
What is “taxable income” and how can it be reduced?

Taxable income is the portion of a person’s income that is used to calculate a person’s tax liability. Taxable income can be reduced; after reductions, your taxable income is called “adjusted gross income”.

Taxable income can be reduced by:

- **Exemptions** – every individual gets an income reduction just for being a person in the country. Taxpayers can claim the exemptions for individuals that are financially dependent on them.
- **Deductions** – reductions to your taxable income, usually due to spending that the government wants to encourage, such as mortgage or student loan interest, retirement savings, or charitable deductions.
 - **Standard Deduction** – to simplify taxes, the IRS allows taxpayers with fewer deductions to just claim the standard deduction instead. This is a flat rate that anyone in the country can use unless they choose to detail their deductions (called “itemizing deductions”).

What are tax credits?

- As opposed to exemptions and deductions, which reduce your taxable income, a tax credit directly reduces your tax liability.
- The **Earned Income Tax Credit (EITC)** is a special tax credit meant to provide support for very low-income individuals. Unlike most tax credits, if the EITC reduces your tax liability to less than zero, you’ll get the balance as a refund. For families with children, this can add up to thousands of dollars.
 - The EITC is only available to people who have income during the year.
 - You must file a tax return to get the EITC.

Where can I get help filing taxes?

- **VITA**, or Volunteer Income Tax Assistance, is a nation-wide program that provides personalized tax preparation for lower income individuals and families. The IRS tracks VITA programs: <http://irs.treasury.gov/freetaxprep/>
- **Tax Help Montana** is the main VITA program in Montana. <http://taxhelpmontana.org>
- AARP offers tax preparation assistance through a program called **Tax-Aide**. 1-888-227-7669 or visit <http://AARP.org/taxaide>
- **IRS Free File** contracts with tax providers to offer free tax software for lower income tax filers. <https://www.irs.gov/uac/free-file-do-your-federal-taxes-for-free>