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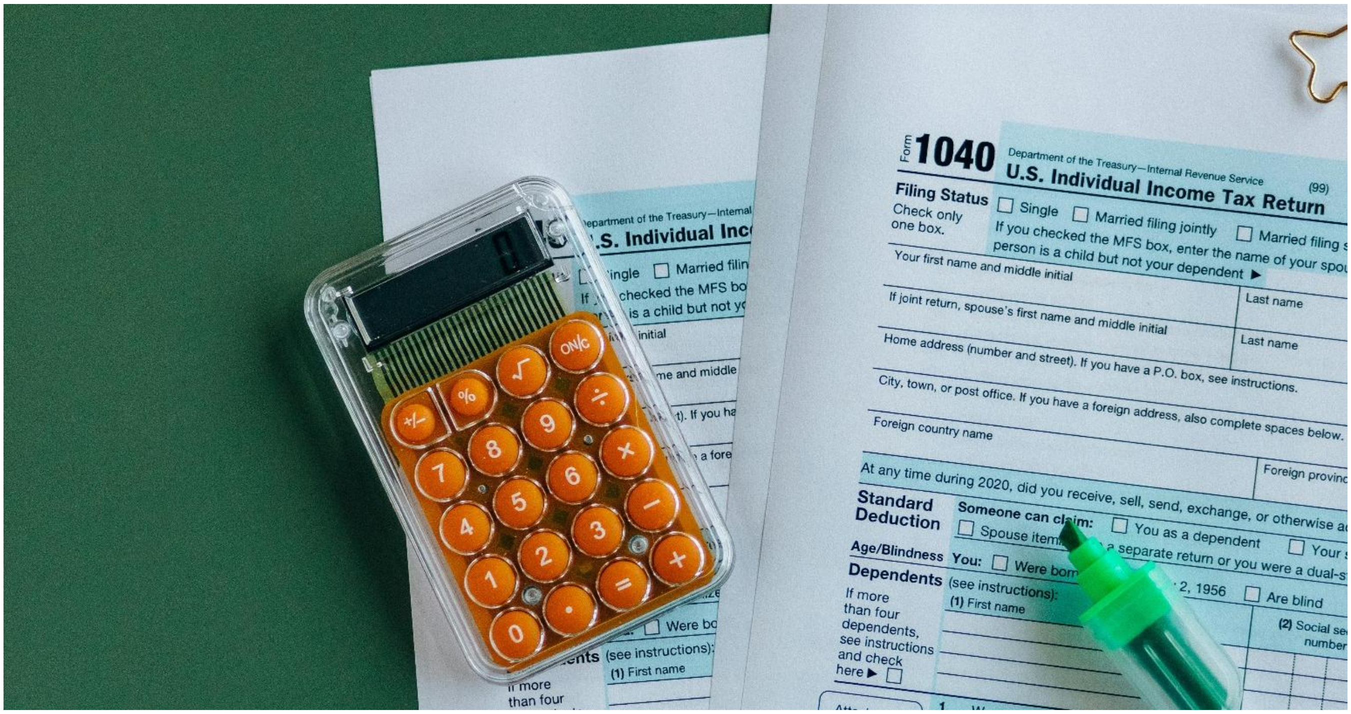

Supporting Newcomers Through the Tax Process

Paying and filing yearly taxes can be a stressful and confusing process, especially as tax law differs based on each person's location and personal financial situation. This guide introduces service providers to the basics of tax law and tax obligations for newcomer clients.

Understanding Tax Basics

This section provides a brief introduction to U.S. taxes that service providers can use as a reference when educating newcomers.

Taxes can be divided into three categories: taxes on what you buy (**sales tax**), on what you earn (**income taxes**), and on what you own (**property tax**). U.S. residents are required to file an annual tax return with the Internal Revenue Service (IRS) between late January and April 15th for the prior calendar year's earnings. This annual tax return reports all income, assets, and other relevant financial information to the IRS, which then determines the taxpayers' tax obligations. *See next page for definitions of key terms.*

There are many factors that can affect how much someone can expect to pay in taxes, including:

- **Income**: For tax purposes, income is divided into "brackets" (segments), and each segment is taxed at a different rate. As income moves into a higher bracket, only the income *within* that bracket is taxed at the higher rate, not the entire income. The total **earned and unearned income** of a person or household factors into this calculation. Individuals may also qualify for **credits or deductions.**
- **Location**: Local and state tax laws influence tax policies. There are also specific credits or deductions that are influenced by town, city, county, and state regulations.
- **Family Status**: A household's family composition and how they manage their finances affects tax payments, depending on their **filing status** and **dependents.**

- **Other financial factors** such as unemployment benefits access, residence status, and investment or retirement benefits affect tax obligations.

These variables mean that service providers cannot usually give clients a straightforward answer regarding how much they should expect to pay in taxes or if they might receive a refund.

Who Must Pay Taxes

Individuals with Social Security Numbers (SSNs) or Individual Taxpayer Identification Numbers (ITIN) can pay and file their taxes in the U.S.

Anyone in the U.S. with income above a certain threshold is obligated to pay income taxes, regardless of immigration status. The table at right provides thresholds for 2025; check the IRS website for the latest thresholds each year.

Clients whose income falls below minimum thresholds may still benefit from filing taxes, as they may qualify for credits or deductions that would yield a tax refund.

Income thresholds for filing taxes for 2025

Status	Gross Income
Single (under 65)	$15,750
Single (65+)	$17,750
Head of Household (under 65)	$23,625
Head of Household (65+)	$25,625
Married Filing Jointly (under 65)	$31,500
Married Filing Jointly (65+)	$33,100
Self-Employed	$400

Clients may ask how nonpayment of taxes can affect immigration status. While nonpayment does not disqualify people outright for immigration adjustments or applications, it may be taken into consideration. Paying taxes in the U.S. is a civic duty; nonpayment can result in penalties, interest charges, liens, and even criminal prosecution. Educate clients on the potential repercussions of not fulfilling their tax responsibilities.

Key Terms

- **Annual Tax Returns:** Forms filed with the IRS (and sometimes state/local agencies) reporting income, deductions, credits, and other financial details for the year to calculate tax liability.
- **Dependents:** Qualifying children or relatives who meet IRS rules for relationship, residency, support, income, and filing status, and who rely on the taxpayer for financial support.
- **Earned Income**: Taxable income received from working, including wages, salaries, tips, and self-employment earnings.
- **Unearned Income**: Income received without performing work, such as interest, dividends, capital gains, rental income, unemployment benefits, pensions, and taxable Social Security benefits.
- **Filing Status:** Classification based on marital and household circumstances that determines standard deductions, credits, tax rates, and filing requirements.
- **Tax Credits:** Amounts subtracted directly, dollar for dollar, from a taxpayer's income tax liability. Credits may be refundable (can reduce tax below zero and result in a refund) or nonrefundable (can reduce tax to zero but no further).
- **Tax Deductions:** Amounts subtracted from income, reducing taxable income and therefore the amount of tax owed; taken as a standard deduction or itemized.
- **Tax Liability:** The total amount of tax someone is required to pay. It represents overall tax obligation before subtracting any payments already made, like withholding or estimated tax payments.
- **Tax Refunds:** Money returned by the IRS when total tax paid during the year (typically through paycheck withholding) exceeds the taxpayer's actual tax liability.

Newcomer clients may also ask about eligibility for credits and deductions. To determine residence status for tax purposes for certain tax credits and deductions, the IRS uses the substantial presence test: newcomers who arrived on or before July 1st of the previous calendar year have been in the U.S. for at least 183 days and may be considered residents for tax purposes. However, even if a newcomer is considered a resident, there are other criteria that may be factored into credit and deduction eligibility.

Newcomers who need more time to file can request an extension with the IRS, which gives them until October 15th to submit their tax return. Late fees and interest on any unpaid taxes may still apply. To request an extension, newcomers can use IRS Free File, go to an IRS e-filing partner, tax professional, or mail in Form 4686, which asks taxpayers to estimate how much they owe in taxes.

Important Tax Forms

The **W-4 form** is what employers use to determine how much federal income tax to **withhold** (take out) from an employee's take-home pay. On this form, employees report information such as their filing status, dependents, and expected deductions so the employer can calculate the correct withholding amount for each paycheck. If the total tax withheld is different than the IRS's final calculation at tax time, the taxpayer may either owe money or receive a refund. In summary:

- **Claiming more withholdings** → less tax withheld → higher take-home pay → potential for higher tax owed at end of year and underpayment penalties
- **Claiming fewer withholdings** → more tax withheld → lower take-home pay → potential for lower tax owed at end of year

There is the option to withhold additional money on the W-4. Some taxpayers choose to do this due to other sources of taxable income like gig work or investments. The IRS Withholding Estimator can help determine how much to withhold on the W-4 form. Employees can change their W-4 with their employer at any time.

In addition to the W-4, some states and local governments also require separate withholding forms.

A **W-2 form** shows how much money was earned and how much income tax was paid during a year. This document, which employers provide physically by mail or through pay statements, is needed to complete the annual tax return. Taxpayers will receive this document from each employer they worked for during the year, unless they were considered an independent contractor or consultant (see 1099 form, below). Employers, including past employers, send W-2 forms to the employee addresses they have on file, so it is important to keep these up to date. Clients should contact all current and previous employers if they do not receive their W-2 forms by January 31st.

The **1099 form** is used to report income that does not come from traditional employment, such as income from gig work, self-employment, or contract work. It is the responsibility of the worker to report this income to the IRS and pay their taxes. For 2025, businesses must issue a 1099 form when they pay a contractor $600 or more within the year. Workers can access 1099 documents from their employers (via mail, mobile apps for gig work, etc.). Clients should contact all current and previous employers if they do not receive their 1099 forms by January 31st.

Tips for Consultants, Contractors, Gig Workers, and Other Self-Employed Workers

- Track earnings using a spreadsheet, online application, or written record.
- Track business expenses.
  - Keep receipts for everything spent on the business, as some expenses may be deductible.
  - If you use your vehicle for income, use the standard mileage deduction to calculate reductions in taxable income. See IRS mileage deduction rates here.
- Set aside ~25% of your profits towards taxes. Put this money somewhere safe where you won't touch it, like a separate savings account.
- Pay quarterly taxes to the IRS and your state.
  - Quarterly taxes are due April 15, June 15, September 15, and January 15.
  - Complete the 1040 ES form and any similar state or local tax documentation; pay the estimated amount to the IRS and to state or local tax authority.
- Maintain all documentation for filing annual tax returns between late January and April 15 of the following tax year. Consult a tax professional or free tax preparation program for assistance.

Credits and Deductions

Credits and deductions can reduce the amount of taxes a person owes. **Credits** lower taxes by directly reducing the amount of tax owed, while **deductions** lower taxes by reducing taxable income. Tax professionals can help clients determine their eligibility for the many credits and deductions available. These include:

- **The Earned Income Tax Credit (EITC)** reduces the amount that workers with low to moderate income owe in taxes. To qualify, a client's annual income must be below a certain amount, which varies depending on their number of children and filing status. For example, a family with one child filing jointly must earn less than $57,554 to qualify and can claim up to $4,328 as their credit. Determine eligibility using the IRS's EITC assistant.
- **The Child Tax Credit (CTC)** supports families with qualifying dependents under age 17. As of 2025, to be eligible, the taxpayer and child must have valid SSNs, the child must be claimed as a dependent, and the child must live with and be supported by the taxpayer for more than half the year. For 2025, the credit is $2,200 per qualifying dependent (partial credits may be issued, depending on eligibility). The credit amount will be adjusted for inflation until 2028.
- **The Child or Dependent Care Credit (CDCC)** helps cover the cost of child or dependent care. A qualifying dependent is a child under age 12 or an adult who is unable to care for themselves. This credit covers a percentage of care expenses, depending on income level. Determine eligibility using IRS's CDCC assistant.
- **The Tips Deduction**, newly implemented for tax year 2025, allows workers with valid Social Security Numbers who earned tips to deduct up to $25,000 of tip income from their taxable income. Deduction allowance phases out above certain income threshold starting at $150,000/year. Tip income must be listed on W-2, 1099, Form 4137 or self-reported on Schedule-C.
- **The Overtime Deduction,** newly implemented for tax year 2025, allows workers with valid Social Security Numbers to deduct a "premium" portion of overtime pay, which is the amount above their usual pay rate, from their taxable income. Deduction is up to $12,500 for individuals and $25,000 for joint filers. Deduction allowance phases out above certain income threshold starting at $150,000/year. Overtime income must be listed on the W-2.

Supporting Clients with Taxes

Integrate Tax Education Throughout the Year

Beyond preparation for filing annual tax returns, education opportunities include:

- **Cultural orientation**: Provide an overview of how taxes impact day-to-day life. Whenever possible, provide information in clients' preferred languages, to improve comprehension. See Settle In's resources.
- **Job readiness and employment services**: Discuss how taxes will be removed from paychecks and how clients will take home less than their gross pay. Use a tax calculator to help predict take-home pay.
- **Financial capabilities**: Review paystubs with newcomers and show them the taxes that are being withdrawn. Support in creating a plan or budget on how they will manage their finances based on their net income. Also discuss sales tax and other taxes on services and goods (why they cost more than the base price).

The tax system can intimidate newcomers and U.S.-born people alike. As you address these topics throughout the year, consider partnering with a local organization, tax preparation group, or other financial service provider to facilitate training for staff.

Partner with Tax Return Filing Services

Refugee service providers should not complete tax returns for clients unless they are certified by a tax preparation program. Instead, help clients gather documents and refer clients to providers of tax filing services:

Volunteer Income Tax Assistance Programs (VITA): VITA provides free tax preparation services for taxpayers that make less than $67,000 a year and have simple tax returns. VITA sites cannot complete all returns and will assess if a return is out of scope based on their local site requirements. VITA sites have access to translation services as part of the program, so they can accommodate English Language Learners.

Tax Preparation Companies: These provide tax preparation services for a fee. They can support clients above the income limit for VITA or with more complex tax returns than VITA programs are permitted to support. While these businesses may provide a level of convenience, it is important to research the quality of services and expected fees before referring to them.

Independent Tax Professionals: Independent tax professionals such as certified public accountants (CPAs) can assist with more complex tax situations and business tax filing. These professionals offer expert knowledge, ability to support with audits, and continued financial service support if needed. They may charge high fees, however, and working with individuals increases the potential for low-quality services as well as fraud. Consult the IRS's Directory of Federal Tax Return Preparers and conduct independent research prior to referring clients to these providers. Reputable preparer and preparation organizations should be able to provide a valid Preparer Tax Identification Number (PTIN) to support their status as a qualified tax preparer.

Self-Filing Resources: Digitally savvy newcomers may self-file their tax return. The IRS partners with several tax software companies to offer free self-filing for individuals who make less than $89,000 a year. This software walks the user through their return filing by asking questions that can be found in their tax documentation. Phone services provide some support for questions. If a person makes above that income threshold, the same companies provide paid self-services. Self-filing is only available in English.

Support with Banking Access

As of the 2025 tax year filing season, taxpayers can no longer receive refunds via paper checks and must have a bank account to receive any funds owed. Newcomers may therefore need assistance opening bank accounts to receive these funds. See Switchboard's Supporting Newcomer Financial Health and Consumer Financial Protection Bureau's (CFPB) Bank Account Opening Checklist for more information. The CFPB also offers resources in additional languages.

Provide Coaching Around Tax Refunds

People with low to moderate income receive an average of $3,000 from their federal tax return, which can be a meaningful sum for newcomers and their families. Suggest that clients use this money to develop an emergency savings fund, pay down debts, or pre-pay recurring monthly bills. Consider partnering with organizations in your area that provide financial coaching and counseling services such as Financial Empowerment Centers or the Supporting Access to Financial Empowerment program.

The IRS's Find My Refund Tool can be used to check on the status of a taxpayer's refund.

Help Newcomers Avoid Tax Scams

Newcomers and English language learners are often a target for tax scams. Educate your clients on how to identify and avoid predatory practices. Some common scam warning signs include:

- **Unusual method of contact**: The IRS's main method of contact is by mail. They can only contact via email and phone with explicit permission from the taxpayer. They will never contact someone via text, phone, or email requesting private information or to ask for payment.
- **Urgency and threatening language**: Scammers will demand people "act now" or face serious consequences, such as arrest or deportation.
- **Promising big paydays**: Communications promising large sums of money are generally too good to be true.

When in doubt, newcomers should contact the IRS directly to see if there is any action needed on their taxes.

Resources

IRS Resources

- Find a free Volunteer Income Tax Assistance (VITA) and the Tax Counseling for the Elderly (TCE) program.
- Use the Interactive Tax Assistant (ITA) to get answers to tax questions.
- Review the U.S. Tax Guides for Aliens to answer questions about non-citizen residents.

Switchboard Resources

- Blog: Navigating Personal Finance and Avoiding Scams: Tips for Refugee Service Providers
- Resource Collection: Resource Collection: Financial Empowerment for Refugees and Newcomers
- Blog: Three Ways to Support Newcomers' Personal Financial Health
- Guide: Reporting Scams and Fraud to the Federal Trade Commission

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