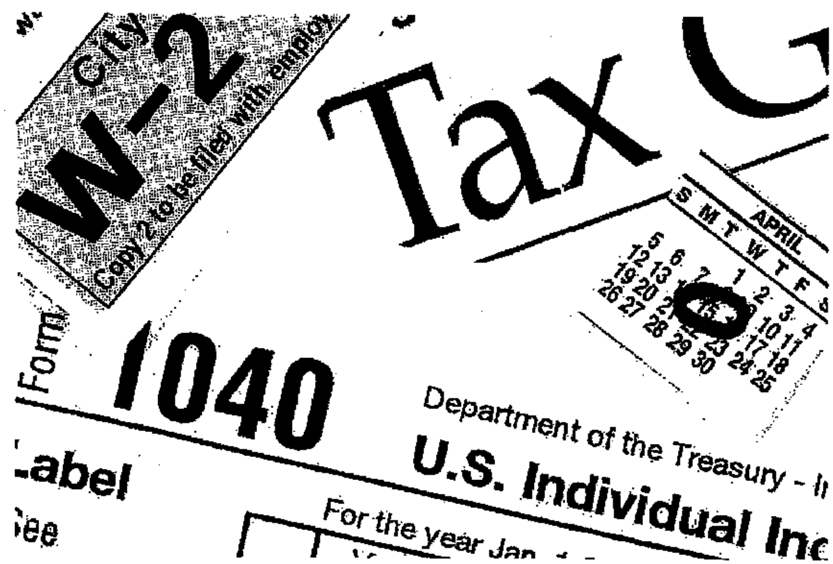
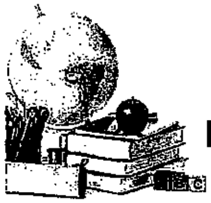
VITA Volunteer Tax Training #3



Adjustments to Income E-1

- Reported on Form 1040, Schedule 1
- Adjustments within VITA scope
  - Educator Expenses
  - Penalty on Early Withdrawal of Savings or CD
    - Automatically populates from Form 1099-INT
  - Alimony Paid
  - IRA Deduction
  - Student Loan Interest Deduction
  - Tuition and Fees Deduction **(Not currently extended for 2022)**
    - Deduction available up to $4,000 of qualifying tuition and fees
    - Review to see if education credits have greater impact
    - Form 8917



Educator
Expense
Deduction

Educator Expenses

E-4

- Eligible educators can deduct up to $300 of qualified expenses paid during the tax year
- Eligible educator definition
  - A teacher, instructor, counselor, principal or aide in a school
    - Home school does not count
  - Teaching in grades K-12
  - Employed for at least 900 hours during the school year
- Qualifying expenses
  - Books, supplies, equipment (including computer equipment, software and services), and other materials used in the classroom
  - Professional development activities are also included
  - Do not include expenses for nonathletic supplies for courses in health and physical education or any home school expenses
  - Must be reduced by any school reimbursements

Alimony Paid

E-9

- Applicable for divorces executed after 1984 and before 2019
- Payments are treated as alimony if ***all*** of the following are true:
  - Payments are ***required*** by a divorce or separation agreement
  - Payer and recipient spouse don't file a MFJ return
  - Payment is made in cash or cash equivalents
  - Payment isn't designated as not alimony
  - Spouses are legally separated under a divorce decree or separate maintenance agreement and cannot be in same household
  - Payments are not required after the death of the recipient spouse
  - Payments are not treated as child support
- Deducted by payer and taxable income to recipient

IRA Deduction

E-10

- Taxpayers may contribute to a traditional IRA and receive a tax deduction
  - The 70½ age limit for making contributions is eliminated starting in 2020
- Contributions for the current tax year must generally be made by April 15th
- Deductible contribution limits
  - $6,000 per individual for 2022
  - Increases to $7,000 if aged 50 or older
  - May be reduced or eliminated if taxpayer or spouse was covered by a retirement plan at work
    - Review Form W-2 Box 13

Student Loan Interest Deduction

E-11

- Qualified loan
  - Loan for the taxpayer, spouse or person who was a dependent of the taxpayer at the time of the loan
  - Paid within a reasonable amount of time after receiving the loan
  - Taken out for an eligible student (1/2 time at accredited school)
- Deduction limits (lower of)
  - Interest paid during the tax year or
  - $2,500

- Taxpayer eligibility rules
  - May not file MFS
  - May not be claimed as a dependent on another's return
  - Must be ***legally obligated*** to pay the loan
  - Loan proceeds were used to pay tuition and other qualified higher education costs (includes books, room and board)

Common Nonrefundable Credits

Form 1040, Schedule 3

- Foreign Tax Credit (G-7)
  - Form 1116 (if required)
  - If foreign tax credit is $300 or less ($600 MFJ) and from investment sources reported on Form 1099-INT, Form 1099-DIV or Schedule K-1, then the credit can be elected to be reported directly on Schedule 3, line 1
- Credit for Child and Dependent Care
  - Form 2441
- Education Credits
  - Form 8863
- Retirement Savers Contributions Credit
  - Form 8880

Credit for Child and Dependent Care

- Credit is partially refundable in 2022 if taxpayer lived in US for more than one-half of year.
- Maximum qualifying expenses
  - ***$3000 for one child***
  - ***$ 6,000 for more than one child***
- Credit ranges from 50% to 20% depending on AGI
  - Phased out for AGI above $400,000
- Look for amount reported in Box 10 of Form W-2
  - Exclusion for employer provided dependent care assistance has increased from $5,000 to $10,500

Credit for Child and Dependent Care

- Eligibility rules
  - Care must be for one or more qualifying persons
    - Qualifying child under age 13 that can be claimed as a dependent (claimed by ***custodial*** parent if Form 8332 filed)
    - Dependent of the taxpayer that is physically or mentally incapable of caring for themselves and who has the same place of abode for half the year of the taxpayer
    - Taxpayer's spouse who is physically or mentally incapable of caring for himself or herself and lived in the taxpayer's abode for half the year
  - The qualifying person must live with the taxpayer for more than half the year
  - If MFJ, generally both spouses must have earned income

Education Credits

- Two different credits available
  - American opportunity credit
  - Lifetime learning credit
- Credit eligibility
  - Taxpayer, spouse and/or dependents claimed on the return who attended an eligible post-secondary educational institution
  - Cannot be claimed as a dependent on another return
  - Cannot file a return as MFS
- Qualifying expenses
  - Tuition
  - Certain related expenses required for enrollment or attendance
- Non Qualifying expenses
  - Room and board
  - Personal, living and family expenses

Education Credits

- American Opportunity Credit - $2,500 ($4,000 costs)
  - Permitted for the first four years of post-secondary education
  - Qualified related expenses include course materials, books, supplies and equipment needed for a course of study
  - Generally, 40% of the credit is refundable
    - Up to $1,000 in federal refund even if no tax liability exists
  - Must be enrolled in a program that leads to degree or certification at least 50% of the normal full-time workload
  - May not have a felony drug conviction
- Lifetime Learning Credit - $2,000 (20% of first $10,000)
  - No limit for number of years credit can be claimed
  - Course related books, supplies, fees and equipment are qualified costs if purchased from the institution
  - No requirement for half time enrollment
  - Felony drug conviction does not preclude credit

Retirement Savings Contributions Credit

G-15

- Taxpayers may be eligible for a credit on contributions made to retirement plans
  - Traditional or Roth IRAs
  - Elective deferrals to a 401(k) or 403(b) plan
  - Elective deferrals to a government 457 plan, SEP or SIMPLE
- Eligible contributions will typically be reported in Box 12 of Form W-2
  - Codes are typically D, E, F, G, H, S, AA or BB
- Eligibility rules
  - Taxpayer cannot be a dependent or a full-time student
  - Taxpayer must be born before January 2, 2004
  - Eligible contributions are reduced by retirement distributions taken in the prior two taxable years and up to the extended due date of the tax return

Refundable Child Tax Credit G-2

- Maximum credit amounts
  - $3,000 per qualifying child between ages of 6 and ***17***
  - $3,600 per qualifying child under age 6
- Eligibility rules
  - Child must be ***under*** the age of 18 at the end of the tax year
  - Child must be a U.S. citizen, U.S. national or resident alien
  - Child must be claimed as the taxpayer's dependent
    - Noncustodial parent may claim the credit if signed Form 8332 is attached to the return
  - Child must have a valid SSN by the due date of the return
- Additional Child Tax Credit (only for those outside U.S.)
  - For taxpayers with earned income over $2,500, credit is based on lesser of:
    - 15% of the taxpayer's taxable earned income that is over $2,500 or
    - The amount of unused child tax credit
  - Can also qualify with three or more qualifying children

Advanced Child Tax Credit Payments

- Advanced payments started in July 2021
  - Taxpayers could opt out or modify their information
  - Advanced payment was 50% of estimated credit for 2021
- IRS to provide year end statement (Letter 6419) with total amount of advanced payments received
- Why might a client receive too much advanced payment?
  - Qualifying child who resided with taxpayer in prior years may live at another household during 2021
  - Income increases from prior year levels
  - Filing status changes
- Will excess amounts need to be repaid? **Maybe**
  - Full repayment protection if 2021 AGI is at or below:
  - $60,000 MFJ or QW, $50,000 HOH and $40,000 Single or MFS

Credit for Other Dependents G-6

- Maximum credit amounts
  - $500 for other dependents who do not qualify for the child tax credit
- Eligibility rules
  - Dependent cannot qualify for child tax credit for any other taxpayer
  - Apply dependency tests from Qualified Relative chart (C-4)
  - Dependent must be a U.S. citizen, U.S. national or resident of the U.S.
    - Residents of Mexico and Canada do not qualify
  - Dependent must have a valid identification number (SSN, ITIN or ATIN) by the due date of the return

Earned Income Credit

- Taxpayer qualifications
  - Must have earned income
    - Wages
    - Self-employed business income
    - Taxable long-term disability benefits received prior to minimum retirement age
  - Investment income may not exceed $10,000
  - Filing status may not be MFS
  - Taxpayer and spouse must have SSNs
  - All children must have SSNs to be treated as qualifying
  - Cannot be a qualifying child of another person
  - Was not previously disallowed credit in a prior year
- Qualifying child rules similar to dependent rules except
  - Support test does not apply
  - Residency test applies only if child lived with taxpayer for over half of the year

2022 Earned Income Table

Children or Relatives Claimed	Filing as Single, Head of Household, or Widowed	Filing as Married Filing Jointly
Zero	$16,480	$22,610
One	$43,492	$49,622
Two	$49,399	$55,529
Three	$53,057	$59,187

Investment income limit: $10,300 or less

Maximum Credit Amounts
The maximum amount of credit:

- No qualifying children: $560
- 1 qualifying child: $3,733
- 2 qualifying children: $6,164
- 3 or more qualifying children: $6,935

Energy Credits

- Energy credits are extended through December 31, 2022
- Form 5695, Part I – Residential Energy Efficiency Property
  - Out-of-scope for VITA
  - Includes qualified solar electric, solar water heaters, geothermal heat pumps and wind ~~turbines~~
- Form 5695, Part II – Nonbusiness Energy Property
  - A total combined credit limit of $500 ($200 for windows) for all tax years after 2005.
  - Improvements must be made to the taxpayer's main home
  - See Instructions for Form 5695 for details on qualifying property and efficiency rating requirements
  - Common items include:
    - Non-solar water heaters, HVAC systems, biomass stoves, exterior windows and doors, metal or asphalt roofs, and insulation

Medicaid Waiver Payments

- Taxpayers can receive payments under Medicaid waiver program for providing nonmedical care in their homes to eligible individuals.

- These payments are typically reported on a W-2 but are exempt from taxable income.
  - For the W-2 input, you would need to enter the payment amount in the Medicaid Waiver Payment box (under Box 13)

- However, these payments are treated as earned income for the Earned Income Credit calculation
  - You would need to check the box above the amount entered for the payment

- See IRS Notice 2014-7 for more information

Itemized Deductions

F-3

- Common deductions within VITA scope:
  - Medical and dental expense (over **7.5%** of AGI)
  - Home mortgage interest – Form 1098
    - Home equity loans must be used to buy, build or substantially improve the taxpayer's qualified residence
  - Mortgage insurance premiums
  - Real estate taxes
  - State and local income taxes
  - Gifts to charity
  - Gambling losses to the extent of gambling winnings (F-11)

- Practice tips
  - Interview tips
  - Remind taxpayers of documentation rules

Medical Expenses

- Eligible expenses for:
  - Taxpayer
  - Spouse
  - Dependents
  - Individuals who could be a dependent except for:
    - Gross income test
    - Joint return test
    - Could be claimed as a dependent of another

- Types of unreimbursed expenses
  - Medical costs
  - Dental costs
  - Eligible long-term care premiums
  - Prescribed medication and programs
  - Medical mileage driven

Affordable Care Act Overview

- Only applies for taxpayers who purchased insurance through Marketplace (HealthCare.gov)
- Form 1095-A will be required to complete return
- No longer a shared responsibility payment for failure to have heath insurance or qualified exemption
- Excess Advance Premium Tax Credit suspension was for **2020** year only

Reporting Marketplace Coverage

For each person on the return, did this person purchase medical insurance via HealthCare.gov (aka the Marketplace)?

- If YES: Complete Form 8962
- Review Form 1095-A for detailed information

Premium Tax Credit

- The taxpayer, spouse (if filing a joint return), or dependents were enrolled at some time during the year in one or more qualified health plans offered through the **Marketplace**.
- One or more of the individuals listed above were not eligible for other MEC (except coverage through the individual market) during the months they were enrolled in the qualified plan through the Marketplace.
- The taxpayer is an applicable taxpayer if he or she meets the following three requirements:
  - The taxpayer's income is at least 100% but not more than 400% of the federal poverty line for the taxpayer's family size.
  - If married, the taxpayer files a joint return with his or her spouse (unless the taxpayer is considered unmarried for Head of Household filing status, or MFS under Form 8962).
  - The taxpayer cannot be claimed as a dependent by another person

Premium Tax Credit Advanced Credit Payments

- The Marketplace projects the premium tax credit a taxpayer may claim against their insurance premiums
- Form 1095-A reports the amount of advanced credit payments made during 2022
- Taxpayer **must file** Form 1040 if the Advanced Premium Tax Credit was paid during 2022
- Form 1095-A should be received by the taxpayer by January 31, 2023 from the Marketplace
  - Taxpayer can log in to Marketplace account or
  - Call Marketplace service center (1-800-318-2596)
  - Any errors on Form 1095-A should be directed to the Marketplace

Premium Tax Credit Form 8962

- TaxSlayer will calculate the amount of the credit for each taxpayer based on several criteria
- Advanced portion of credit may need to be repaid if calculation differs from estimated credit at enrollment
  - TaxSlayer will calculate the Advanced Credit Repayment amount including any limitations
- If taxpayer's income changes from original estimates, they should update their information with the Marketplace
- Repayment can be very high if taxpayer is above 400% of federal poverty level
  - Some options exist to decrease income below 400% level
  - Example: Taxpayer and/or spouse can contribute to IRA or HSA

Health Savings Accounts (HSA) E-6

- If a taxpayer has a high deductible health insurance (self or family coverage), they may establish a Health Savings Account to use for out of pocket medical expenses
- Either the taxpayer or the employer may make contributions to the HSA
  - Check W-2 Box 12 for employer contributions
  - Taxpayer may receive Form 5498-SA showing their contributions
  - Contributions made by the employee may be eligible for a tax deduction
    - However, amounts contributed on a pre-tax basis (Sec. 125 Plan) are not eligible
- Report all contributions and distributions on Form 8889

Health Savings Accounts (HSA) E-8

- Distributions from an HSA must be reported on Form 8889
- Generally, the taxpayer will receive a Form 1099-SA showing any distributions from the account
- Distributions from an HSA will not be taxable if:
  - Taxpayer used all of the distribution for qualified medical expenses during the year for a qualified person (taxpayer, spouse and/or dependents)
  - The distribution was rolled over into another qualified HSA
- If the distribution was not used for medical expenses, then the amount received is taxable income and subject to a 20% penalty
  - Penalty exceptions include death, disability or taxpayer reaching age 65