

Standard Deduction

- ▣ Standard Deduction is based on the following factors:
 - Filing Status
 - Blindness
 - Age
 - Dependency

Pub. 4012 F-1 & F-2

Filing Status	Standard Deduction 2017
Single or MFS	6,350
Married Filing Jointly / Qualifying Widower	12,700
Head of Household	9,350

Additional Standard Deductions	Age > or = to 65	Blind
Single or HOH	1,550	1,550
MFJ or MFS (per person)	1,250	1,250

Standard Deduction for Dependents

If person can be claimed as a dependent by another taxpayer, their standard deduction is limited to greater of:

\$1,050 OR Earned Income + \$350

But cannot exceed the base standard deduction amount for a single individual (= \$6,350 in 2017)

For a worksheet, see F-2 in 4012.

No worries, TaxSlayer calculates this for you!

Itemized Deductions

- There are certain designated expenses that a taxpayer can choose to list out separately, and, if they total more than the standard deduction, the taxpayer will “itemize” deductions.
 - Reduces taxable income by a greater amount

When to Itemize Deductions

- A **taxpayer** can receive a larger deduction by itemizing if he/she has:
 - Expenses higher than the standard deduction:
 - Home mortgage payment
 - Large number of medical bills
 - Charitable contributions

Note: If a taxpayer is MFS and his/her spouse itemizes, the taxpayer must also itemize, regardless of whether the Standard Deduction would be higher

Qualifying Expenses

- Unreimbursed Medical Expenses
- Charitable Contributions
- Taxes
- Home Mortgage Interest
- Miscellaneous Deductions
- Gambling Losses

Unreimbursed Medical Expenses

- A taxpayer can claim expenses for
 - Him/Herself
 - Spouse
 - Dependents
- Covered Medical Expenses
 - Unreimbursed medical and dental expenses
 - Eligible long-term care premiums

Be sure the expenses were not paid with pretax dollars or reimbursed by an insurance company.

Unreimbursed Medical Expenses

- Why can a taxpayer not itemize expenses paid with pretax dollars?
 - NO DOUBLE BENEFITS!
 - Expenses that were deducted pretax from pay have already given the taxpayer the benefit of a lower taxable income
 - Cannot use these expenses a second time to lower taxable income again

See F-5 in Pub 4012.

Unreimbursed Medical Expenses

- Medical and Hospital insurance premiums
 - Always enter even if not itemizing – doing so has benefits on MO returns for Seniors and the disabled
- Eligible long-term care premiums
- Unreimbursed medical expenses
- Unreimbursed dental expenses
- Medical mileage
- Smoking cessation programs
- Prescription medicines [*not over the counter*]
- Prescription eyeglasses and hearing aids

Unreimbursed Medical Expenses

- Nondeductible Medical Expenses
 - Life insurance policy premiums
 - Funeral, burial, cremation costs
 - Unnecessary cosmetic surgery
 - Nonprescription drugs

Nondeductible Contributions

- Business organizations, such as the Chamber of Commerce
- Civic leagues and associations
- Political organizations and candidates
- Social clubs
- Foreign organizations
- Homeowners' associations
- Communist organizations

Charitable Contributions

- Deductible Expenses:
 - Monetary donations
 - Dues, fees, and assessments
 - Fair market value (FMV) of clothing and furniture
 - Uniforms required to be worn during service
 - Unreimbursed transportation expenses
 - Transportation expenses, including bus fare, parking fees, tolls, and standard mileage deduction of 14 cents per mile
 - (Keep track of your mileage while volunteering for GECC and take it off on your taxes if you itemize!).

IMPORTANT: The taxpayer must keep receipts!

Charitable Contributions

- Nondeductible Expenses:
 - Raffle, bingo, lottery tickets
 - Tuition
 - Value of time of service
 - Blood
 - Contributions to individuals
 - The FMV of any good received in exchange for a donation (i.e. t-shirts, cds, tote bags, etc.)

Proof of Cash Donation

- A bank record, such as a canceled check, a copy of the canceled check, or a bank statement containing the name of the charity, the date, and the amount
- A written communication from the charity, which includes the name of the charity, date of the contribution, and amount of the contribution

Proof of Non-Cash Donation

- Receipt or other written communication from the organization or the taxpayer's own reliable written records for each item, showing:
 - Name and address of organization
 - Date and location of the contribution
 - Reasonably detailed description of the donated property
 - Fair market value of the donated property
- ▣ Refer taxpayers with noncash contributions exceeding \$500 to a professional tax preparer.

Julia's Contributions

Julia made the following contributions last year:

- \$600 to St. Martin's Church (The church gave her a letter verifying the amount.)
- \$32 to Girl Scouts with receipt (not for cookies!)
- \$40 to a family whose house burned
- \$50 for lottery tickets at a fundraiser
- \$100 for playing bingo at her church
- Furniture with a fair market value of \$200 to Goodwill

The amount that Julia can claim as deductible **cash** contributions is \$_____.

Taxes

- Deductible
 - Taxes imposed on and paid by the taxpayer in the tax year
- Nondeductible
 - Taxes the taxpayer pays for someone else
 - Taxes someone else pays for the taxpayer
 - Taxes not paid during the tax year

Taxes

- Deductible
 - State and local taxes
 - Real estate taxes (ex. house)
 - Personal property taxes (ex. car)
 - State and local taxes on a new car purchase
- Nondeductible
 - Federal taxes
 - Hunting licenses
 - Water/sewer or other utilities
 - Subdivision or association fees
 - Taxes on alcohol, tobacco, or gas

State and Local Taxes

- Taxpayers can choose one of the following, but not both:
 - Income taxes
 - Sales taxes
 - County sales tax amounts differ
 - MO state sales tax is 4.225%
 - TaxSlayer will make an estimate of sales tax paid based on income

Home Mortgage Interest

- Any interest paid on a loan secured by the taxpayer's home, line of credit, or a home equity loan
- Generally reported on Form 1098
- Only taxpayers who are legally liable for the debt can deduct the interest.
- Taxpayers may have more than one mortgage or may have refinanced and have multiple statements.
- Points: only points paid as a form of interest (for the use of money) can be deducted

Form 1098: Mortgage Interest Statement

CORRECTED (if checked)

RECIPIENT/LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		*Caution: The amount shown may not be fully deductible by you. Limits based on the loan amount and the cost and value of the secured property may apply. Also, you may only deduct interest to the extent it was incurred by you, actually paid by you, and not reimbursed by another person.		OMB No. 1545-0001 2016 Form 1098	Mortgage Interest Statement
RECIPIENT/LENDER'S federal identification number		PAYER'S/BORROWER'S taxpayer identification no.		1 Mortgage interest received from payer(s)/borrower(s) \$	
PAYER'S/BORROWER'S name		2 Outstanding mortgage principal as of 1/1/2016 \$		3 Mortgage origination date	
Street address (including apt. no.)		4 Refund of overpaid interest \$		5 Mortgage insurance premiums \$	
City or town, state or province, country, and ZIP or foreign postal code		6 Points paid on purchase of principal residence \$			
10 Other		7 Is address of property securing mortgage same as PAYER'S/BORROWER'S address? If Yes, box is checked <input type="checkbox"/> If No, see box 8 or 9, below			
Account number (see instructions)		8 Address of property securing mortgage			
		9 If property securing mortgage has no address, below is the description of the property			

Copy B For Payer/Borrower

The information in boxes 1 through 9 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 this mortgage interest or for these points, reported in boxes 1 and 6; or because you didn't report the refund of interest (box 4); or because you claimed a non-deductible item.

Form 1098
(Keep for your records)
www.irs.gov/form1098
Department of the Treasury - Internal Revenue Service

Form 1098: Mortgage Interest Statement

- Boxes 10 or 11 may also report real estate taxes.
- These amounts can be included as an itemized deduction.

Nondeductible Interest

➤ Personal interest

- Personal loans
- Car loans
- Credit cards
- etc.

Joe and Angela

- Joe and Angela file a joint return. During the year, they paid:
 - \$2,180 to the bank for interest on their home mortgage that was reported to them on Form 1098
 - \$400 in credit card interest
 - \$1,500 paid to a lender for specific services connected to a loan (e.g. appraisal fee, notary fee, and preparation costs for the mortgage not points)
 - \$2,000 in interest on a car loan

- How much can Joe and Angela report as deductible interest?

Answer: \$2180 in mortgage interest is the only allowable deduction. Fees paid to the lender to obtain a loan are not deductible as interest – See page 157 in Pub 17.

Miscellaneous Deductions

- Union dues
- Uniforms (that cannot be worn in any other circumstance)
- Professional books, journals
- Small tools and supplies, used for business

Miscellaneous Deductions

- Employment-related educational expenses
 - Includes educator expenses > \$250 (after the adjustment)
- Expenses for looking for a new job
- Tax preparation fee from last year
- Safe deposit box
- Gambling losses up to amount of winnings
 - *Up to the amount of the gains reported on line 21*
 - Losses must be substantiated

Nondeductible Expenses

- Burial or funeral expenses
- Wedding expenses
- Fees and licenses
- Fines, penalties, traffic tickets
- Home repairs and insurance
- Rent
- Insurance premiums (except health and mortgage)
- Losses from sale of home

Example

Are the following expenses deductible?

1. Medical insurance premiums
2. Vitamins
3. Federal income tax
4. Interest on car loan
5. Church contribution
6. Tax preparation fee from last year

Example – Answer

Are the following expenses deductible?

1. Medical insurance premiums - YES
2. Vitamins - NO
3. Federal income tax - NO
4. Interest on car loan - NO
5. Church contribution - YES
6. Tax preparation fee from last year - YES

Philip's Deduction

Philip's AGI is \$20,000. Determine which expenses you would include in the total for his miscellaneous itemized deductions. What is the total of Philip's qualified miscellaneous itemized expenses?

- Income tax preparation fee \$100
- Safe deposit box rental (to store bonds) \$75
- Loss on sale of personal home \$1,800
- Credit card convenience fee for income tax payment \$70
- Investment journals and newsletters \$250
- Investment expenses \$200
- Attorney fees for preparation of will \$100
- Life insurance premiums \$300

Standard Deduction vs Itemized Deductions

- Choose the higher amount of Standard Deduction versus Itemized Deductions for the client. [TaxSlayer will select the larger amount.]
 - Do NOT waste time entering itemized deductions if they are NOT greater than the standard deduction. Use an “eye test” to approximate the amount of the itemized deduction.
 - It is a client’s responsibility to present receipts for itemized deductions in an organized manner.
 - If a client is disabled, 65 years or older, or 60 years old and retired military, you can enter the real estate taxes paid on the Schedule A of the Federal 1040 and it will carryover to the MO 1040 for the Circuit Breaker in TaxSlayer.
 - Qualified medical insurance premiums should always be entered on Sch A even if using the standard deduction. Missouri gives a deduction for qualified Health Insurance premiums and Long Term Care Insurance.

Judy's Standard Deduction

- Judy is legally separated from her husband.
- Her three children lived with her for the entire year.
- She provided more than half the support for her children.
- Judy is not 65, and neither blind nor disabled.

- 1) What filing status will Judy use on her tax return?
- 2) What is the standard deduction for Judy?

Answer: 1.) Judy is allowed to choose the HOH status.

2.) \$9,300

Tax Credit vs Deductions

- A deduction reduces income subject to tax.
- A tax credit is a direct reduction of Federal Income Tax. Similar to a tax payment. Reduces tax dollar for dollar.

\$100 Tax Credit	\$100 Tax Deduction
AGI = \$5,000 - \$0 Deduction = \$5,000 taxable income <u>X 15% tax rate</u> = \$750 total tax liability - \$100 tax credits = \$650 tax liability	AGI = \$5,000 - \$100 Deduction = \$4,900 taxable income <u>X 15% tax rate</u> = \$735 total tax liability - \$0 tax credits = \$735 tax liability.

Refundable vs Nonrefundable Credits

- Refundable credits are treated the same as tax payments. A refundable credit is subtracted from the amount of tax owed. For example, if you owe \$800 in taxes and qualify for a \$1,000 **refundable credit**, you would receive a \$200 **refund**.
- Nonrefundable credit can only reduce the amount owed to zero. For example, if you owe \$800 in taxes and you qualify for a \$1,000 nonrefundable credit, you would not have a tax liability. You will not receive the difference as a refund.

Nonrefundable Credits

- Child and Dependent Care Expenses
- Child Tax Credit
- Retirement Savings Contribution Credit
- Lifetime Learning Credit

Refundable Credits

- Earned Income Credit
- Additional Child Tax Credit
- American Opportunity Credit

Credit for Child and Dependent Care Expenses

Child & Dependent Care Expenses Credit: Qualified Work-Related Expenses

- Expenses must be paid for the care of the qualifying person to allow the taxpayer (and spouse) to work or look for work.
- Care includes the costs of services for the qualifying person's well-being and protection.
- Expenses to attend Kindergarten or a higher grade: NOT AN EXPENSE.
- Expenses for summer day camp qualify, but those for overnight camp are not covered!

Five Qualifying Tests for Dependent Care

1. Qualifying Person must be under age 13 or disabled
2. Taxpayers must have *Earned Income*
3. *Work-related expense* - not volunteer work
4. Cannot file MFS
5. Provider Identification Number (SSN/EIN) and address Required
 - **Payments can't have been made to taxpayer's spouse, dependent child or child under 19**

Other Tests

- **Work-Related Expense Test**
 - Allows the taxpayer to work or look for work
 - Provides for qualified person(s) care
 - Care does not include camps
 - Can be a payment to a relative
- **Filing Status Test**
 - Not allowed on MFS returns
- **Provider Identification Test**
 - Due diligence (address/SSN or EIN)
 - Provider refusal

Child & Dependent Care Expenses Credit: Notes

- If you had expenses that met the requirements for the previous tax year, except that you did not pay them until the current tax year, you may be able to claim them on your tax return.
- Taxpayer's who cannot provide all of the provider's information or who have incorrect information may still be able to take the credit if they can show they used due diligence in trying to obtain the info.

Child & Dependent Care Expenses Credit: Employer Provided Benefits

- If a taxpayer had employer-provided benefits, they will appear in box 10 of the Form W-2

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	Surf.	11 Nonqualified plans	12a
				10 Dependent care benefits	12b
					12c
					12d
f Employee's address and ZIP code					
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name

Form **W-2** Wage and Tax Statement
 Copy 1—For State, City, or Local Tax Department

2015

Department of the Treasury—Internal Revenue Service

Child & Dependent Care Expenses Credit: Employer Provided Benefits

- Reported on Form W-2, box 10
- These are dependent care benefits the employer paid either directly to the employee or on the employee's behalf for dependent care expenses (i.e., to daycare).
- Amounts paid on behalf of the taxpayer by the employer will reduce the dollar amount of the credit.

Child & Dependent Care Expenses Credit: Divorced/Separated Parents

- Custodial parent can claim the Child & Dependent Care Expenses Credit, even if he/she did not claim the dependency exemption.

This situation is complicated to determine. SEE
YOUR SITE COORDINATOR

Limit on Expenses

Amount of eligible expenses limited to the lowest of:

- Lower paid spouse's earned income (if married)
- Single taxpayer's earned income
- Actual expenses paid
- Overall limits of
 - \$3,000 for one qualifying person
 - \$6,000 for two or more persons

Audrey and Scott

Audrey is a stay at home mom. Her husband, Scott, works and had earned income of \$48,000 for the tax year. They have a young son with autism who must be supervised at all times. Audrey volunteers 12 hours a week at an autism hotline. She and her husband pay a caregiver to care for their son during those hours.

Do they qualify for the Dependent Care Credit? Why?

Answer:

They do **not** qualify for the dependent care credit.

The caregiver expense is **not work related**.

They do not pass the earned income test because Audrey does not earn wages for her hotline work.

Example

Julie spent the following amounts on child care for her 10-year-old daughter, Melissa. Are any of these eligible costs for the Child & Dependent Care Expenses Credit?

- 1. \$300 for overnight camp**
- 2. \$1000 to her ex-husband for after school-care**
- 3. \$1500 to her mother for after-school care**
- 4. \$500 to her 15-year-old son for babysitting**

Example – Answer

Julie spent the following amounts on child care for her 10-year-old daughter, Melissa. Are any of these eligible costs for the Child & Dependent Care Expenses Credit?

- 1. \$300 for overnight camp – NO**
- 2. \$1000 to her ex-husband for after school care – NO**
- 3. \$1500 to her mother for after-school care – YES**
- 4. \$500 to her 15-year-old son for babysitting – NO**

Child Tax Credit

- One credit for each qualifying child **under 17 years of age at end of 2017**
- Son, daughter, brother, sister, or their descendants
- U.S. Citizen, U.S. National or Resident of U.S.
- Did not provide over half of their own support
- Lived with taxpayer for more than half of the year
- This is a credit intended to reduce the tax liability owed by the taxpayer, therefore, this part of the credit is **nonrefundable**
- A taxpayer can claim a Child Tax Credit for a child only if they **CAN AND DO** claim a dependency exemption for the child
- Nonrefundable credit with a maximum of \$1,000 per child.
 - Amount actually claimed depends on taxpayer's tax liability, MAGI and filing status

Child Tax Credit

- Exception to “Time-Lived-With-You” Requirement
 - Child born/died in 2017
 - Kidnapped Child
 - Special Rules for Children of divorced, separated or never married parents

Additional Child Tax Credit

- If the amount of the Child Tax Credit is greater than the amount of tax owed, you may be able to claim the Additional Child Tax Credit.
- Form 8812, Additional Child Tax Credit, computes the credit automatically.
- Must have an earned income of at least \$3,000
- It is a Refundable Tax Credit

Retirement Savings Contributions

Credit: General Eligibility Requirements

- A contribution to an IRA or other qualified plan for the tax year
- AGI limitations (vary, based on filing status)
- Age 18 or older
- Not claimed as a dependent on someone else's tax return
- Not a full-time student during the tax year

Retirement Savings Contribution Credit: Form W-2

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 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Tripartite plan <input type="checkbox"/>		12b	
		14 Other		12c	
				12d	
f Employee's address and ZIP code					
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name

Form **W-2** Wage and Tax Statement **2015** Department of the Treasury—Internal Revenue Service
Copy 1—For State, City, or Local Tax Department

Retirement Savings Contribution Credit: Contributions Record

- How do I know if the taxpayer has made a qualifying contribution?
 - Form W-2, Box 12 and one of the codes: D, E, F, G, H, S, AA or BB
 - Form W-2, Box 14 and codes for military personnel: Q or E

CAUTION: Entries in box 14 that are treated as employer contributions are NOT eligible for the credit

Retirement Savings Contributions

Credit: Eligible Contributions

- Some retirement distributions reduce the eligible contributions for the credit.
- In addition to retirement distributions made during the current tax year, the taxpayer must also reduce eligible contributions for distributions taken during the previous two tax years.

Example

Bob, age 48, contributed \$600 to an IRA during the tax year. During the year, he worked full-time and had an AGI of \$24,000. He is not a student. Is Bob eligible to claim the Retirement Savings Contribution Credit?

Example – Answer

Yes: Bob contributed to an IRA, meets the age and AGI limits, is not a dependent and is not a full-time student.

Credit for Qualified Retirement Savings Contributions

- Contributions to a retirement plan or IRA may be eligible for a tax credit
- Non-refundable credit
- Maximum credit is \$1,000 (up to \$2,000 if MFJ)
- Limitations based on:
 - Filing status
 - Adjusted Gross Income eg, Single \$30,750
 - Qualified contributions
- Form 8880
[See 4012 Tab G Nonrefundable Credits pg 6]

Education Credits

Education Credits

- Education credits help to offset the cost of higher education expenses paid during the year.
- Two education credits available:
 - **American Opportunity Credit**
 - Limit to \$2,500 PER STUDENT (not per return)
 - Partially refundable – up to \$1,000 PER STUDENT
 - **Lifetime Learning Credit**
 - Limit to \$2,000 PER RETURN (not per eligible student)
 - Entirely nonrefundable
- **Always begin by determining if the taxpayer qualifies for the AMERICAN OPPORTUNITY Credit since it is larger and partially refundable.**

American Opportunity (Hope) Credit	Lifetime Learning Credit
Up to \$2,500 per eligible student (\$1,000 is refundable)	Up to \$2,000 credit per return
Available only for 4 tax years per eligible student	Available for all years of post secondary education and for course to improve job skills
Student must be pursuing a degree or recognized education credential	Student does not need to be pursuing a degree or credential
Student must be enrolled at least half time	Available for one or more courses
No felony drug conviction on student's record	Felony drug conviction does not apply
Expenses include tuition, fees, and course materials	Expenses include only tuition and fees

Other General Eligibility

- Filing status cannot be Married Filing Separately
- Cannot be claimed as a dependent on someone else's return
- Accredited institution
- CAN claim on the basis of expenses paid with student loans

Dependents

- When the student is claimed as a dependent:
 - A dependent cannot claim education credits for themselves.
 - The taxpayer who claims the dependents exemption must claim the education credits.
- If the taxpayer claims the dependency exemption, any amount paid by the student is considered to have been paid by the taxpayer.

Qualified Expenses for American Opportunity Credit

- American Opportunity (Hope) Credit
 - Qualified tuition and related expenses **up to \$4,000 per eligible student**
 - Includes expenses for course materials – books, supplies, and equipment needed for a course of study, ***whether or not they were purchased from institution***
 - COMPUTERS CAN ONLY BE INCLUDED IF THEY ARE A REQUIREMENT FOR ENROLLEMNT OR ATTENDANCE.

Qualified Expenses for Lifetime Learning Credit

- Lifetime Learning Credit
 - Expenses include only tuition and fees
 - Course-related books, supplies and fees are included ***ONLY if they must be paid to the institution as a condition of enrollment***
 - COMPUTERS CAN ONLY BE INCLUDED IF THEY ARE A REQUIREMENT FOR ENROLLEMNT OR ATTENDANCE.

Expenses That Do Not Qualify for either credit

- Room and board
- Insurance
- Medical expenses (including student health fees)
- Transportation costs
- Personal, living or family expenses
- Expenses for a course involving sports, games or hobbies, unless it is required for the degree/certificate

Form 1098-T: Tuition Statement

See 4012, page J-6

- Refer to page J-6 to view a 1098-T and for assistance in determining how to enter information into TaxSlayer.

No Double Benefits

- The taxpayer CANNOT claim:
 - Both the American Opportunity and Lifetime Learning credits for ***the same qualified tuition expenses***
 - Expenses paid with a tax-free scholarship, grant, or other assistance, including Pell grants (in other words, the taxpayer must subtract these scholarships from the total expenses before claiming either credit)

No Double Benefits

- The taxpayer CANNOT claim:
 - Both an education credit AND the tuition and fees adjustment ***for the same qualified tuition expenses***
 - Most taxpayers benefit more from the credit, but you should try the expenses as both an adjustment AND a credit to determine which benefits the taxpayer more

Payments for the Next Academic Year

- Example:
 - Michael pays \$1,500 in December 2016 for the winter semester that begins in January 2017
 - He can use the \$1,500 paid in December 2016 to compute his credit for his 2017 tax return
 - However, he cannot count the \$1,500 again on his 2017 tax return

Example

James takes one course at a local community college. He received a Form 1098-T showing qualified tuition expenses of \$1,000. He lives with his parents, who can claim him as a dependent. Who is entitled to claim the credit? Which credit?

Example – Answer

If James's parents claim him, they must claim the credit

If James's parents do not claim him, James must claim the credit

Lifetime Learning Credit

Example

Michelle is a sophomore enrolled at UMSL full-time. She provides all of her own support. She paid \$10,000 in the tax year for tuition and fees for enrollment to UMSL. She received a tax-free scholarship worth \$4,000, and paid the rest from a student loan in her name. Can Michelle claim an education credit? Which one? How much of her expenses are qualified expenses?

Example – Answer

Yes

American Opportunity Credit

Qualified expenses = \$6,000 (\$4,000)

Affordable Care Act

What is the Affordable Care Act (ACA)?

- The federal government, state governments, insurers, employers, and individuals share responsibility for improving the quality and availability of health insurance coverage in the United States
- The ACA also created the Health Insurance Marketplace (also known as www.healthcare.gov)
 - A refundable tax credit, ***The Premium Tax Credit***, is available through the Marketplace and helps eligible taxpayers pay for coverage

Shared Responsibility Provision

- The Affordable Care Act requires individuals to either:
 1. Have **minimum essential coverage** for each month of the year,
 2. Qualify for a **coverage exemption**
 3. Make a **shared responsibility payment** when filing their federal income tax returns
- *This is essentially a tax penalty for not having coverage*

Types of Minimum Essential Coverage

- Government-Sponsored Programs:
 - Medicare Part A coverage
 - Medicare Advantage plans
 - Most Medicaid coverage
 - Missouri Healthnet (Missouri-comes on yellow sheet mailed directly from the State of Missouri offices)
- Insurance through the 'marketplace'
- Health insurance through an employer

Tax Forms That Show Evidence of Coverage: Form W-2, Form SSA-1099

FORM SSA-1099 - SOCIAL SECURITY BENEFIT STATEMENT

2014 • PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE
• SEE THE REVERSE FOR MORE INFORMATION.

Box 1. Name Kevin R Kent		Box 2. Beneficiary's Social Security Number 211-XX-XXXX
Box 3. Benefits Paid in 2014 \$13,682.00	Box 4. Benefits Repaid to SSA in 2014 \$0.00	Box 5. Net Benefits for 2014 (Box 3 minus Box 4) \$13,682.00
DESCRIPTION OF AMOUNT IN BOX 3 Paid by check or direct deposit: Medicare Part A premiums deducted from your benefits: \$1,198.80 Medicare Prescription Drug premiums (Part D) deducted from your benefits: \$600.00 Total Additions: \$13,682.00		DESCRIPTION OF AMOUNT IN BOX 4
Box 6. Voluntary Federal Income Tax Withholding \$958.00		Box 7. Address Kevin R Kent 8705 Somersby Way City, State, Zip
Box 8. Claim Number (Use this number if you need to contact SSA)		

Form SSA-1099-SM (1-2012) **DO NOT RETURN THIS FORM TO SSA OR IRS**

Form W-2 Wage and Tax Statement 2014

Safe, accurate, FAST! Use **efile** Visit the IRS website at www.irs.gov/efile

a Employee's social security number
XXX-XX-0196 OMB No. 1545-0008

b Employer identification number (EIN) 25-5555555	1 Wages, tips, other compensation \$9456.34	2 Federal income tax withheld \$945.63
c Employer's name, address, and ZIP code Jefferson County School District 125 7th Ave N Birmingham, AL 35203	3 Social security wages \$9456.34	4 Social security tax withheld \$397.17
	5 Medicare wages and tips \$9456.34	6 Medicare tax withheld \$137.12
	7 Social security tips	8 Allocated tips
d Control number 9	12a See instructions for box 12 DD \$564.58	
e Employee's first name and initial Last name Suff. Mary B. Bryant 8705 Somersby Way City, State, Zip	11 Nonqualified plans	12a See instructions for box 12 DD \$564.58
	13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	12b
f Employee's address and ZIP code	14 Other	12c
15 State Employer's state ID number YS 21-6555555	16 State wages, tips, etc. \$9456.34	17 State income tax \$574.50
	18 Local wages, tips, etc.	19 Local income tax
	20 Locality name	

Department of the Treasury—Internal Revenue Service

Evidence of Coverage: Form 1095-A

Form **1095-A** Health Insurance Marketplace Statement VOID CORRECTED OMB No. 1545-2232

Department of the Treasury Internal Revenue Service **2015**

► Information about Form 1095-A and its separate instructions is at www.irs.gov/form1095a.

Part I Recipient Information

1 Marketplace identifier Your State	2 Marketplace-assigned policy number 5749334	3 Policy issuer's name Health Insurance Company		
4 Recipient's name Kevin Kent	5 Recipient's SSN xxx-xx-0196	6 Recipient's date of birth 07/28/1941		
7 Recipient's spouse's name Mary Bryant	8 Recipient's spouse's SSN xxx-xx-0196	9 Recipient's spouse's date of birth 01/15/1951		
10 Policy start date 5/01/2014	11 Policy termination date 12/31/2014	12 Street address (including apartment no.) 8705 Somersby Way		
13 City or town City	14 State or province State	15 Country and ZIP or foreign postal code Zip		

Part II Covered Individuals

	A. Covered individual name	B. Covered individual SSN	C. Covered individual date of birth	D. Coverage start date	E. Coverage termination date
16	Penny Bryant	xxx-xx-0196	03/17/1949	05/01/2014	12/31/2014
17					
18					
19					
20					

If a taxpayer has health insurance through the marketplace, the Form 1095-A is **REQUIRED** to complete the tax return

Evidence of Coverage: Form 1095-C

Form **1095-C**
Department of the Treasury
Internal Revenue Service

Employer-Provided Health Insurance Offer and Coverage

► Information about Form 1095-C and its separate instructions is at www.irs.gov/form1095c

VOID
 CORRECTED

600116
OMB No. 1545-2251
2015

Part I Employee

1 Name of employee		2 Social security number (SSN)	
3 Street address (including apartment no.)			
4 City or town	5 State or province	6 Country and ZIP or foreign postal code	

Applicable Large Employer Member (Employer)

7 Name of employer		8 Employer identification number (EIN)	
9 Street address (including room or suite no.)			
11 City or town	12 State or province	13 Country and ZIP or foreign postal code	

Part II Employee Offer and Coverage

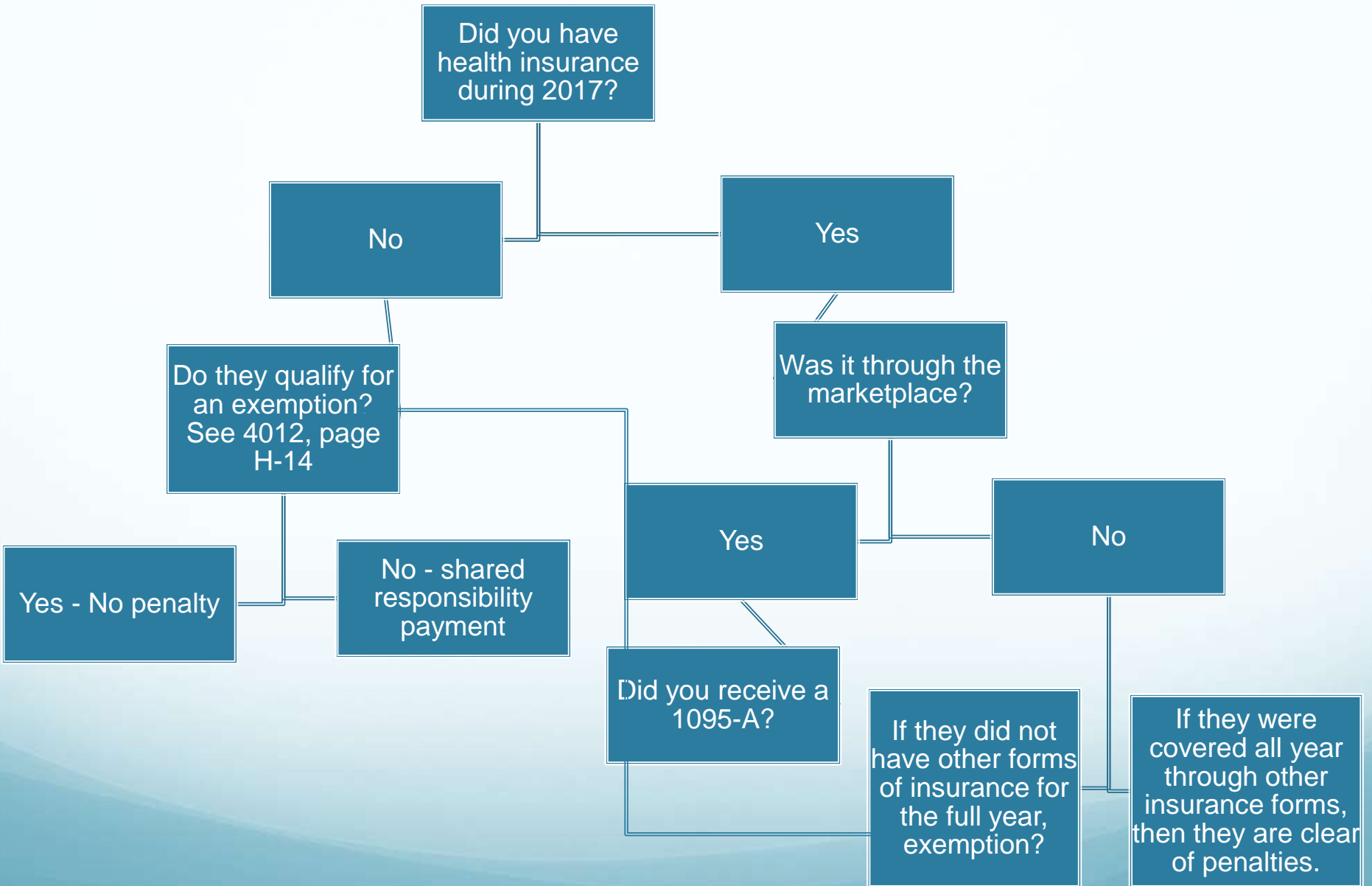
Plan Start Month (Enter 2-digit number):

	All 12 Months	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
14 Offer of Coverage (enter required code)													
15 Employee Share of Lowest Cost Monthly Premium, for Self-Only Minimum Value Coverage	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
16 Applicable Section 4980H Safe Harbor (enter code, if applicable)													

Part III Covered Individuals
If Employer provided self-insured coverage, check the box and enter the information for each covered individual.

(a) Name of covered individual(s)	(b) SSN	(c) DOB (if SSN is not available)	(d) Covered all 12 months	(e) Months of Coverage											
				Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
17			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

ACA Decision Tree



What is a Health Coverage Exemption and Who Needs It?

A reason for not having health insurance that avoids payment of the individual shared responsibility payment

Anyone without insurance coverage for any month should be screened for exemption eligibility

Exemptions: Granted By Healthcare.gov

- Homelessness
- Eviction in the last 6 months or facing eviction or foreclosure
- Utility shut-off notice
- Domestic violence
- Recent death of a close family member
- Disaster that resulted in significant property damage
- Bankruptcy in the past 6 months
- Debt from medical expense in last 24 months
- High expense caring for ill, disabled or aging relative
- **Determined ineligible for Medicaid because state did not expand coverage****
 - Will be common because Missouri did not expand coverage

What is a Premium Tax Credit?

A Premium Tax Credit (PTC) lowers the cost of health insurance coverage purchased from [healthcare.gov](https://www.healthcare.gov)

A PTC can be either:

Taken in advance (payment forwarded directly to the insurer monthly to reduce premiums),

OR

Taken on the tax return (payment is claimed as a lump sum when filing the return)

Summary of ACA

INDIVIDUAL SHARED RESPONSIBILITY PROVISION

Taxpayers and their dependents are required to:

- have minimum essential coverage, or
- have an exemption, or
- make a shared responsibility payment when filing a federal income tax return (a penalty).

PREMIUM TAX CREDIT

Taxpayers who (or whose family members) enrolled in health insurance coverage through the Health Insurance Marketplace:

- may be eligible for PTC and
- must reconcile any advance payments of PTC when filing a federal income tax return.

3.

SCENARIO 3

CHERYL WEBSTER

Let's meet the taxpayer

FINISHING THE RETURN

- Ask the questions in the Prep Use Fields
- All returns must be **Quality Reviewed**
- Print return for Cheryl
- Review return with Cheryl
- Have Cheryl sign 8879 for Federal and remind her she is responsible for the return

OTHER TAXES

Tax Types

- Self employment tax
- Social Security and Medicare taxes on tip income
- Additional taxes on IRAs and other qualified retirement plans
- Household employment taxes (out of scope)
- Repayment of first time homebuyer credit

First Time Home Buyer Credit

- In 2008 there was a First Time Home Buyer program. Money received must have been repaid starting in 2010.
- Report repayment on line 60b from Form 5405.
- Minimum required repayment each year is \$500.
- Will need prior tax return information to complete.

A red starburst graphic with a white outline, containing the text "See your site coordinator!".

See your site
coordinator!

Tax on Tip Income

- Tips received but unreported to an employer in excess of \$20 per month are taxable in regards to Social Security and Medicare taxes.
- Tips are reported on form 4137. This will come from the W-2 and the tax is calculated automatically.
- Taxes are calculated at 6.2% for SS and 1.45% for Medicare.

Enter all information on the W-2 into TaxSlayer appropriately and the software takes care of all this for you!

Tax on Retirement Plans

The taxpayer must pay income tax plus an additional tax if any of the following apply:

- A distribution is taken before the individual reaches the age of 59 1/2 and it is not rolled over into another qualified plan or IRA, and no other exception applies
[See Tab D Income pp 23-24 for 1099-R box 7 codes]
- Minimum distributions are not withdrawn when required (out of scope)
- Excess contributions are not removed by the due date of the return, including extensions (out of scope)

Early Distribution Exceptions

- Form 5329 is used for calculation of additional taxes. [The program does this automatically.]
- Exception codes for early withdrawal from an IRA are on page H-2. For example:
- 03 Distributions due to total and permanent disability
- 04 Distributions due to death
- 07 For unemployed to purchase health insurance
- 08 Made for higher education expenses
- 09 Made for purchase of a 1st home [\$10,000 limit]

UNIQUE FILING SITUATIONS

These will likely require
your site coordinator's
assistance

Sale of Home

- Sale of a home is reported on a 1099-S
- May exclude gains up to \$250,000/\$500,000 joint
- Generally *cannot deduct* a loss on sale of home
- Cost basis of home is determined by the following:
 - Purchase price
 - Closing costs
 - Additions or improvements that have useful life of more than one year
 - Examples: additional bathroom, pool, fence, new roof, deck, etc.

Repairs to maintain the home but do not prolong the life

Rental and K-1

Rental Income

- Rental Income goes on a Schedule E
 - Requires certification at Military Level
 - Otherwise, this income is Out of Scope.

Schedule K-1

- Income reported on Schedule K-1 will be included on the taxpayer's return in various places depending on the type of income:
- Income reported on Schedule K-1 that is within the scope of VITA/TCE includes:
 - Interest income (Schedule B)
 - Dividend income (Schedule B)
 - Net short term capital gains and losses (Schedule D)
 - Net long term capital gains and losses (Schedule D)
 - Tax-exempt interest income (Form 1040, line 8b) from Schedule B
 - Royalty income (from Schedule E)

Foreign Tax Credit

- Taxes paid to a foreign government on foreign source income that is subject to U.S. tax
- Entered on line 48 on the 1040
- If the amounts are more than \$300 (or \$600 for MFJ) and they do not meet an exception, then taxpayers must file Form 1116.

Form 1116 is out of scope.

The background features a large, faint seal of the State of Missouri. The seal is circular with a rope-like border and contains a central shield with a plow, a sheaf of wheat, and a river. The words "OFFICE OF THE COMPTROLLER" are written around the top inner edge, and "STATE OF MISSOURI" is at the bottom. The year "1820" is also visible.

2017 MISSOURI

TAX FILING

Information

Missouri

The background features a large, faint seal of the Missouri Department of Revenue. The seal is circular with a rope-like border and contains the text "MISSOURI DEPARTMENT OF REVENUE" and "SEAL OF THE DEPARTMENT OF REVENUE".

**PROPERTY TAX
CREDIT**

Program

Property Tax Credit Program

- Gives credit to certain senior citizens and 100 percent disabled individuals for a portion of the real estate taxes or rent they have paid for the year
- Credit is for a maximum of \$750 for renters and \$1,100 for owners who owned and occupied their home
- Credit is based on the amount of real estate taxes or rent paid and total household income (taxable and nontaxable)



Qualifications



- 65 years of age or older
- 100% Disabled Veteran
- 100% Disabled
- 60 years of age or older and received social security surviving spouse benefits

NOTE

Once a claimant turns 65 that is their qualification status even if their qualification was disabled in the past except for disabled veteran.

Income Limits

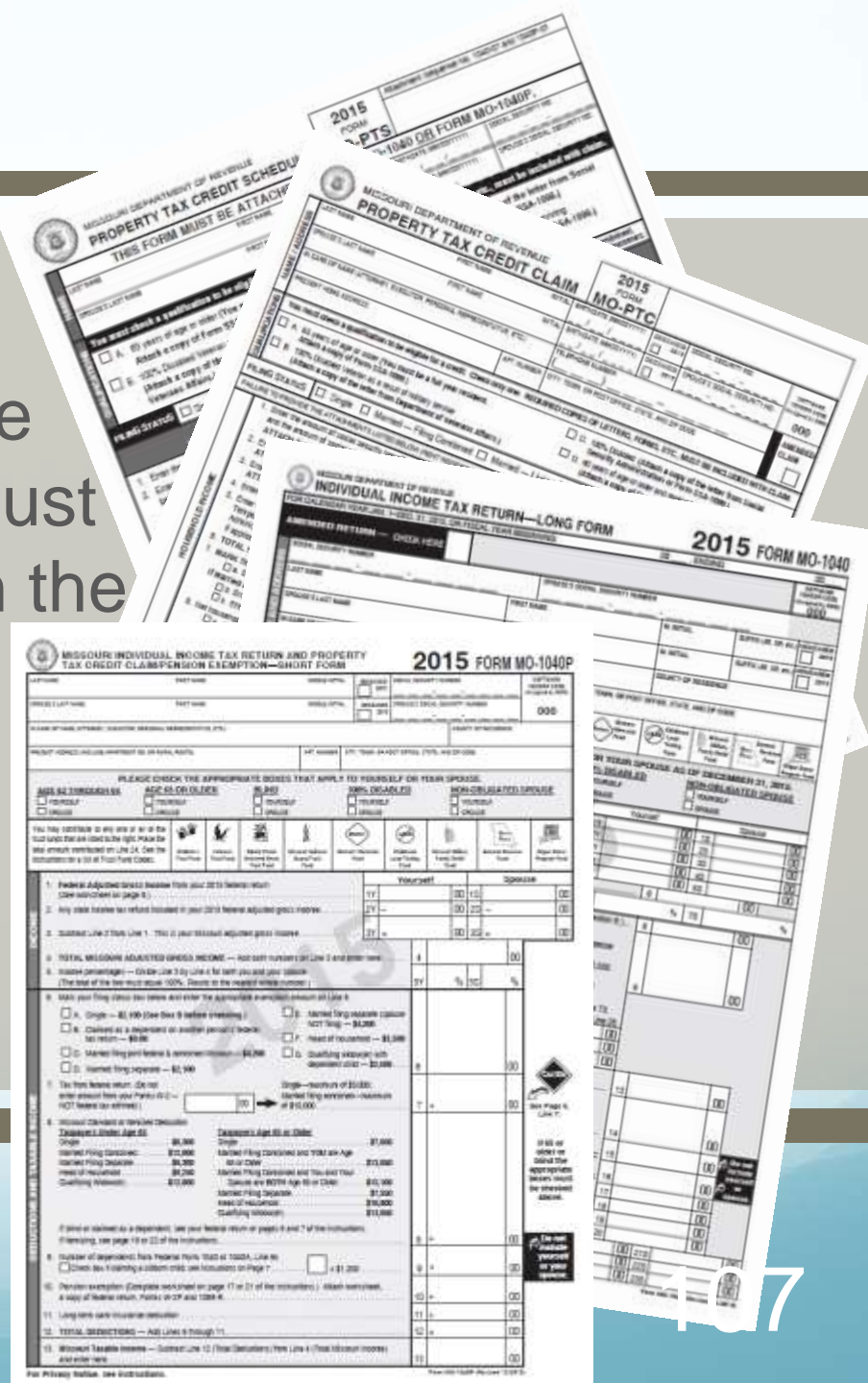
- The maximum income level for claimants who rented or owned their home a portion of the year is \$27,500 (after any exemptions).
- The maximum income level for claimants who own and occupy their home for the **entire year is \$30,000** (after any exemptions).

Examples of household income that may apply:

- Social Security, wages, interest, pensions, annuities, dividends, public relief, SSI/TANF, unemployment benefits, railroad retirement, VA payments, rental income

Forms

Anyone who is required to file or will be filing a MO-1040 must complete Schedule PTS with the MO-1040. MO-PTC is to be used when a person is not required and will not be filing a MO-1040.



First Time Filers to the Property Tax Credit Program

First time PTC Filers:

- Return must be filed on paper format (2D Barcode preferred)
- All income documents must be attached (W-2's, 1099R's, 1099-SSA's, SSI for example)
- Paid real estate tax receipt and Form 948 (if applicable) must be attached. A mortgage statement is not acceptable as proof of paid real estate tax
- Proof of rent paid (rent statement, signed letter from landlord, Form 5674 . A lease agreement is not proof of rent paid

MISSOURI DEPARTMENT OF REVENUE
PROPERTY TAX CREDIT CLAIM
2015 FORM MO-PTC

FILER INFORMATION: LAST NAME, FIRST NAME, MIDDLE INITIAL, EMPLOYER (BUSINESS), OCCUPATION, SOCIAL SECURITY NO., EMPLOYER SOCIAL SECURITY NO., PHONE NO., ADDRESS, CITY, STATE, ZIP CODE.

HOUSEHOLD INCOME: 1. Social Security benefits, 2. Other income (dividends, interest, etc.), 3. Rental income, 4. Veterans' payments, 5. Temporary Assistance (TANF), 6. Total household income.

REAL ESTATE TAX: 7. Real estate tax paid, 8. Total real estate tax paid.

ADDITIONAL INFORMATION: Filing status (Single, Married, etc.), and a table for reporting income and tax amounts.

LINE	DESCRIPTION	AMOUNT
1	Social Security benefits	00
2	Other income	00
3	Rental income	00
4	Veterans' payments	00
5	Temporary Assistance (TANF)	00
6	Total household income	00
7	Real estate tax paid	00
8	Total real estate tax paid	00

Mail claim and attachments to Missouri Department of Revenue, P.O. Box 2600, Jefferson City, MO 65105-2600.

MO-PTC-Important Notes

- Real estate tax paid on home owned and occupied by taxpayer
 - Primary residence only, secondary homes do not qualify
 - Do not include special assessments (sewer lateral) penalties, service charges and interest listed on the tax receipt
 - Mortgage statements will not work
- Taxpayers who rent:
 - Printed letter head with name, address and telephone number of landlord is recommended by the state
 - Receipts may be denied or questioned
 - Canceled checks may be used; however, must have checks for entire year and front and back must be readable

Now You Try

- http://dor.mo.gov/forms/MO-PTC%20Fillable%20Calculating_2017.pdf
- Mary P. Goodman is 67 years old, and a widow
 - DOB 11/12/1949
- In 2017, she paid \$1,104 in real estate taxes on her residence at 123 Happy Street St. Louis Missouri 63044
- Mary did NOT have a federal filing requirement
 - Her only source of income was Social Security
 - The total benefit she received in was \$9,011 (on 1099 SA)
- Mary does not want direct deposit

Now You Try

- http://dor.mo.gov/forms/MO-PTC%20Fillable%20Calculating_2017.pdf
- Roger C. Jones is 92 years old and is single
 - DOB 02/15/1924
- In 2017, he paid \$223 per month in rent for his apartment located at 429 Runaway Avenue St. Louis, MO 63301.
- Rent was paid to his daughter, Becky Jones who is the owner of the apartment. The last four digits of Becky's social security number are 4210. The physical address of the rental is the same as Roger's main address. Becky's phone number is (314) 600-000 and her address is 430 Runaway Avenue St. Louis, MO 63301
- Roger did NOT have a federal filing requirement
 - His only source of income was Social Security
 - The total benefit he received in was \$6,011 (on 1099 SA)
- Roger does not want direct deposit

Pension Exemptions

- The military pension exemption is phased in at 100 percent of the military pension
- Depending on Missouri AGI, public pension may be eligible for an exemption or partial exemption

Identity Verification Quiz

In October the Department implemented increased security steps to protect taxpayers from identity theft and refund fraud. The Department will ask some taxpayers to confirm their identities by completing an Identity Confirmation Quiz.

Taxpayers selected to take the quiz will receive a letter from the Department of Revenue following the submission of their tax return. The quiz is taken on a secure website and should only take a few minutes to complete. Taxpayers have 30 days to take the quiz.