as his/her principal residence during the time in which he/she owns the residence but resides in a licensed care facility. This special exception applies if the taxpayer owned and used the residence as his/her principal residence for an aggregate period of at least one year during the preceding five-year period before the sale.

Dependent Care Tax Credit

The dependent care tax credit is available to taxpayers for employment-related expenses incurred to care for a dependent or spouse who is physically or mentally disabled. Employment-related expenses include expenses for household services, day care centers, and other similar types of noninstitutional care that are incurred in order to permit the taxpayer to be gainfully employed. Under present law, taxpayers may claim a nonrefundable credit of 30% of qualified expenses if their adjusted gross income (AGI) is \$10,000 or less. For taxpayers with incomes above \$10,000, the credit is reduced by 1% for each additional \$2,000 of adjusted gross income until an adjusted gross income of \$28,000 is reached. Taxpayers with adjusted gross incomes in excess of \$28,000 are provided a minimum 20% credit towards qualifying expenditures. The maximum amount of qualifying expenses is \$2,400 for one

dependent or \$4,800 for two or more dependents.⁵ Table 1 gives the tax credit percentage and maximum allowable credits by adjusted gross income class for tax year 2002. The law provides that if the dependent spends at least eight hours a day in the taxpayer's home, expenditures made for out of home, noninstitutional care are eligible for the credit. Dependent care centers must be in compliance with all state and local regulations for the taxpayer to count such expenditures toward qualified expenses. Married couples must file a joint return in order to be eligible for the credit.

Table 1. Dependent Care Tax Credit

Adjusted Gross Income	Applicable Percentage of Qualified Expenses	Maximum Credit	
		One Qualifying Individual	Two or More Qualifying Individuals
Up to \$10,000	30%	\$720	\$1,440
10,001 – 12,000	29	696	1,392
12,001 – 14,000	28	672	1,344
14,001 – 16,000	27	648	1,296
16,001 – 18,000	26	624	1,248
18,001 – 20,000	25	600	1,200
20,001 – 22,000	24	576	1,152
22,001 – 24,000	23	552	1,104
24,001 – 26,000	22	528	1,056
26,001 – 28,000	21	504	1,008
28,001 and over	20	480	960

Source: *Economic Recovery Tax Act of 1981 – Law and Explanation*, Commerce Clearing House, (Chicago: 1981) p. 30.

Congress increased the tax benefits available under the dependent care tax credit when it passed the Economic Growth and Tax Relief Reconciliation Act of 2001, P.L. 107-16. The maximum credit percentage is increased to 35%. This maximum credit rate is reduced when the taxpayer's AGI exceeds \$15,000 (up from \$10,000). Therefore, the credit is reduced to 20% (but not below) for taxpayers whose AGI exceeds \$43,000. Further the qualified expense expenditures are increased under the

⁵ Before 1981, taxpayers could claim an annual credit of 20% of qualified expenses up to \$2,000 (for a maximum credit of \$400) for one qualifying individual and \$4,000 (for a maximum credit of \$800) for two or more qualifying individuals.

act from \$2,400 to \$3,000 for one individual and from \$4,800 to \$6,000 for two or more individuals. These changes are to be effective beginning in 2003.

Tax Treatment of Disability Benefits

Social Security and Railroad Retirement Benefits

Social Security and Tier 1 Railroad Retirement Benefits received for disability are taxable only to higher income recipients. Disability benefits are taxed in the same manner as retirement benefits. Benefits are completely exempt if the retiree's "provisional income" falls below \$25,000 for single taxpayers or \$32,000 for married couples filing jointly. "Provisional income" is the sum of adjusted gross income from the tax return plus tax-exempt interest plus one-half of the taxpayer's Social Security or railroad retirement "Tier 1" benefits (plus certain foreign-source income, if applicable).

If a taxpayer's "provisional income" exceeds the threshold amounts, part of the Social Security or railroad retirement Tier 1 benefits are included in taxable income. If a single taxpayer's "provisional income" is greater than \$25,000 but not greater than \$34,000, the lesser of 50% of income in excess of \$25,000 or 50% of Social Security or railroad retirement Tier 1 benefits is included in income subject to tax. For a married couple filing jointly, these rules apply to incomes between \$32,000 and \$44,000. If a taxpayer's income exceeds the upper limit (\$34,000 or \$44,000), income subject to tax includes the lesser of 85% of benefits or the sum of (1) 85% of income in excess of the upper limit plus (2) the smaller of: (a) the amount includible under the 50% rule or (b) one-half the difference between the taxpayer's upper and lower thresholds (\$4,500 single or \$6,000 joint).

Worker's Compensation

Worker's compensation received by an employee because of job-related sickness or injury is fully exempt from income tax. If the employee turns over his/her compensation to his/her employer, and the employer continues to pay all or part of the employee's regular salary, any excess of the salary payments over the amount of worker's compensation is taxable income to the employee.

Federal Employees' Compensation

Benefits provided for disability or death resulting from an injury sustained in the performance of duty by civilian personnel in the service of the United States are exempt from income tax.

Disability Compensation of Civil Servants

Disability income received by a civil servant under a federal, state, or local governmental plan may be partially or totally excludable from taxation if such income is in the nature of worker compensation act benefits. Such income, to qualify for exclusion from taxation, should be from a disability incurred as a result of

employment and from which the employee is incapacitated—such that the employee is no longer able to perform official duties. The disability, either mental or physical, may be either temporary or permanent. Pensions and annuities are not covered under this provision and only those amounts that would have been provided under applicable workmen’s compensation acts are excludable from taxation. Thus, income receipts that exceed worker compensation benefits are taxable to the recipient.

Damages Received for Injury or Illness

The amount of any damages received, whether by suit or agreement, for injury or illness (but not compensation for lost wages) is exempt from tax. A provision included in the Small Business Job Protection Act of 1996 provides that this exemption from taxation does not apply in the case of any punitive damages received on account of personal injury or sickness.⁶

Accident or Health Insurance Benefits

Disability payments, reimbursed medical expenses, and other benefits received under an accident or health insurance policy attributable to premiums paid by the taxpayer are exempt from tax. Benefits other than reimbursement for medical expenses, however, are generally taxable if they are attributable to contributions by the employer or were paid by the employer.

Reimbursement for Medical Care Expenses

Amounts paid by an employer-financed accident and health plan to an employee as reimbursement for medical expenses are generally exempt from tax. However, such reimbursement may serve to reduce the medical expenses deduction because only those expenses that are not reimbursed are allowable to the individual as a medical expense deduction.

Compensation for Permanent Loss or Disfigurement

Compensation received for permanent loss, loss of use of a member or function of the body, or permanent disfigurement, is exempt from tax even if received from an employer-financed accident and health plan. Under a provision enacted as part of the Small Business Job Protection Act of 1996, the exclusion from gross income does not apply in the case of any punitive damages received on account of personal injury or sickness.⁷

⁶ U.S. Congress, Joint Committee on Taxation, General Explanation of Tax Legislation Enacted in the 104th Congress, committee print, 104th Cong., 2nd sess. (Washington: GPO, 1996), pp. 222-224.

⁷ Ibid.

Veterans' Benefits

Disability compensation and pension payments received by veterans for service-connected and non-service-connected disabilities are excludable from gross income. Grants made to disabled veterans for homes designed for "wheelchair living," and for motor vehicles for veterans who have lost their sight or the use of their limbs, are also not taxable.

Disability Retirement

Credit for the Elderly and the Permanently and Totally Disabled.

For persons under age 65, the credit is available only to those who are retired on disability. The individual must be permanently and totally disabled, which is defined as being unable to engage in any substantial gainful activity because of physical or mental impairment that can be expected to result in death or to last for a continuous period greater than one year.

The 15% credit is computed on the lower of the amount of disability income or "initial amount." The initial amount is determined by filing status. Those amounts are as follows:

Single individual	\$5,000
Married individuals, joint return, one spouse is a qualified individual	\$5,000
Married individuals, joint return, both spouses are qualified individuals	\$7,500
Married individual, separate return	\$3,750

This initial amount is reduced by any tax-free benefit received under the *Social Security Act* (Title II), the *Railroad Retirement Act of 1974*, or a Veterans Administration program. Other amounts excludable under non-IRS Code provision further reduce the initial amount.

Finally, the initial amount is reduced by one-half the amount of adjusted gross income over the following levels:

Single taxpayer	\$7,500
Married taxpayer, combined AGI on joint return	\$10,000
Married individual filing separately	\$5,000

Thus, this credit is targeted to low- and moderate-income taxpayers.⁸ As an example, a single individual will receive no benefit if income exceeds \$17,500. A married couple, where both spouses are qualified for the credit and file a joint return, will lose all benefit from the credit when their combined income exceeds \$25,000.

Special rules apply in some cases where both taxpayers are eligible for this credit.

Military Disability Benefits.

Prior to enactment of the *Tax Reform Act of 1976*, amounts received as a pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in the armed forces of any country, as well as similar amounts received by disabled members of the National Oceanic and Atmospheric Administration, the Public Health Service, or the Foreign Service were excluded from income.⁹ The *Tax Reform Act of 1976* eliminated this exclusion prospectively for persons who join these government services after September 24, 1975, with specific exceptions. Disability payments administered by the Veterans Administration are excluded from income. In addition, a person who joins the military service after September 24, 1975, and retires on disability and does not receive disability benefits from the Veterans Administration, is allowed to exclude from income an amount equal to the benefits he/she would be entitled to receive from the Veterans Administration.

Otherwise, members of the armed forces who joined after September 24, 1975, are allowed to exclude military disability payments only if the payments are directly attributable to combat-related injuries. The term “combat-related injury” means personal injury or sickness that is incurred (1) as a direct result of armed conflict, (2) while engaged in extra-hazardous service, (3) under conditions simulating war, or that is (4) caused by instrumentality of war.

Terrorist Attack Affecting Civilian Employees.

A civilian employee of the United States, injured as a result of a violent attack that the Secretary of State determines to be a terrorist act, while out of the country in performance of his official duties, may exclude from his gross income amounts received as disability payments attributable to those injuries.

⁸ Nina E. Olson, the National Taxpayer Advocate has noted that the number of taxpayers claiming the credit has declined significantly. The credit threshold amounts have not changed since 1983. In her FY2001 report to the Congress she recommends that the threshold amount be adjusted for past inflation and that the credit provision should provide for future indexing for inflation.

⁹ A member of the armed forces who met certain disability and length of service requirements could elect to draw disability retirement pay based on a percentage of disability formula or a length of service formula. Disability retirement pay based on the percentage of disability formula was totally excluded from income. Under the length of service formula, the portion of disability retirement pay equal to the amount that would have been paid under the percentage of disability formula was excluded, and the excess was subjected to the sick pay rules that existed prior to their repeal by the *Tax Reform Act of 1976*.

Employee Business Expenses

A provision enacted as part of the *Tax Reform Act of 1986* provides that employee business expenses must now be itemized along with other miscellaneous deductions and they are subject to a floor of 2% of adjusted gross income. However, a special exception from the 2% floor is provided for impairment-related work expenses of handicapped employees. The Internal Revenue Code of 1986 provides that these expenses are “for attendant care services at the individual’s place of employment and other expenses in connection with such place of employment that are necessary for such individual to be able to work and with respect to which a deduction is allowable under section 162.” Section 162 of the Code is for trade and business expenses.

Removal of Architectural and Transportation Barriers

The removal of architectural and transportation barriers can be treated as a deductible expense (rather than as an expenditure that is capitalized over the useful life of the asset). Expenditures must be made to make facilities or public transportation vehicles (either owned or leased by the taxpayer and used in the taxpayer’s trade or business) more accessible to and usable by the elderly and handicapped. There is no requirement that such expenditures be made only for the benefit of employees but rather the provision applies equally to all elderly and handicapped persons.

The maximum deduction permitted a business taxpayer (either individual, corporation, or a controlled group of corporations) for qualifying expenditures is now limited to \$15,000 a year. The deduction was made a permanent part of the Internal Revenue Code by the *Tax Reform Act of 1986*.

Tax Credit for Public Accommodations Expenditures for Disabled Individuals

A nonrefundable tax credit is provided for expenditures made by eligible small businesses to help comply with the requirements of the *Americans With Disabilities Act of 1990*. The credit is equal to 50% of the eligible expenditures made during the year. Eligible access expenditures must exceed \$250 but expenditures greater than \$10,250 are not eligible for the credit. Thus, a maximum tax credit is available of \$5,000. This credit is included as a general business credit and subject to present law limits. This ‘disabled access credit’ may not be carried back to tax years that ended before the date of enactment of the *Revenue Reconciliation Act of 1990*.

The conferees reported that “eligible access expenditures generally include amounts paid or incurred (1) for the purpose of removing architectural, communication, physical, or transportation barriers which prevent a business from being accessible to, or usable by, individuals with disabilities; (2) to provide qualified

interpreters or other effective methods of making aurally delivered materials available to individuals with hearing impairments; (3) to provide qualified readers, taped texts, and other effective methods of making visually delivered materials available to individuals with visual impairments; (4) to acquire or modify equipment or devices for individuals with disabilities; or (5) to provide other similar services, modifications, materials, or equipment. The expenditures must be reasonable and necessary to accomplish these purposes.”

Additionally, small businesses are defined as those whose gross receipts did not exceed \$1 million or had no more than 30 full-time employees. Full-time employees are those who work at least 30 hours per week for 20 or more calendar weeks during the tax year.

Work Opportunity Tax Credit

The work opportunity tax credit is intended to promote private sector hiring of members of specifically designated, hard-to-employ groups. The tax credit is available to employers who hire members of eight targeted groups. Among those included in these eight groups are vocational rehabilitation referrals (individuals with a physical or mental disability that result in substantial handicaps to employment who have been referred to employers upon completion of or while receiving rehabilitative services under a state rehabilitation plan or a program approved by the Department of Veterans Affairs). The U.S. Department of Labor reports that 5% to 7% of total certifications have been issued to employers for hiring members of the vocational rehabilitation group.

The current tax credit is equal to 40% of the first \$6,000 of wages paid to newly hired employees during their first year of employment when retained for at least 400 work hours. As such, the maximum credit per employee is \$2,400 but may be less dependent on the employer’s tax bracket and other criteria. The amount of the credit reduces the company’s deduction for the employee’s wages. A lesser credit rate of 25% is provided to employers when the employee only remains on the job for 120-399 work hours.¹⁰

¹⁰ For additional information, see CRS Report 96-356, *The Work Opportunity Tax Credit: A Fact Sheet*, and CRS Report RL30089, *Employment Tax Credits Expiring During the 107th Congress*, both written by Linda Levine.