



# GECC Training

Tax Year 2017

# Welcome!

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- Please sign-in and make sure you have picked up a packet containing the training materials
- There are a number of training materials inside the packet for you to use throughout training. Please bring these materials back on the second day of training
- Snacks and drinks are available throughout the day, please help yourself



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# WELCOME I WANT TO START WITH A THANK YOU

Volunteers are the heart of this program. We could not do this work without you!

**VOLUNTEER**  
*you can make a difference!*



# Hello!

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**My name is Brittany  
Basler**

# WHAT IS GECC?

- The Coalition provides free tax preparation services to low to moderate income households earning below \$54,000 a year
- The **Gateway EITC Community Coalition** provides help in obtaining this refundable tax credit when filing federal tax returns for free
- The Earned Income Tax Credit (EITC) is most effective anti-poverty tool we have in the country
- We also save taxpayers \$273 on average in tax preparation fees

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## 2017 RESULTS

**We filed 9,604 federal returns resulting in \$9.6 million in refunds.**

**All at no cost to our clients!! We saved our clients an estimated \$2.6 million in preparation fees.**

# Agenda

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- Review of Volunteer Conduct, Roles and Responsibilities
- Intake Review
- 1040 Overview
- Review Tax Code and Complete Scenario Reviews in TaxSlayer

# As a volunteer in the VITA/TCE Programs, you must:

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1. Follow the Quality Site Requirements (QSR)
  2. Not accept payment or solicit donations for federal or state tax return preparation
  3. Not solicit business from taxpayers you assist or use the knowledge you gained (their information) about them for any direct or indirect personal benefit for you or any other specific individual
  4. Not knowingly prepare false returns
  5. Not engage in criminal, infamous, dishonest, notoriously disgraceful conduct, or any other conduct deemed to have a negative effect on the VITA/TCE Programs
  6. Treat all taxpayers in a professional, courteous, and respectful manner
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# Volunteer Protection Act of 1997

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Volunteers are exempt from liability if they are acting within the scope of their training and certification and they were not acting in gross negligence or willful misconduct.

# Examinations

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- Standards of Conduct-Ethics
- Intake/Interview and Quality Review Training
- Advanced Exam
- Basic Exam-only if you fail Advanced
- H.S.A.

Must pass with 80% to be a volunteer

# Roles and Responsibilities

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- Greeters
- Tax Preparers\*
- Quality Reviewers\*
- Site Coordinators\*

\*Require advanced certification.

# Clients Must Have

- Government issued ID or driver's license
- Social Security card for each person listed on the return
- Birth dates of all persons on the return
- All tax documents -W2s,1099s,1098, 1095A, etc. Do NOT do the return if a document, such as a W-2 is missing.
- Bank routing/account numbers for direct deposit

# 13614-C Intake Form

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- The use of 13614-C is a MUST!
- It will help you identify the types of forms the taxpayer should have.
- It helps you identify the difficulty of the tax return you will be preparing.
- Review the intake form with the taxpayer.
  - Discuss with them areas they marked unsure and decide whether they qualify and then select the appropriate answer.

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# INTAKE & INTERVIEW, QUALITY REVIEW

A must for an accurate tax return

# Who Must File?

- Charts are provided to help you determine who must file:  
See Pub 4012, **Who Must File** tab

The following summarizes **Chart A**:

If Gross Income > Standard Deduction + Exemption Deduction,  
then file a return. (e.g. single = \$6,350+\$4,050 = \$10,400)

- Multiple other factors are involved that could require a person to file: **See Charts C and D**
  - Anyone who had tax withholdings
  - Received a Health Care Premium Credit
  - Self-employment greater than \$400

# Becky's Filing Requirement

- Becky is 29 years old and single
- Her gross income from her W-2 for the 2017 tax year is \$10,550

1.) Based only on this information, is  
Becky required to file a tax return?

2.) Why or why not?

Answer: Yes, because her gross income was more than \$10,400, and she is under 65.



# Robert and Erica

- Robert and Erica are married and usually file a joint return
- During the tax year, Robert turned 66 and Erica turned 64
- Their gross income was \$16,200

Based only on this information:

- 1.) Are Robert and Erica required to file a return?
- 2.) Why or why not?

**Answer: No, because one spouse is 65 or older and their gross income is less than \$22,050.**

# Who Should File?

- Taxpayers below the filing requirements should file:
  - To claim refund of withheld taxes
  - To claim the Earned Income Credit
  - To claim the Additional Child Tax Credit, or the American Opportunity Credit
  - See Publication 4012 page A-3 for other reasons

# Taxpayer Identification Numbers

- Taxpayer Identification Numbers :
  - Social Security Number (SSN)
  - Individual Taxpayer Identification Number (ITIN) start with 9's
  - Adoption Taxpayer Identification Number (ATIN)
- Most green card holders have valid social security numbers and must follow the same tax laws as U.S. citizens, including the requirement to report worldwide income on their tax returns.
  - Exception: Health Insurance is not required for non-US citizens nor for undocumented immigrants

**GECC tax preparation sites will file returns for those taxpayers determined to be resident aliens with ONLY U.S. INCOME**

# Filing Status and Filing Requirements

# Form 1040

## Filing Status

Form <b>1040</b>	Department of the Treasury—Internal Revenue Service (99)		<b>2015</b>	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2015, or other tax year beginning , 2015, ending , 20					See separate instructions.
Your first name and initial		Last name		Your social security number	
If a joint return, spouse's first name and initial		Last name		Spouse's social security number	
Home address (number and street). If you have a P.O. box, see instructions.				Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).				Presidential Election Campaign	
Foreign country name		Foreign province/state/county		Foreign postal code	
				Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse	
<b>Filing Status</b>	<div> <div>Check only one box.</div> <div> <div>1 <input type="checkbox"/> Single</div> <div>2 <input type="checkbox"/> Married filing jointly (even if only one had income)</div> <div>3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶</div> <div>4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶</div> <div>5 <input type="checkbox"/> Qualifying widow(er) with dependent child</div> </div> </div>				
<b>Exemptions</b>	<div> <div>6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a . . . . .</div> <div>6b <input type="checkbox"/> Spouse . . . . .</div> <div>6c Dependents:</div> <div> <div>(1) First name Last name</div> <div>(2) Dependent's social security number</div> <div>(3) Dependent's relationship to you</div> <div>(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)</div> </div> </div>				
	<div> <div>Boxes checked on 6a and 6b</div> <div>No. of children on 6c who:</div> <div>• lived with you</div> <div>• did not live with you</div> </div>				

# Filing Status

- Single
- Married Filing Jointly
- Married Filing Separately
- Head of Household
- Qualifying Widow(er)

**Refer to B-8 Decision Tree Chart  
in Publication 4012**

# Why is the filing status so important?

- It determines your standard deduction and tax brackets.
  - The larger your standard deduction is, the lower your taxable income is, and thus the lower your total tax will be.

Filing Status	Standard Deduction 2017
Single	6,350
Married Filing Jointly / Qualifying Widower	12,700
Head of Household	9,350
Married Filing Separately	6,350 (and limits the ability to use some credits)

# Single

Taxpayers can use the Single filing status if on December 31 they are:

- Not married
- Legally separated or divorced, or
- Widowed before the beginning of the tax year and did not remarry

## **IMPORTANT:**

**Some taxpayers considered single can also file under a more advantageous status (HoH or QW).**

**Be sure to check all options!**



# Married Filing Jointly

Status can be claimed by taxpayers who, on the last day of the tax year:

- Were legally married and lived together
  - This includes same sex marriage
- Were married and living apart, but were not legally separated or divorced
- Lived together in a common law marriage that is recognized in the state where they currently live or the state where the common law marriage began, or
- Did not remarry after their spouse died during the year

# Married Filing Separately

- Married taxpayers can also file separately; HOWEVER,
  - MFS may NOT provide the benefit that many expect, and clients will **ALMOST ALWAYS end up paying more in tax than if they filed jointly.**

There are a number of severe restrictions on deductions and credits, and on the amount of IRA contributions that you can deduct, especially if you live together with your spouse.

- Cannot take the EIC,
- Cannot take the credit for Child and Dependent Care, in most cases,
- Cannot take the Education credits/deductions, and there are many other restrictions.
- If either of you receive Social Security benefits and you live with your spouse, more of the SS benefit will be taxable, and the person receiving it will have to include the SS benefit in their gross income when determining whether they have to file.
- **If one spouse itemizes, the other spouse must itemize, even if they have nothing to itemize.**

# Why Do Some Choose MFS?

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- Sometimes MFS is chosen when one spouse does not want to be responsible for the other spouse's tax obligations or filing separately may result in a lower total tax (this is rare)
- Sometimes to avoid an offset of their refund against their spouse's outstanding debts (child support, student loans, etc.)
- Note: Even in these circumstances, there may be other options that allow them to file jointly and not be responsible for these debts (Injured Spouse Form)

# Why Do Some Choose MFS?

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- **Note:** Sometimes taxpayers must file separately because they are separated and not in communication with their spouse and don't have the option of filing jointly.

# Death of a Spouse

- If a spouse died during the tax year, and the taxpayer did not remarry, they are considered **married** for the entire year.
- The surviving spouse is eligible to file as MFJ or MFS (generally want MFJ unless extenuating circumstances).
- If surviving spouse files MFJ with deceased spouse in year of death, and has a child or stepchild for whom they claim an exemption **AND** paid more than half the cost of keeping up the home, **AND** they have not remarried, then they can file as Qualifying Widower for the two years following the spouses death.
- Surviving spouses that remarry must file with the new spouse, as MFJ or MFS.
  - The deceased spouse's filing status becomes MFS.

# Qualifying Widow(er)

To qualify:

- Your spouse died in 2015 or 2016 and you did not remarry before the end of 2017.
- You were entitled to file MFJ in the year of death of your spouse (2015 or 2016).
- You paid more than  $\frac{1}{2}$  the cost of keeping up your home.
- Have a dependent child, stepchild, or adopted child live in your home all year. A Foster Child or Grandchild does not qualify.
  - Pub 4012, Tab B Filing Status (pg. B-8)

# Head of Household

Two ways to qualify for HOH:

1. Unmarried and paid more than half the cost of keeping up a home for themselves and a *dependent relative*.
2. Married and paid more than half the cost of keeping up a home for themselves and a *dependent CHILD*, but *spouse did not live in the same home the last six months of the year*.

# When can a legally married person file as Head of Household?

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- Paid more than half the cost of keeping up your home for the year.
- Spouse did not live in your home during the last 6 months of the tax year.
- Home was the main home of your *child, stepchild or foster child for more than half of the year.*
- You claim an exemption for the child.



# For unmarried: Who is a qualifying person for Head of Household status?

A qualifying person is defined as:

- A qualifying child who **lived** with you **more than half the year** and meets certain other tests
- A qualifying relative who is your father or mother
- A qualifying relative other than your father or mother who meets certain tests

**Must be RELATED to be Qualifying Person**

**Refer to chart B-10 [4012 tab B. Filing Status]**

# Mary

Mary's younger brother, Sebastian, is 17 and lived with some friends the entire months of January and February of the tax year. From March to July, he lived with Mary. On August 1, Sebastian moved back in with his friends, with whom he stayed for the rest of the year. Since Sebastian did not have a job, Mary gave him money every month for support. She has no other dependents.

1.) Can Mary claim Head of Household Status?

Answer: No, she cannot claim HOH because Sebastian only lived with her for a total of 5 months, therefore he is not a qualifying child or a qualifying relative for HOH status.

# Jane's Situation

Jane's husband died in 2017. She and her husband qualified to file a joint return in 2016, but they did not. Jane's children are grown and maintain homes of their own. She has not remarried.

- 1) What filing statuses is Jane allowed to use on 2017's tax return?
- 2) What filing status would be most beneficial to Jane?

Answers:

- 1) Married filing jointly or Married filing Separately.
- 2) Married filing jointly would most likely be the most beneficial treatment, however, the fact that they filed separately in 2016 should be explored because there could be circumstances which would make the separate filing more advantageous.

# Amy's Case

Amy has been separated from her husband since March of the tax year and her divorce is pending. She has sole custody of her three children, who lived with her the entire year. The children are all under the age of 19. She provided all of the cost of maintaining the home.

- 1) What filing statuses would Amy be allowed to use on her return?
- 2) What filing status would be most advantageous?

Answers:

- 1) She is allowed to file as married filing jointly, if both agree, Married Filing Separately (not recommended) or Head of Household. As long as the couple is legally married, neither can file single.
- 2) HOH is most likely the best alternative for Amy.

# Exemptions

# Form 1040

## Exemptions

Form <b>1040</b>	Department of the Treasury—Internal Revenue Service (99)		<b>2015</b>	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2015, or other tax year beginning , 2015, ending , 20			See separate instructions.		
Your first name and initial		Last name		Your social security number	
If a joint return, spouse's first name and initial		Last name		Spouse's social security number	
Home address (number and street). If you have a P.O. box, see instructions.				Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).				Presidential Election Campaign	
Foreign country name		Foreign province/state/county		Foreign postal code	
				Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse	
<b>Filing Status</b>	1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child				
Check only one box.					
<b>Exemptions</b>	6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a . . . . . b <input type="checkbox"/> Spouse . . . . .				Boxes checked on 6a and 6b No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above ▶
	<b>c Dependents:</b>		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)
	(1) First name	Last name			<input type="checkbox"/>
					<input type="checkbox"/>
					<input type="checkbox"/>
					<input type="checkbox"/>
If more than four dependents, see instructions and check here ▶ <input type="checkbox"/>	<b>d</b> Total number of exemptions claimed . . . . .				
<b>Income</b>	7 Wages, salaries, tips, etc. Attach Form(s) W-2 . . . . .				7
	8a Taxable interest. Attach Schedule B if required . . . . .				8a
	b Tax-exempt interest. Do not include on line 8a . . . . .				8b
	9a Ordinary dividends. Attach Schedule B if required . . . . .				9a
	b Qualified dividends . . . . .				9b

# Personal Exemptions

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- Each personal exemption decreases the taxable income by \$4,050
- Taxpayers can claim exemptions for:
  - Taxpayer UNLESS the taxpayer can be claimed as a dependent by someone else.
  - Spouse UNLESS the spouse can be claimed as a dependent by someone else.

# Personal Exemptions

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## ***Remember:***

It's not whether the taxpayer IS claimed as a dependent, but whether the taxpayer CAN BE claimed as a dependent that determines whether the taxpayer can claim an exemption.



# Dependency Exemptions

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- Each dependency exemption decreases taxable income by \$4,050.
- A taxpayer can claim exemptions for:
  - qualifying children
  - qualifying relatives
- These qualifying individuals *usually* live in the taxpayer's home and generally receive significant support from the taxpayer.

# Determining Dependency Exemptions

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Open the Publication 4012 to the Exemptions Tab  
to Table 1: Dependency Exemption

***ALWAYS BEGIN WITH THIS  
CHART TO DETERMINE IF A  
PERSON QUALIFIES AS A  
DEPENDENT!***

# Qualifying Child Tests

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- Misleading term – includes taxpayer's brother or sister as well as child or descendent of any of these (i.e. grandchild, niece/nephew, etc.).
- 1. Citizen Test – Must be resident of U.S., Mexico, or Canada.
- 2. Joint Return Test – If dependent is filing MFJ with spouse, their federal income tax line must = \$0.
- 3. Child cannot provide over half of his/her own support.
- 4. Child must reside with taxpayer claiming deduction for over half of the year (see temporary absences)
- 5. Child must be less than 19 years old OR full time student (for at least 5 months) and less than 24 years old OR permanently and totally disabled.

# Qualifying Relative Tests

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- Misleading term –dependent can be unrelated to taxpayer BUT must reside in taxpayers home for entire year if unrelated.
- 1. Citizen Test – Must be resident of U.S., Mexico, or Canada.
- 2. Joint Return Test – If dependent is filing MFJ with spouse, their federal income tax line must = \$0.
- 3. Taxpayer must provide over half of dependents support.
- 4. Dependent's gross income cannot exceed the exemption amount (\$4,050).
- 5. Residency test – must live with taxpayer if unrelated.

# Note: Taxpayers with ITIN Cards

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- **Remember:** Taxpayers receive an ITIN if they are nonresidents but need to file a tax return and cannot obtain a SSN.
- If a taxpayer lived in the United States all year and has an ITIN card, they will be considered a **resident alien** for tax purposes.
- A “child” passes the citizenship test in this situation.

# “Permanently and Totally Disabled”

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- A person is considered permanently and totally disabled if he or she cannot engage in any substantial gainful activity because of a physical or mental condition, AND
- A doctor determines the condition has lasted or can be expected to last continuously for at least a year or can lead to death.

# “Temporary Absences”

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- A child is considered to have lived with you during periods of time when one of you, or both are temporarily absent due to illness, education, business, vacation, military service, or detention in a juvenile facility.

# Exercise

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**TRUE or FALSE:**

**Every taxpayer can claim a personal exemption for himself.**



# Exercise – Answer

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**FALSE**

**A taxpayer who can be claimed as a dependent by someone else CANNOT claim an exemption for him/herself.**

# Exercise

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**Rebecca is unmarried with one child, Colin.**

**Colin is 8 years old and lives full time with his mother, who provides all of his support. He is a U.S. citizen, and no other adults live in their household.**

**Can Rebecca claim Colin as a dependent?**

***Use the Publication 4012***

## Exercise – Answer

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**YES**

**Colin meets all the requirements to be claimed as a qualifying child.**

# Exercise

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**Paul is a U.S. citizen who is 26 years old, permanently disabled, unmarried, did not pay for more than half of his support and lived with his parents for the entire year.**

**Can Paul be claimed as a dependent by his parents?**

# Exercise – Answer

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**YES.**

**Paul meets all the requirements to be claimed as a qualifying child.**

## Add these questions to 4012, page C-5, under Step 9

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- Did any other adult live in your home?
- What was that other adult's relationship to the child?
- Could the other adult be claimed as a dependent by someone else?

These will assist you in determining if a person is  
the **Qualifying Child of More Than One Person**

# Qualifying Child of Multiple Taxpayers (Non-Parents)

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## Qualifying Child of multiple taxpayers

- Taxpayer must decide who will claim ALL of the following:
  - Dependency Exemption \*
  - Head of Household
  - Child Tax Credit \*
  - Earned Income Credit \*
  - Dependent Care Credit \*

**\*Only the custodial parent can claim the EITC and Child & Dependent Care Credits**

**\*Child Tax Credit goes with child dependency exemption [\$1000 credit + \$4,050 deduction]**

**EXCEPTION: BENEFITS CANNOT BE DIVIDED BETWEEN TWO TAXPAYERS WHO ARE NOT THE CHILD'S PARENTS**

# Qualifying Child of More Than One Person

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- Sometimes, a child meets all of the tests to be claimed by more than one taxpayer.
  - *Example: a mother and a grandmother*
- Parenthood and AGI are taken into consideration in determining who is eligible to claim the child.



# What if the parents live apart?

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- The **custodial** parent generally claims the dependency exemption for his/her child
- The **noncustodial** parent can claim the exemption if the parents have signed an agreement
  - Form 8332 (REQUIRED for post-2008 divorce)
  - Or the divorce decree falls under one of the conditions in Table 3 C-8 of Pub. 4012
    - ▣ The noncustodial parent must attach a copy of the form or statement to his or her tax return. Can be e-filed using form 8459 – [Preparer needs to make a copy for our file and mark in the return that a form 8332 exists]

# Exercise

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**Roderick, age 29, lives with his uncle. Last year, he worked part-time and earned \$2,100. His uncle provided for the rest of his support, including rent and household costs.**

**Can his uncle claim Roderick as a dependent? Can Roderick claim a personal exemption?**

## Exercise – Answer

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**YES.**

**His uncle can claim Roderick as a qualifying relative.**

**NO.**

**Roderick cannot claim a personal exemption because he can be claimed as a dependent.**

# Exercise

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**Gina Brown provides all support for her uncle. Uncle Jim is unmarried, 72 years old, and lives in another city. He has no gross income for the calendar year.**

**Can Gina claim Uncle Jim as a dependent?**

## Exercise - Answer

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**YES.**

**Jim meets all of the requirements  
to be  
a qualifying relative of Gina.**

# Tim and His Parents

- Tim, 23, was a full-time college student who lived with his parents all of 2017.
  - His parents provided all of the cost of keeping up a home
  - Tim earned \$4,000 and put it in a savings account.
  - All three have valid Social Security numbers.
- 1.) Can Tim be claimed as a dependent by his parents?
  - 2.) Is Tim required to file a return?
  - 3.) Should Tim file a return?
  - 4.) If Tim files a return, can he claim a personal exemption?

# Ed and Larry

- Ed, 30, and his daughter, Rose, 9, lived with Ed's brother, Larry, all of 2017. Ed is unmarried and has been out of work, with \$3,000 in unemployment benefits for 2017
  - Larry, age 28, provides all of the support for Ed and Rose. Larry's 2017 salary was \$19,500
  - All three are U.S. citizens
- 1) Who must file a return?
  - 2.) Who is eligible to claim Rose?
  - 3.) Can Larry claim Ed?
  - 4.) What filing status should Larry use?

# Joan and Mary Ann

Since her husband died five years ago, Joan has lived with her friend Mary Ann, who is also a widow. Joan is a U.S. citizen, is single, and lived with Mary Ann the entire tax year. Joan had no income and received all of her support from Mary Ann. Joan cannot be claimed as a dependent on any one else's return.

- 1) Can Mary Ann claim Joan as a Dependent?
- 2) What filing status will Mary Ann use?



# Income

# IRS Publication 4012

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Where does it go?

- Start on page D-3 this will tell you where each form goes on the 1040 and how to add it into TaxSlayer

# Form 1040 Income

Exemptions		6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, <b>do not</b> check box 6a . . . . .				Boxes checked on 6a and 6b	
		b <input type="checkbox"/> Spouse . . . . .				No. of children on 6c who:	
c Dependents:		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)	• lived with you		
(1) First name	Last name				• did not live with you due to divorce or separation (see instructions)		
				<input type="checkbox"/>	Dependents on 6c not entered above		
				<input type="checkbox"/>	Add numbers on lines above ▶		
				<input type="checkbox"/>			
				<input type="checkbox"/>			
d Total number of exemptions claimed							
Income		7 Wages, salaries, tips, etc. Attach Form(s) W-2 . . . . .				7	
8a Taxable interest. Attach Schedule B if required . . . . .		8a					
b Tax-exempt interest. <b>Do not</b> include on line 8a . . . . .		8b					
9a Ordinary dividends. Attach Schedule B if required . . . . .		9a					
b Qualified dividends . . . . .		9b					
10 Taxable refunds, credits, or offsets of state and local income taxes . . . . .		10					
11 Alimony received . . . . .		11					
12 Business income or (loss). Attach Schedule C or C-EZ . . . . .		12					
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>		13					
14 Other gains or (losses). Attach Form 4797 . . . . .		14					
15a IRA distributions . . . . .		15a			b Taxable amount . . . . .	15b	
16a Pensions and annuities . . . . .		16a			b Taxable amount . . . . .	16b	
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E . . . . .		17					
18 Farm income or (loss). Attach Schedule F . . . . .		18					
19 Unemployment compensation . . . . .		19					
20a Social security benefits . . . . .		20a			b Taxable amount . . . . .	20b	
21 Other income. List type and amount . . . . .		21					
22 Combine the amounts in the far right column for lines 7 through 21. This is your <b>total income</b> ▶		22					
Adjusted Gross Income		23 Educator expenses . . . . .				23	
		24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ . . . . .				24	
		25 Health savings account deduction. Attach Form 8889 . . . . .				25	

**Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.**

If you did not get a W-2, see instructions.

# Taxable Income

- Wages, salaries, commissions, tips
- Interest, dividends, pensions, capital gains
- Alimony, business income, hobby income
- Rents, royalties, partnership/S- Corporation, estate or trust income
- Unemployment benefits
- Jury duty pay, gambling winnings, cancellation of debt
- Some State tax refunds
- Other items of income unless they are designated as nontaxable
- See complete list in Publication 4012, Tab D-1 Income

# Nontaxable Items

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- Child support (not the same as alimony)
- Public assistance-food stamps
- Veteran's disability benefits
- Federal income tax refunds
- Gifts and inheritances
- Municipal bond exempt interest
- Other items listed in D-1 of Pub 4012

# State Tax Refund

---

- Taxpayers who receive a refund of state or local income taxes may receive Form 1099-G listing their refund in box 2.
- NOT everyone must include their state tax refund as taxable income. Only if they itemized in the prior tax year.

# Form 1099-G:

## Certain Government Payments

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		1 Unemployment compensation \$		OMB No. 1545-0120  <b>2015</b>  Form <b>1099-G</b>	<b>Certain Government Payments</b>  <b>Copy 1 For State Tax Department</b>
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		2 State or local income tax refunds, credits, or offsets \$			
PAYER'S federal identification number	RECIPIENT'S identification number	3 Box 2 amount is for tax year		4 Federal income tax withheld \$	
RECIPIENT'S name  Street address (including apt. no.)  City or town, state or province, country, and ZIP or foreign postal code		5 RTAA payments \$		6 Taxable grants \$	
		7 Agriculture payments \$		8 Check if box 2 is trade or business income <input type="checkbox"/>	
		9 Market gain \$			
Account number (see instructions)		10a State	10b State identification no.	11 State income tax withheld \$	
				\$	

Form **1099-G**                      [www.irs.gov/form1099g](http://www.irs.gov/form1099g)                      Department of the Treasury - Internal Revenue Service

# State Tax Refund

---

- Prior tax year (PTY) state tax refund may be taxable and need to be reported
- Conditions in which PTY state tax refund is taxable:
  - Received a refund on a state return
  - Itemized Deductions in PTY (Federal) AND
  - Deducted state income tax instead of state sales tax when itemizing deductions (Federal)



# State Tax Refund

---

- What if taxpayer doesn't know if they itemized deductions last year?
  - **Ask:** “Did you have any mortgage interest, medical expenses, charitable contributions, etc., that you listed on your return last year?”
  - A taxpayer may not be sure if they did, but often they are very confident that they did not have any of these deductions listed last year

# Prior Tax Year

## State Tax Refund

---

- If the taxpayer needs to report the state tax refund, go to:
  - Federal Section → Income → State and local refunds
  - Enter in the necessary information
- To correctly report a state tax refund amount, the following info from the PTY return is needed:
  - State tax refund amount
  - Sch A, line 5a, state income taxes (TBD)
  - Total itemized deductions amount
  - Filing status

# Form W2-G:

## Certain Gambling Winnings

---

- A taxpayer may receive one or more Form W2-Gs reporting gambling winnings
- Classified as **unearned income**
- **Note:** If a taxpayer has gambling winnings **not** reported on a Form W2-G, they must still be reported as income on the tax return

---

# Earned Income Credit (EIC)

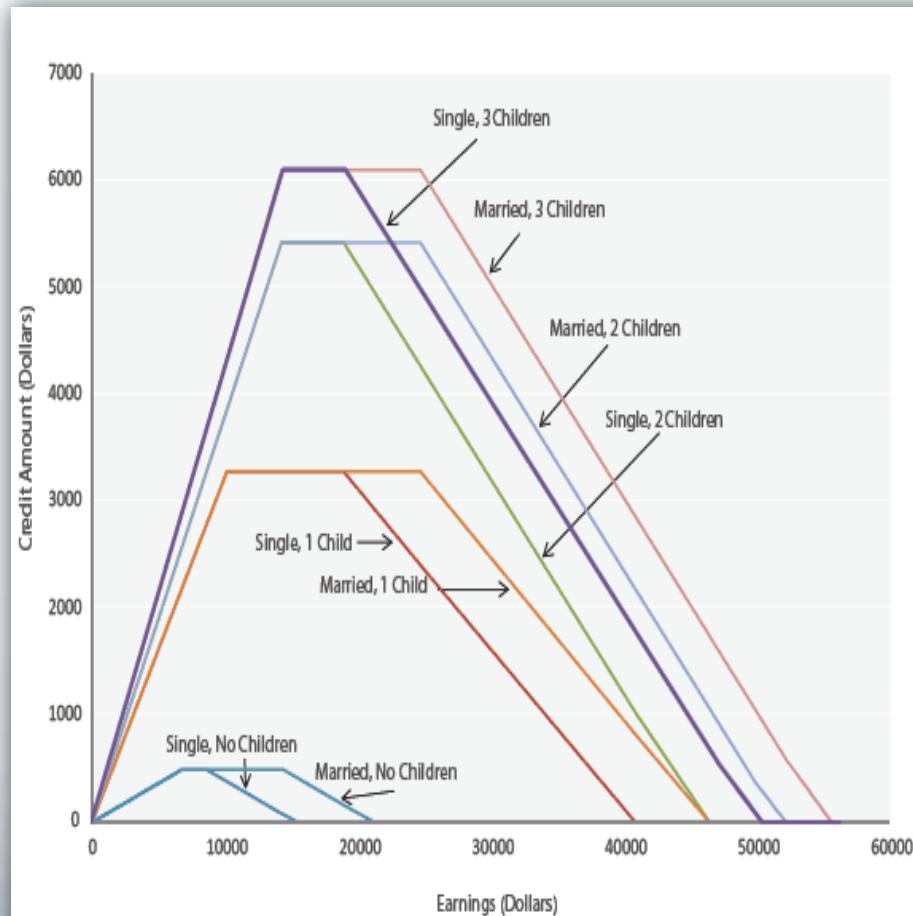
# Earned Income Credit

---

- Refundable tax credit for low-to-moderate income workers to encourage work, offset payroll and income taxes, and help meet basic needs.
- The EIC is the largest federal anti-poverty program and has been one of the most successful programs to lift families, especially families with children, out of poverty.

See Pub 4012 Tab I

# Earned Income Credit: Maximum Credit Amounts



Source: 2014 EITC parameters taken from <http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=36>

# EIC with a Qualifying Child: General Rules

---

Must meet all three tests:

- Relationship Test
- Age Test –under 19
  - Or under 24 if full time student
  - Or disabled [no age limit]
- Residency Test

Same tests for Qualifying Child Dependency  
Exemption

**See Pub 4012 Tab I-4**

# Qualifying Child Includes

---

- Eligible foster child
- Adopted child
- Permanently and totally disabled
- Child who was kidnapped
- Does NOT include cousins



# Born or Died Rule

---

A child born or who died at any time during the year is considered to have lived with you for 12 months.

# Earned Income

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- Wages and salaries
- Tip income
- Self employment income

Used to determine the Earned Income Credit see I-1 (EITC or EIC)

# General Eligibility Rules For EITC

---

- Must file a tax return
- Must have earned income
- Must not exceed maximum income limits  
[See Publication 4012 Tab I-2]
- Must have valid SSN (ITINs not allowed)
- Must not use MFS filing status
- Must be a U.S. citizen or Resident Alien

# General Eligibility EITC cont'd.

---

- Must not file form 2555 (foreign income)
- Must not exceed investment income limit of \$3,450 for 2017
  - Interest, dividends, capital gains, rental income, royalties, etc.
- Must not be a qualifying child of another taxpayer

# Qualifying Child of More Than One Taxpayer for EIC

---

▣ If the parents were not married or if the child lives with parent and grandparent, or with both parents:

- The tie-breaker rules apply.  
See I-5 in Pub 4012

# EIC Without a Child

---

- Earned income and AGI below \$15,010 (\$20,600 MFJ) 2017 limits [Publication 4012 pg I-2]
- ▣ Lived in the United States more than half the tax year
- ▣ At least 25 but under age 65 on Dec. 31
- ▣ Does not qualify as the dependent of another person

# EIC – Other Information

---

- If EITC was denied in previous year
  - Must file Form 8862 explaining why it was denied
  - Can still be e-filed

# EITC Determinations

---

Determine for each of the following cases if the taxpayer would qualify to claim the EITC. Why or why not?



# EITC Determinations

---

Maureen's 20 year old daughter lived with her for 8 months during the tax year. She is a full time college student who is not married.

Maureen is 42 years old. Maureen earned \$25,000 from her job.

Answer: Maureen's daughter **does** qualify Maureen for EITC. Maureen made less than \$39,617 maximum amount of income for one qualifying child.

# EITC Determinations

---

Lisa is raising 3 children as if they were her own. Tara, 3, is the daughter of Lisa's cousin. Paul is 2. Lisa adopted him from Europe and he began living with her in November of the tax year. Dwight, 20, is Lisa's son. He attends community college part time.

Which child, if any, qualify Lisa for EITC?

**Answer: None:** Tara fails the relationship test; Paul fails the residency test; and Dwight fails the full time student test. Since he is part time student he would have to be under age 19.

# EITC Determinations

---

Jane, 31, and Todd, 33, have never been married. They have one child together, Amanda, 8. Jane and Amanda lived in an apartment for the entire year. Todd lived alone. Jane earned \$15,000 as a clerk. Todd earned \$48,000 as a manager. Todd paid more than half of the living expenses for Jane and Amanda. All three are U.S. citizens with valid SSN's.

Who can claim the EITC and why?

Answer: Only Jane can claim the EITC for Amanda because she was the custodial parent. Amanda never lived with Todd.

Jane could sign form 8332 and give the dependency to Todd. If she does, he will also get the child tax credit, but **not** EITC.

---

# EITC Determinations

---

A married couple, Steve and Ellen, are filing jointly. They are raising their granddaughter, 10, because their daughter is serving a long prison term. They are also caring for an unrelated 8-year-old boy who was placed with them as a foster child by the state. Both children lived with them the entire year. They have wages of \$43,560.

Can they claim EITC on either child?

What if they only had the granddaughter?

**Answer:** They do qualify. Both children are qualifying children. They lived the entire year with them-The income guidelines for MFJ with 2 qualifying children is less than \$50,597; If they have only one child, the income guideline is less than \$45,207.

# EITC Determinations

---

Rob and Laura are divorced. Laura is the custodial parent for Dawn, who lived with her for the entire year. Laura signed form 8332, allowing Rob to claim the dependency exemption for Dawn until she turns 18.

Can Rob claim Dawn for EITC?

Answer: No. Dawn did not live with Rob for at least 6 months. Form 8332 allows Rob to claim the dependency exemption and child tax credit only.

---

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The client is getting a  
refund-now what?

# Direct Deposit

---

- Can split the refund into up to three accounts.
  - Need routing and account number.
- “Spend some, save some”.
- Ask if the refund is  $> \$500$ .



---

# SAVINGS IS A BIG PART OF TAX TIME

Ask every taxpayer if they  
want to save part of their  
refund.





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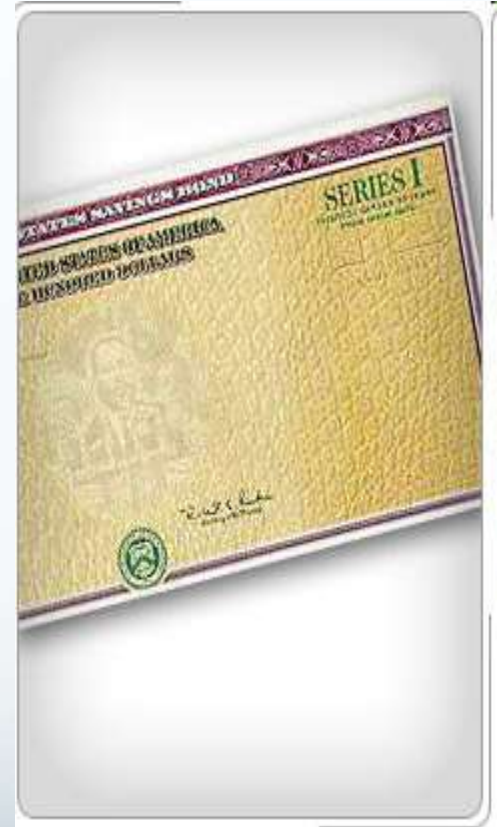
---

Would you like to save part of your refund today?

Tax time is the perfect time to save for an emergency, a college savings account or another life dream you have.

# U.S. Savings Bonds

- Taxpayers can buy U.S. Savings Bonds with refunds
  - No need for bank account
  - Can be purchased for anyone
  - Purchased in \$50 increments up to \$5,000
  - Bonds are mailed to client
- Interest rate of 2.58% thru April 30, 2018
- Use form 8888



Form **8888**

Department of the Treasury  
Internal Revenue Service

Name(s) shown on return

## Allocation of Refund (Including Savings Bond Purchases)

► Information about Form 8888 and its instructions is at [www.irs.gov/form8888](http://www.irs.gov/form8888).

► Attach to your income tax return.

OMB No. 1545-0074

**2015**  
Attachment  
Sequence No. **56**

Your social security number

SAVE SOME.  
SPEND  
SOME.

Use Form 8888.

Deposit a portion of your refund to one or more accounts.

Instructions) . . . . .	1a	
<input type="checkbox"/> ► c <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
. . . . .	2a	
<input type="checkbox"/> ► c <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
. . . . .	3a	
<input type="checkbox"/> ► c <input type="checkbox"/> Checking <input type="checkbox"/> Savings		

15

Deposits with a portion of your refund.

Ownership will be assumed unless the beneficiary box is checked.

 See instructions for more details.

**4** Amount to be used for bond purchases for yourself (and your spouse, if filing jointly) . . . . . **4**

**5a** Amount to be used to buy bonds for yourself, your spouse, or someone else . . . . . **5a**

**b** Enter the owner's name (First then Last) for the bond registration

**c** If you would like to add a co-owner or beneficiary, enter the name here (First then Last). If beneficiary, also check here ► ☐

# Setting Up TaxSlayer Practice Lab

- **TaxSlayer Login** (Website Address: <https://vita.taxslayerpro.com/IRSTraining> )

**Access Link & Learn Taxes**

Hello,

Welcome to the Electronic Tax Software Practice Lab for VITA/TCE volunteers. When you enter this site, you will be able to prepare tax returns to practice what you just learned in Link & Learn Taxes. We recommend that you use the problems and exercises contained in Publication 4491 W, VITA/TCE Workbook, Comprehensive Problems and Practice Exercises. These problems and exercises were specifically designed to cover the types of tax returns that VITA/TCE volunteers encounter at their volunteer sites.

To access the practice lab enter below the password you received from the IRS or your site coordinator. If you do not know the password please contact your site coordinator or local IRS Relationship Manager.

If you are not currently a VITA/TCE volunteer and would like to become a volunteer, please click here to get started: <https://www.irs.gov/individuals/IRS-Tax-Volunteers>. Your information will be forwarded to sponsoring partners in your area for further contact. You will be contacted within 2 weeks after you have submitted your information.

Enter Password

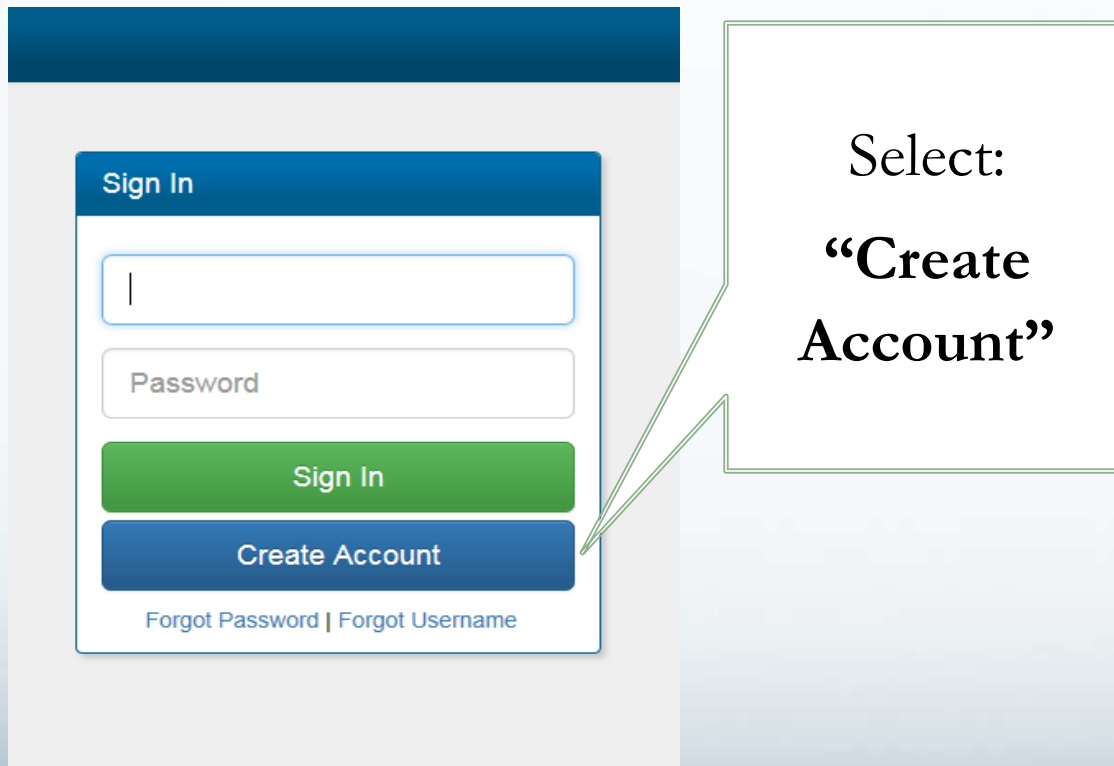
Login

Password:  
**TRAINPROWEB**  
Then Click Login

# Setting Up TaxSlayer Practice Lab

---

- Step 2



The image shows a screenshot of the TaxSlayer login interface. It features a dark blue header bar at the top. Below it, a light gray box contains the login form. The form has a blue header with the text "Sign In". Inside the form, there is a white input field for the username, followed by a white input field for the password. Below these fields are two buttons: a green "Sign In" button and a blue "Create Account" button. At the bottom of the form, there are links for "Forgot Password" and "Forgot Username". A callout box with a green border and a pointer to the "Create Account" button contains the text: "Select: 'Create Account'".

Sign In

|

Password

Sign In

Create Account

[Forgot Password](#) | [Forgot Username](#)

Select:  
**"Create Account"**

# Setting Up TaxSlayer Practice Lab

## ● Step 3

The screenshot shows the 'Create New Account' form on the TaxSlayer website. The form is divided into two main sections: 'Account Information' and 'Password Recovery'. The 'Account Information' section includes fields for 'Email Address', 'Confirm Email Address', 'Username', 'Password', 'Confirm Password', 'Program Type' (a dropdown menu with 'Grant' selected), and 'Site Identification Number (SIDN)'. A red 'Required' label is next to the 'Confirm Email Address' field. The 'Password Recovery' section includes a 'Security Question' dropdown menu and a 'Security Answer' text field. At the bottom of the form, there is a green 'Create Account' button and a smaller 'Cancel' button.

Fill Out all information to create account.

Be sure to select **“Grant”** under program type.

After filling out fields select **“Create Account”**

**You are done!**

**Note:** Write down your password and username.

---

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# 1. SCENARIO WILLIAM WASHINGTON

Let's meet the taxpayer

# FINISHING THE RETURN

---

- All returns must be Quality Reviewed
- Print returns (Federal and State) for Taxpayer
- Review return with taxpayer
- Have Taxpayer and Spouse sign 8879 for Federal. Remind them they are responsible for their return and by signing, they are agreeing it is accurate – 1 for the taxpayer, 1 for the VITA site



---

## 2.

# SCENARIO

## JESSE CASH

Let's meet the taxpayer

# FINISHING THE RETURN

---

- All returns must be Quality Reviewed
- Print returns (Federal and State) for Taxpayer
- Review return with taxpayer
- Have Taxpayer and Spouse sign 8879 for Federal. Remind them they are responsible for their return and by signing, they are agreeing it is accurate – 1 for the taxpayer, 1 for the VITA site

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**Income: Other Income,  
Business/  
Self-Employment**

# Form 1099-MISC

<input type="checkbox"/> CORRECTED (if checked)				OMB No. 1545-0115		Miscellaneous Income
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.				1 Rents	2015	
				\$		Copy B For Recipient
				3 Other income	4 Federal income tax withheld	
				\$	\$	
PAYER'S federal identification number				5 Fishing boat proceeds	6 Medical and health care payments	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S identification number				7 Nonemployee compensation		
RECIPIENT'S name				\$	8 Substitute payments in lieu of dividends or interest	
Street address (including apt. no.)				\$	\$	
City or town, state or province, country, and ZIP or foreign postal code				9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds	
				\$	\$	
Account number (see instructions)				FATCA filing requirement <input type="checkbox"/>	11	12
				13 Excess golden parachute payments	14 Gross proceeds paid to an attorney	
				\$	\$	
15a Section 409A deferrals		15b Section 409A income		16 State tax withheld	17 State/Payer's state no.	18 State income
\$		\$		\$		\$
				\$		\$

Form **1099-MISC** (keep for your records) [www.irs.gov/form1099misc](http://www.irs.gov/form1099misc) Department of the Treasury - Internal Revenue Service

# Form 1099-MISC: Other Income

---

- Reported in box 3
- Other income reported in this box is generally:
  - Prizes
  - Awards
  - Taxable damages (from a lawsuit settlement)
  - Other taxable income
- Other income in box 3 is classified as **unearned income**

# Form 1099-MISC:

## Federal Income Tax Withheld

---

- Reported in box 4
- Taxpayers can choose to have federal income tax withheld on other income in box 3

# Form 1099-MISC:

## Nonemployee Compensation

---

- Reported in box 7
- Nonemployee compensation is paid to an **independent contractor**
- Independent contractors work for a company or organization without being considered an “employee”
  - Freelancers, part-time workers, contractors, interns

# Form 1099-MISC:

## Nonemployee Compensation

---

- If payment for services from a company or organization is reported in box 7, the taxpayer is being treated as a **self-employed worker**
- Self-employment income, also known as **business income**, is taxed differently than wages/salary



# Business/Self-Employment Income

---

- Income from a **personal business** (sole proprietor) or **independent contractor** (nonemployee compensation)

# Business/Self-Employment Income

---

- Why is it important to designate between wages and business/self-employment income?
  - Federal income taxes are not withheld from business income
  - FICA taxes are not withheld from business income
  - However, the taxpayer must still pay federal income taxes and FICA taxes on business income!

# Business/Self-Employment Income

---

- Business/self-employment income can be reported to taxpayers in a variety of ways.

# Form 1099-MISC

<input type="checkbox"/> CORRECTED (if checked)				OMB No. 1545-0115		Miscellaneous Income
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents		2015	Form 1099-MISC	
		\$				
		2 Royalties				
		\$				
		3 Other income		4 Federal income tax withheld		
		\$		\$		
PAYER'S federal identification number	RECIPIENT'S identification number	5 Fishing boat proceeds		6 Medical and health care payments		
RECIPIENT'S name  Street address (including apt. no.)  City or town, state or province, country, and ZIP or foreign postal code		7 Nonemployee compensation		8 Substitute payments in lieu of dividends or interest		
		\$		\$		
		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>		10 Crop insurance proceeds		
11		12		This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.		
13 Excess golden parachute payments		14 Gross proceeds paid to an attorney				
\$		\$				
Account number (see instructions)	FATCA filing requirement <input type="checkbox"/>	15a Section 409A deferrals		15b Section 409A income		
		\$		\$		
16 State tax withheld		17 State/Payer's state no.		18 State income		
\$				\$		
\$				\$		

Form 1099-MISC (keep for your records) [www.irs.gov/form1099misc](http://www.irs.gov/form1099misc) Department of the Treasury - Internal Revenue Service

# Form W-2: Wage and Tax Statement

22222		a Employee's social security number		OMB No. 1545-0008	
b Employer identification number (EIN)		1 Wages, tips, other compensation		2 Federal income tax withheld	
c Employer's name, address, and ZIP code		3 Social security wages		4 Social security tax withheld	
		5 Medicare wages and tips		6 Medicare tax withheld	
		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial Last name		Suff. 11 Nonqualified plans		12a	
		13 Status: <input type="checkbox"/> employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay		12b	
		14 Other		12c	
				12d	
f Employer's address and ZIP code		16 State wages, tips, etc.		17 State income tax	
g Employer's state ID number		18 Local wages, tips, etc.		19 Local income tax	
				20 Locality name	

Wage and Tax Statement 2015 Department of the Treasury—Internal Revenue Service

State, City, or Local Tax Department

See Your  
Site  
Coordinator

# Form 1099-K

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-2205		<b>Payment Card and Third Party Network Transactions</b>
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		FILER'S federal identification no.  PAYEE's taxpayer identification no.		
		<b>2015</b>  Form 1099-K		
<b>1a</b> Gross amount of payment card/third party network transactions \$		<b>2</b> Merchant category code		<b>Copy B For Payee</b>  This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
<b>1b</b> Card Not Present transactions \$		<b>3</b> Number of payment transactions		
<b>4</b> Federal income tax withheld \$				
Check to indicate if FILER is a (an): Payment settlement entity (PSE) <input type="checkbox"/> Electronic Payment Facilitator (EPF)/Other third party <input type="checkbox"/>		Check to indicate transactions reported are: Payment card <input type="checkbox"/> Third party network <input type="checkbox"/>		
<b>PAYEE'S name</b>  Street address (including apt. no.)  City or town, state or province, country, and ZIP or foreign postal code		<b>5a</b> January \$ <b>5c</b> March \$ <b>5e</b> May \$ <b>5g</b> July \$ <b>5i</b> September \$ <b>5k</b> November \$		
<b>PSE'S name and telephone number</b>		<b>5b</b> February \$ <b>5d</b> April \$ <b>5f</b> June \$ <b>5h</b> August \$ <b>5j</b> October \$ <b>5l</b> December \$		
(see instructions)		<b>6</b> State <b>7</b> State identification no. <b>8</b> State income tax withheld \$ \$		
(Keep for your records)		www.irs.gov/form1099k Department of the Treasury - Internal Revenue Service		

See Your  
Site  
Coordinator

# Cash Payments

---





# Business/Self-Employment Income

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- Having a part-time business (even in addition to another job) may still be self-employment income and need to be reported
- **Remember:** Income that was not reported on Form W-2, 1099-MISC or 1099-K still needs to be reported as cash payments.



# Example

---

Andy works as an independent contractor for a painting company. He received a 1099-MISC from the company that shows he made \$10,000. He also received \$2,000 in cash payments from a few different people for the work he completed, but he did not receive a 1099-MISC for the \$2,000.

- What is Andy's total business income that needs to be reported on Line 12?

## Example – Answer

---

**Andy must include the amounts from both the 1099-MISC and cash payments.**

**His total business income that must be reported is \$12,000.**

# Business/Self-Employment Income vs. Other Income

---

## ➤ Business Income

- An activity qualifies as a business if:
  - The primary purpose for engaging in the activity is for income or profit
  - The taxpayer is involved in the activity with continuity and regularity

## ➤ Other Income

- A sporadic activity or a hobby does not qualify as a business
- Hobby: undertaken for pleasure during leisure time (not for profit)

# Business/Self-Employment Income Terms

---

- **Business expenses:** amounts that are ordinary and necessary to carry on the business
  - Business expenses are subtracted from gross receipts to obtain the net profit/loss
  - **Net profit/Loss = Gross Receipts – Expenses**
- **Cash method of accounting:** Reports all income when received and deducts all expenses when paid

# Business/Self-Employment Income VITA Filing Conditions

---

- Less than \$25,000 of business expenses
- Cash method of accounting
- No inventory
- No returns or allowances
- No actual auto expenses (Standard Deduction auto only)
- Does not want to depreciate assets
- Must report a profit— no net loss!
- No employees

# Business/Self-Employment Income: Schedule C or C-EZ

---

- Schedule C-EZ is just the simplified version of the Schedule C
  - Use the Schedule C-EZ if there are few business expenses and only one business
    - ✧ Less than \$5,000
  - Use the Schedule C if there are a lot of business expenses and/or more than one business
    - ✧ \$5,000 to \$25,000

TAXSLAYER MAKES THIS  
DECISION FOR YOU!

# Business Expenses

---

- Advertising
- Car or truck mileage
- Commissions and fees
- Insurance
- Other interest
- Legal and professional services and fees
- Office expenses
- Rent or lease expenses
- Repairs and maintenance
- Supplies
- Taxes and licenses
- Travel
- 50% of business meals and entertainment
- Utilities (including telephone)

**A separate Schedule C must be filed for each business  
(limit of 2)**

---

# Self Employment Tax

- Calculated on Schedule SE [automatically]
- Represents both the employee portion and the employers portion
- Social Security tax rate for self-employment income for 15.3%
- One half of the SE tax is deducted in the Adjustments section.

Again, Taxslayer does this for you!

What you need to know – People who are self-employed are going to owe (likely a large amount) of tax unless they made quarterly estimated tax payments.



# Rogers Painting Co

---

As a painting contractor, Roger had gross receipts of \$4,953 and supply expenses of \$1,675. His written mileage log shows he drove 1250 miles, 500 of them commuting and 750 business miles. He uses the standard mileage rate to determine his driving expenses.

How much can Roger deduct for his total business expenses?

**Answer: \$2,077**

Mileage is  $(750 * .535 = \$402)$  plus \$1,675 in supply expenses



Self-employed taxpayers are eligible to file Schedule C (For VITA Returns) if they \_\_\_\_\_.

- A. Have a net loss
- B. Use the accrual method of accounting
- C. Incur \$25,000 or less in business expenses
- D. Have only one employee besides themselves

**Answer: C**



All of the following are deductible business expenses on Schedule C (For VITA Returns) EXCEPT \_\_\_\_\_.

- A. Interest paid on business loans
- B. Expenses for business use of the taxpayer's home
- C. Legal and professional services and fees
- D. Telephone bills

**Answer: B**

# Investment Income

---

- ▣ Dividends
- ▣ Interest Income
- ▣ Capital Gains Distribution
- ▣ Sale of assets

# Interest Income

Note: Use Schedule B Interest Statement in TaxSlayer

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		Payer's RTN (optional)	OMB No. 1545-0112	Interest Income
		Mega Bank 123 Main Street Anytown, NC 28445		1 Interest income \$ 2,456.23	2015 Form 1099-INT	
PAYER'S federal identification number 55-2221111		RECIPIENT'S identification number 123-45-6789		2 Early withdrawal penalty \$		
RECIPIENT'S name Ima Accountholder Street address (including apt. no.) 456 Elm Street City or town, state or province, country, and ZIP or foreign postal code Anytown, NC 28441		3 Interest on U.S. Savings Bonds and Treas. obligations \$ 11,456.23		4 Federal income tax withheld \$	5 Investment expenses \$	
		6 Foreign tax paid \$		7 Foreign country or U.S. possession \$	8 Tax-exempt interest \$ 124.55	
		9 Specified private activity bond interest \$		10 Market discount \$	11 Bond premium \$	
		FATCA filing requirement <input checked="" type="checkbox"/>		12 \$	13 Bond premium on tax-exempt bond \$	
Account number (see instructions) 234444444		14 Tax-exempt and tax credit bond CUSIP no.		15 State	16 State identification no.	17 State tax withheld \$
						\$

Form 1099-INT www.irs.gov/form1099int Department of the Treasury - Internal Revenue Service

# Basic Adjustments

- Early Withdrawal Penalties

9292 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

Payer's RTN (optional)

OMB No. 1545-0112

**2014** Interest Income

Form 1099-INT

**1** Interest income

\$

**2** Early withdrawal penalty

\$

PAYER'S federal identification number

RECIPIENT'S identification number

**3** Interest on U.S. Savings Bonds and Treas. obligations

\$

Copy A

For Internal Revenue Service Center

- Input on Schedule B detail statement

# Dividend Income

Note: Use Schedule B Interest Statement in TaxSlayer

- Dividends and capital gain distributions

9191 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0110		<b>Dividends and Distributions</b>  <b>Form 1099-DIV</b>
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1a Total ordinary dividends		
		1b Qualified dividends		
PAYER'S federal identification number		2a Total capital gain distr.	2b Unrecap. Sec. 1250 gain	<b>Copy A</b> <b>For Internal Revenue Service Center</b>  <b>File with Form 1096.</b>  <b>For Privacy Act and Paperwork Reduction Act Notice, see the 2015 General Instructions for Certain Information Returns.</b>
RECIPIENT'S identification number		2c Section 1202 gain	2d Collectibles (28%) gain	
RECIPIENT'S name		3 Nondividend distributions	4 Federal income tax withheld	
Street address (including apt. no.)		6 Foreign tax paid	7 Foreign country or U.S. possession	
City or town, state or province, country, and ZIP or foreign postal code		8 Cash liquidation distributions	9 Noncash liquidation distributions	
FATCA filing requirement <input type="checkbox"/>		10 Exempt-interest dividends	11 Specified private activity bond interest dividends	
Account number (see instructions)		12 State	13 State identification no.	
2nd TIN not <input type="checkbox"/>		14 State tax withheld		

Form **1099-DIV** Cat. No. 14415N [www.irs.gov/form1099div](http://www.irs.gov/form1099div) Department of the Treasury - Internal Revenue Service

**Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page**

# Capital Gain Distributions

---

- Capital Gain Distributions are reported on Form 1099-DIV.
- Capital Gains Distributions are entered on the Schedule B Dividend Statement.
- Taxpayers who have received capital gain distributions only from mutual funds, and did not actually sell their shares of the mutual fund or any stock, generally do *not* need to use Schedule D.
- Not the same as Capital Gains and Losses from sales of stocks or sale of home/property! These are not investment distributions and go on Sch. D.



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# CAPITAL GAINS AND LOSSES

# Capital Gains and Losses

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- Sales of assets is reported to a taxpayer on a **1099-B**
- Capital gains and losses are classified as long-term or short-term.
  - If you hold the asset for less than one year before you dispose of it, your capital gain or loss is short-term
  - If you hold the asset for more than one year before you dispose of it, your capital gain or loss is long-term
- You will enter information from the **1099-B** onto **Schedule D**.

# Reporting

---

To report a capital gain or loss on Form 1040, Schedule D you will need to identify from the 1099-B:

- ❑ Basis (cost) or Adjusted Basis
  - ❑ If basis is not known then the basis = \$0
- ❑ Holding period
- ❑ Proceeds from the sale:  
[sales price – cost]

# Basis Other than Cost

---

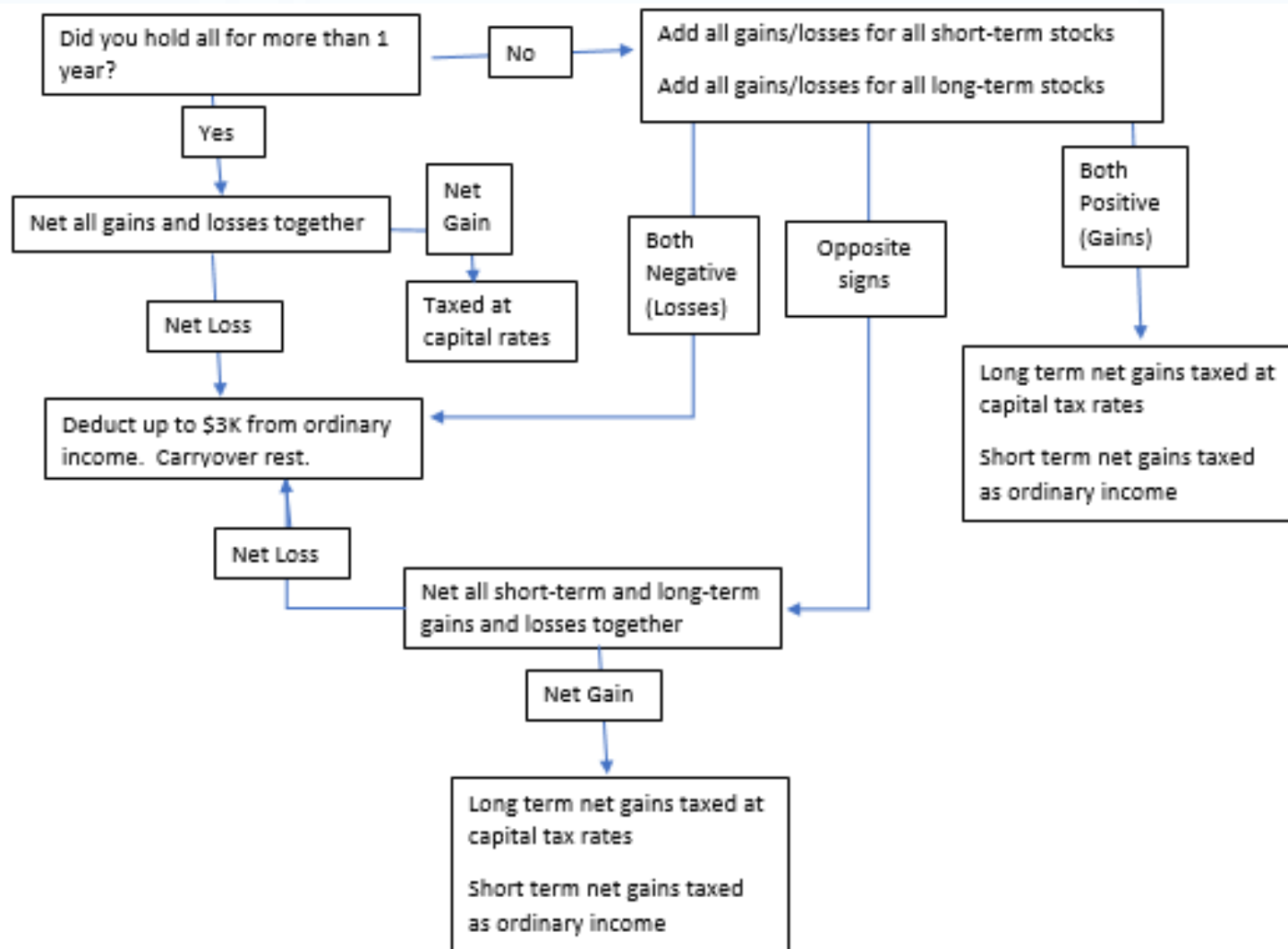
- The basis of inherited property is generally the Fair Market Value of the property on the date of the decedent's death
  - *Inherited property is considered Long Term*
- Basis of gifted stock is out of scope for VITA
- Other methods of valuation are available but are out of scope for VITA

# How are Capital Gains/Losses Taxed?

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- Its complicated... Sometimes short-term gains are taxed as ordinary income, sometimes at a more favorable capital rate depending on your income level. Sometimes long-term gains are taxed as ordinary income, most the time not. Most of the time net capital losses can offset ordinary income up to \$3,000 and the rest is carried over to next year.
- **What you need to know: enter short term and long term transactions into TaxSlayer correctly and it does the rest!**
- **The key is to appropriately identify items on the 1099-B.**

# Told you it was complicated



# Henry's Transactions

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- On May 11, 2004, Henry bought 100 shares of ZZZ Corporation stock for \$1,000 plus an additional \$100 commission.
- What is Henry's original basis in the stock?
- On February 14, 2017, he sold 50 shares for \$600
  - Is the holding period for the sold shares Short Term or Long Term?
  - What is his gain or loss?

Answer:  $1000 + 100 / 100 \text{ shares} = \$11$  per share original basis is \$1,100  
Long term

Cost basis  $50 * 11 = 550$ . Sale price = \$600 for a Gain of \$50

# Retirement Income



# Retirement Forms

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- Retirement income can be reported on:
  - Form 1099-R → **Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.**
  - Form CSA 1099-R → **Statement of Annuity Paid (civil service retirement payments)**
  - Form CSF 1099-R → **Statement of Survivor Annuity Paid**
  - Form RRB1099R → **Annuities or Pensions by the Retirement Railroad Board**

# Taxable Retirement Amount

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- If an employee contributed to their pension, the amount will be reported on 1099-R in box 9b.
- Simplified Method
  - Contributions made by employee
    - Amortize the employee contributions
  - Type of annuity (Individual or Joint/Survivor)
  - Annuity start date (month and year)
  - Age of taxpayer at start date
  - Age of spouse at start date if Joint/Survivor annuity
  - Distributions received prior to start date

# Form 1099-R: Distributions From Pensions, Annuities, Retirement...

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- Taxpayers who received income during the tax year from a retirement account (IRA, pension, etc.) will receive a **Form 1099-R** to report on their tax return
- Most taxpayers receive this after they retire, but some taxpayers may have made an early withdrawal from a retirement account.

# Form 1099-R: Distributions From Pensions, Annuities, Retirement...

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code

1 Gross distribution \$ \$

2a Taxable amount \$ \$

2b Taxable amount not determined ☐ Total distribution ☐

PAYER'S federal identification number

RECIPIENT'S identification number

3 Capital gain included in box 2a) \$ \$

4 Federal income tax withheld \$ \$

5 Employee contributions / Designated Roth contributions or insurance premiums \$ \$

6 appreciation in employer's securities \$ \$

7 Distribution code(s) IRA/SEP/SIMPLE

8 Other %

9a Total employee contributions \$ \$

9b Total employee contributions \$ \$

10 Amount allocable to IRR within 5 years \$ \$

11 1st year of desig. Roth contrib. \$ \$

12 State tax withheld \$ \$

13 State/Payer's state no. \$ \$

14 State distribution \$ \$

Account number (see instructions)

Form 1099-R

www.irs.gov/form1099r

Department of the Treasury - Internal Revenue Service

**Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.**

**Copy B**  
Report this information on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.

This information is being furnished to the Internal Revenue Service.

# Retirement Income: IRAs and PENSIONS

---

- Enter on Form 1099-R in TaxSlayer
  - Gross Distribution
  - Taxable Amount
  - Boxes in line 2b
    - Taxable Amount Not Determined
    - Total Distribution
  - Federal Income Tax Withheld
  - Distribution Code(s)
  - Total Employee Contributions

# Form 1099-R: Taxable Amount

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- Reported in box 2a
- Shows the total amount that is subject to federal income tax
- The box MAY be blank and require additional computation to determine taxable amount

# Form 1099-R: Taxable Amount Not Determined & Total Distribution

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- Reported in box 2b
- ☐ **Taxable Amount Not Determined** indicates that the payer was unable to determine the taxable amount—box 2a should also be blank
- ☐ **Total Distribution** indicates that the distribution was a total distribution that closed out the account

# Form 1099-R: Distribution Code(s) & IRA/SEP/SIMPLE

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- Reported in box 7
- Distribution Code(s) identify the type of distribution received
- Only certain distribution types are in scope for VITA



# Form 1099-R: Distribution Code(s) & IRA/SEP/SIMPLE

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- 1: Early distribution, no known exception (in most cases, under age 59 ½)
- 2: Early distribution, exception applies (under age 59 ½)
- 3: Disability
- 4: Death
- 7: Normal distribution
- B: Designated Roth account distribution
- G: Direct rollover and rollover distribution

**See the Publication 4012, D-41 for a full list of box 7 distribution codes (and which are in scope)**

# Form 1099-R: Distribution Code(s) & IRA/SEP/SIMPLE

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- **IRA/SEP/SIMPLE** indicates that the distribution was from a traditional IRA, SEP, or SIMPLE retirement account
- **ONLY** traditional IRAs are in scope!
- Verify with the taxpayer that the amount distributed was from a traditional IRA

# Form 1099-R: Total Employee Contributions

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- Reported in box 9b
- For certain plans, an amount may be listed here showing the taxpayer's contributions to the plan
- This amount is used to help determine the taxable amount if box 2a is blank.

# Form CSF 1099-R: Statement of Survivor Annuity Paid

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- Provides the same information as the Form 1099-R
- Issued to survivors of civil service employees (if the employee elected to have a survivor annuity for spouse and/or children)

# Rollover

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- Refers to transferring the holdings in one retirement account to another
- Specifically, the retirement account is emptied and distributed to the owner, who then deposits them into a new account for reinvestment
- This is a **TAX-FREE DISTRIBUTION**
  - But still must be reported on the federal tax return
  - Code G will be in Box 7 of the 1099-R

# Disability Pension Income

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- Why would a taxpayer have disability pension income?
  - Perhaps they had an accident that rendered them totally and permanently disabled
- Disability payments may be coming from a qualified retirement pension plan

# Public and Military Pensions

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- Public Pension Exemption
  - Up to \$36,976 for each spouse is exempt from Missouri tax
  - Missouri AGI (excluding taxable social security benefits) must be less than \$100,000 if married filing combined or \$85,000 if single, head of household, married filing separate, or qualifying widower
    - Partial credit available possibly if income is over
- Military Pension Exemption
  - 100% of military pension income is tax free from Missouri tax

# Cancellation of Credit Card Debt

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- Cancellation of Credit Card Debt is reported to the taxpayer on a 1099-C
- The cancellation amount is reported on Line 21-  
Other Income
- The following situations are typically out of scope:
  - Interest reported on 1099-C
  - Insolvent immediately before the cancellation of debt
  - Cancellation of debt was related to a business



# Form 1040

## Adjustments Gross Income

**Adjusted  
Gross  
Income**

22		Combine the amounts in the far right column for lines 1 through 21. This is your <b>gross income</b> .		22	
23	Educator expenses . . . . .	23			
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ . . . . .	24			
25	Health savings account deduction. Attach Form 8889 . . . . .	25			
26	Moving expenses. Attach Form 3903 . . . . .	26			
27	Deductible part of self-employment tax. Attach Schedule SE . . . . .	27			
28	Self-employed SEP, SIMPLE, and qualified plans . . . . .	28			
29	Self-employed health insurance deduction . . . . .	29			
30	Penalty on early withdrawal of savings . . . . .	30			
31a	Alimony paid <b>b</b> Recipient's SSN ►	31a			
32	IRA deduction . . . . .	32			
33	Student loan interest deduction . . . . .	33			
34	Tuition and fees. Attach Form 8917 . . . . .	34			
35	Domestic production activities deduction. Attach Form 8903 . . . . .	35			
36	Add lines 23 through 35 . . . . .	36			
37	Subtract line 36 from line 22. This is your <b>adjusted gross income</b> . . . . .	37			

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2015)

Form 1040 (2015)		Page <b>2</b>	
38 Amount from line 37 (adjusted gross income) . . . . .		38	
Tax and Credits	39a Check <input type="checkbox"/> You were born before January 2, 1951, <input type="checkbox"/> Blind. <b>Total boxes</b> if: <input type="checkbox"/> Spouse was born before January 2, 1951, <input type="checkbox"/> Blind. <b>checked ► 39a</b>		
	b If your spouse itemizes on a separate return or you were a dual-status alien, check here ► <b>39b</b> <input type="checkbox"/>		
Standard Deduction for— • People who check any box on line 39a	40 <b>Itemized deductions</b> (from Schedule A) or your <b>standard deduction</b> (see left margin) . . . . .	40	
	41 Subtract line 40 from line 38 . . . . .	41	
	42 <b>Exemptions.</b> If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see instructions . . . . .	42	
	43 <b>Taxable income.</b> Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- . . . . .	43	

**Total Income  
(Earned +  
Unearned)**

**Adjusted  
Gross  
Income**



**Adjustments**

# Adjustments to Income

---

- Adjustments are basic life expenses that help decrease the amount of taxable income:
  - Educator expenses
  - Half of self-employment tax
  - Early withdrawal penalty
  - Alimony paid
  - IRA contributions (traditional)
  - Student loan interest
  - College tuition payments
  - Jury duty pay turned over to employer

# Adjustments to Income

---

- Adjustments are basic life expenses that help decrease the amount of taxable income:
  - Educator expenses
  - Half of self-employment tax
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  - IRA contributions (traditional)
  - Student loan interest
  - College tuition payments
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# Educator Expenses

---

- Eligible Educators
  - K-12 teachers, instructors, counselors, principals, or aides
  - Worked at least 900 hours (part-time)
  - Ordinary and necessary amounts of:
    - Books
    - Supplies
    - Equipment (including computer equipment, software, and services)
  - Max \$250 of expenses (\$500 if Married and both are educators)

# Educator Expenses

---

- Qualified expenses up to \$250 are eligible
- If taxpayer and spouse are both eligible educators, up to \$500 are eligible
- Note: More than \$250 (or \$500 total for taxpayer/spouse) can be taken as an itemized deduction

# Half of Self-Employment Tax

---

- Self-Employment Taxes
  - Nonemployees & self-employed must pay an additional tax that covers FICA taxes that weren't withheld during the year
  - Note that nonemployees & self-employed workers don't have an employer to pay  $\frac{1}{2}$  of these FICA taxes, so they end up paying the full share

# Penalty on Early Withdrawal of Savings

---

- When a taxpayer withdraws savings before maturity, a penalty is incurred
  - Box 3: Form 1099-INT or Form 1099-OID
- Taxpayer can deduct these penalties from income



# Form 1099-INT: Interest Income

<input type="checkbox"/> CORRECTED (if checked)		PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		Payer's RTN (optional)	OMB No. 1545-0112  <b>2015</b>	<b>Interest Income</b>  <b>Copy B</b>  <b>For Recipient</b>
		<b>1</b> Interest income				
		<b>2</b> Early withdrawal penalty \$				
PAYER'S federal identification number	RECIPIENT'S identification number	\$				
		<b>3</b> Interest on U.S. Savings Bonds and Treas. obligations \$				
RECIPIENT'S name		<b>4</b> Federal income tax withheld \$	<b>5</b> Investment expenses \$	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.		
Street address (including apt. no.)		<b>6</b> Foreign tax paid \$	<b>7</b> Foreign country or U.S. possession			
City or town, state or province, country, and ZIP or foreign postal code		<b>8</b> Tax-exempt interest \$	<b>9</b> Specified private activity bond interest \$			
		<b>10</b> Market discount \$	<b>11</b> Bond premium \$			
		<b>12</b>	<b>13</b> Bond premium on tax-exempt bond \$			
		<b>14</b> Tax-exempt and tax credit bond CUSIP no.	<b>15</b> State			<b>16</b> State identification no.
Account number (see instructions)		\$		<b>17</b> State tax withheld \$		

Form **1099-INT** (keep for your records) [www.irs.gov/form1099int](http://www.irs.gov/form1099int) Department of the Treasury - Internal Revenue Service

# IRA Contributions Deduction

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- Eligibility Requirements
  - Only contributions to a **Traditional IRA** are deductible
  - Must be under the age of 70 ½ at the end of the tax year
  - Must have taxable compensation
  - Contributions must be made by the filing date of the return

# IRA Contributions Deduction: Joint Returns

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- If the taxpayers file a joint return and one spouse's compensation is greater than the other's compensation, then:
  - Married taxpayers' combined contributions cannot exceed combined compensation.
  - Neither spouse can contribute more than \$5,500 (\$6,500 if age 50 or older).
- This means that on a joint return, no more than \$11,000 can be entered for taxpayer and spouse under 50, and neither spouse can contribute more than \$5,500

# Student Loan Interest

---

- Up to \$2,500 of interest paid during the year on a loan for qualified higher education expenses in the name of a:
  - Taxpayer
  - Spouse
  - Dependent (or a dependent at the time the loan was obtained)
- Eligibility Requirements
  - Taxpayer is NOT:
    - Married Filing Separately
    - Able to be claimed as a dependent

**Note: Student must have been enrolled at least half-time in a program leading to a degree, certificate, or other credential.**

# Form 1098-E:

## Student Loan Interest Statement

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-1576		<b>Student Loan Interest Statement</b>
RECIPIENT'S/LENDER'S name, address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		<div style="font-size: 2em; font-weight: bold;">2014</div> <div style="font-weight: bold;">Form 1098-E</div>		
RECIPIENT'S federal identification no.	BORROWER'S social security number	1 Student loan interest received by lender \$	<b>Copy B For Borrower</b>  This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if the IRS determines that an underpayment of tax results because you overstated a deduction for student loan interest.	
BORROWER'S name  Street address (including apt. no.)  City or town, state or province, country, and ZIP or foreign postal code		<div style="border: 2px solid black; padding: 5px; margin-bottom: 10px;">         1 Student loan interest received by lender \$       </div>		
Account number (see instructions)		2 If checked, box 1 does <b>not</b> include loan origination fees and/or capitalized interest for loans made before September 1, 2004 <input type="checkbox"/>		
<div style="display: flex; justify-content: space-between; align-items: center;"> <div>Form <b>1098-E</b></div> <div>(keep for your records)</div> <div><a href="http://www.irs.gov/form1098e">www.irs.gov/form1098e</a></div> <div>Department of the Treasury - Internal Revenue Service</div> </div>				

# Tuition and Fees Deduction

---

- Tuition amounts paid by the taxpayer can be taken as an **adjustment to income** OR used to claim an **education credit** (if taxpayer qualifies)
- The tuition and fees deduction can be claimed for the taxpayer, spouse, and/or any qualified dependents
- Tuition and fees deduction CANNOT be claimed if the taxpayer is:
  - Married Filing Separately
  - Able to be claimed as a dependent
- Qualified Expenses:
  - Up to \$4,000 in qualified tuition and related expenses;
    - Course related expenses such as fees, books, supplies and equipment that are required for the course
  - **Not allowed without a 1098-T from educational institution**

# Form 1098-T: Tuition Statement

<input type="checkbox"/> CORRECTED FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		<b>1</b> Payments received for qualified tuition and related expenses \$	OMB No. 1545-1574  <b>2014</b>  Form <b>1098-T</b>	<b>Tuition Statement</b>
		<b>2</b> Amounts billed for qualified tuition and related expenses \$		
FILER'S federal identification no.	STUDENT'S social security number	<b>3</b> If this box is checked, your educational institution has changed its reporting method <input type="checkbox"/>	<b>5</b> Scholarships or grants \$	<b>Copy B For Student</b>  This is important tax information and is being furnished to the Internal Revenue Service.
STUDENT'S name		<b>4</b> Adjustments made for a prior year \$		
Street address (including apt. no.)		<b>6</b> Adjustments to scholarships or grants for a prior year \$	<b>7</b> Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January - March 2015 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code				
Service Provider/Acct. No. (see instr.)	<b>8</b> Check if at least half-time student <input type="checkbox"/>	<b>9</b> Checked if a graduate student <input type="checkbox"/>	<b>10</b> Ins. contract reimb./refund \$	

Form **1098-T** (keep for your records) [www.irs.gov/form1098t](http://www.irs.gov/form1098t) Department of the Treasury - Internal Revenue Service