

# **WELCOME!**

## **First Year Tax Preparer Training – VITA Session 2**

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# TODAY'S AGENDA

- **Types of income.** Retirement, Social Security, interest, dividends, capital gains, gambling, self-employment, cash.



# HOUSEKEEPING RULES

- You will automatically be muted when you join the session. When you unmute yourself to speak, please be sure to mute yourself again after you are finished.
- When we move on to the next step or topic, it is important that you do so even if you are behind in your data entry.
- Please observe break times. If you get back from a break late, it is up to you to find a way to catch up without disrupting the session.
- If you need technical help, please put it in the chat, and a staff member will create a breakout room to assist you.



# REVIEW HOMEWORK ASSIGNMENT

- **Catch up in TaxSlayer if necessary.**
- Answer the following questions in pub 6744:
  - Basic Scenario questions: 3, 5, 19, 22
  - Advanced Scenario questions 1, 9, 29
- **Enter personal information and W-2 income for Advanced Scenarios 7 and 8.**
- If you have any questions or need help, register for an Open Lab at [unitedwaytucson.org/vita\\_training](https://unitedwaytucson.org/vita_training).



# INCOME I

**Flip here:** Form 6744 – page 82

Let's review Harris' W-2 together.

Look at these boxes:

- Box A - Employee's social security number
- Boxes 1 & 2 – Wages received & federal income tax withheld
- Box 12 – Other information (depends on code)
- Box 13 – Specific employee situations



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# INCOME I

Check: Are these the numbers on your screen?

**AGI**      **\$51,145**

**Federal**      **\$6,600**



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# START A NEW RETURN

**Flip here:** Form 6744, page 82 – Travis & Sylvia Kennedy

## Enter the Economic Stimulus Payment and the W-2

- Whose W-2 is it? How do you indicate that in the software?
- Quick check: Are these the amounts on your screen?

**AGI**      **\$5,000**

**Federal**      **\$1,200**



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# INCOME I

**Flip here:** Form 6744 – page 82

**Go here:** TaxSlayer Practice Lab

Let's enter the Franklins' W-2s into the Practice Lab together.



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# **INCOME II**

## **Retirement Income (Form 1099-R)**



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# RETIREMENT INCOME

**Flip here:** Form 6744, pages 92-93 – Travis & Sylvia Kennedy

**Flip here:** Pub 4012 – Tab D, page D-33

**How many 1099-R forms are in this return?**

- Let's look at the **1099-R issued by Essex Bank** together – page 80



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# RETIREMENT INCOME

Enter the 1099-R from Essex Bank into the software.



A message will pop up when you finish the 1099-R. How can we tell if the 1099-R was from **an annuity** or **a rollover**?

Let's chat.



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# RETIREMENT INCOME

**Quick check:** Does the amount on the right side of the screen match?

AGI            \$7,500

Federal      \$1,450

If not, let's look at the boxes on the 1099-R together.



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# RETIREMENT INCOME

**Flip here:** Form 6744, page 92 – Travis & Sylvia Kennedy

Look at the 1099-R from **Pinto Corporation**, but do not enter it in the software.

What do you notice about this 1099-R that is different from the first?



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# ANNUITIES

An annuity is a **type of retirement account** – a fixed sum of money paid to someone each year, usually for the rest of their life.

You make an investment in an annuity – the amount received each year is a little bit of your initial investment + the growth on your investment.

The amount you invest in an annuity has already been taxed, but the growth has not – so, typically **the taxable amount must be determined during tax preparation.**

**How?** Using the “Simplified Method”



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# SIMPLIFIED METHOD

TaxSlayer presents criteria for using the Simplified Method – according to the interview notes, it applies to this case.

Is the annuity a **joint survivor annuity**? How do we know?



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## Simplified Method Worksheet

CANCEL

Gross distribution amount (from 1099-R)  
\$21,785.00

Plan cost at annuity start date

\$ 38957

Starting date of annuity \*

9

1

2013

Check the box if the annuity is joint or survivor.

Check here if this is a Joint or Survivor Annuity.

Death benefit exclusion

\$

Age of recipient at start date \*

If joint or survivor annuity, add ages of recipients

129

The number of months the recipient received payments in this tax year.

Number of months paid in 2020 \*

12

Amounts previously recovered

\$ 9551

Enter the plan cost from box 9b of 1099-R

Enter the age of the recipient **on the date the pension started**. Use the intake form for date of birth and calculate the recipient's age on the day the pension started.

**For a joint survivor annuity, add the ages of BOTH taxpayer and spouse on the pension start date.**

Enter the amount that could have been recovered tax free in prior years even if not claimed.



# SIMPLIFIED METHOD

Complete the **Simplified Method** worksheet.

Notice that TaxSlayer **automatically fills the Taxable Amount line** on the 1099-R once the worksheet is completed.

**Quick check:** Does your screen match?

2a Taxable Amount \$20,277.00

AGI            \$27,777

Federal       \$3,385



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# **INCOME III:**

**Social Security: SSA-1099**

**Dividends: 1099-DIV**

**Interest: 1099-INT**

**Miscellaneous: 1099-MISC**

**Capital Gains: 1099-B**

**Gambling Wins: W-2G**



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# SOCIAL SECURITY (FORM SSA-1099)

**Flip here:** Form 6744, page 94 – Travis & Sylvia Kennedy

Let's review the **Social Security Benefit Statements (SSA-1099)** together.

- Whose form is this?
- What relevant information can be found on this form?

Can this type of Social Security income be taxable?



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# SOCIAL SECURITY

Enter the **SSA-1099s** into the software.

AGI      \$30,916

Federal      \$4364



**Quick check:** Does your screen match?



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# INTEREST AND DIVIDENDS

**Flip here:** Form 6744, pages 95-96 – Travis & Sylvia Kennedy

Let's review the **Consolidated 1099 (Brokerage Statement) & Forms 1099-INT** and **1099-DIV** together.

Which forms are included on the **Consolidated 1099**?

- 1099-DIV
- 1099-MISC
- 1099-INT
- 1099-B



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# INTEREST INCOME

Forms **1099-INT** and **1099-DIV** report earned interest income.

Generally, these come from bank and/or investment accounts.

Remember, this is an **income related form**, so it reports interest **earned** by the taxpayer, NOT interest **paid** by the taxpayer.

A Consolidated 1099 includes **lines** that correspond to the **boxes** found on the full forms.



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# DIVIDEND INCOME

Form **1099-DIV** reports dividends and other income received from investments.

Enter **Form 1099-DIV** into the software.

**Take a look:** Whose name is on the form?



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# DIVIDEND INCOME

**Quick check:** Does your screen match?

**AGI**      **\$31,537**

**Federal**      **\$4,585**



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# INTEREST INCOME

Enter the **1099-INT** into the software.

**Take a look:** Whose name is on the tax form?

AGI      \$31,747

Federal      \$4,585



**Quick check:** Does your screen match?



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# CAPITAL GAINS

Capital gains/loss is the difference between the **price paid** for the “property” and the **price received** when that property is later sold.

So, **price received – price paid = capital gain/loss.**



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# CAPITAL GAINS

What can be included in **property**?

Just about anything!

**Stocks**, bonds, houses, land, cars, jewelry...



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# CAPITAL GAINS

Stocks are the **most common** type of property we see at VITA sites.

**Form 1099-B** reports proceeds from the sale of stocks and other securities.

Here, **proceeds – costs** = capital gains/loss. Loss is typically shown in parentheses.

Unless everything but proceeds is the same, we **complete each transaction separately.**



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**Form belongs to \***

- Travis Kennedy
- Sylvia Kennedy
- Both

**Description of Property \***

Iowa Comm Stock

**Date Acquired**

\* **Alternate Option:** If Date Acquired is not known, leave the date blank and select an option here

9 ▼ 17 ▼ 2008 ▼

**Date Sold**

\* **Alternate Option:**

Check here if a short sale.

11 ▼ 1 ▼ 2020 ▼

**Sales Price**

\* **Alternate Option:** If Sale Price is Expired, leave the sales price blank and select an option here

\$ 12080

**Select cost basis type \***

1099-B, Box 12 Cost Basis NOT Reported to the IRS ▼

Is the transaction a Short Term Section 1061 Partnership Interest?

**Cost**

\* **Alternate Option:** If Cost is Expired, leave the cost blank and select an option here



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# CAPITAL GAINS

Enter the **1099-Bs** into the software.

**Take a look:** Whose name is on the tax form?

**Quick check:** Does your screen match?

AGI      \$49,695

Federal      \$3,879







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# CAPITAL GAINS

**Quick check:** Does your screen match?

+ Add a Capital Gains Transaction

Owner/Description	Date Acquired	Date Sold	Sale Amount	Purchase Amount	
Taxpayer & Spouse/Iowa Comm Stock	9/17/2008	11/1/2020	\$12,080	\$1,700	 
Taxpayer & Spouse/Idaho Co Comm S	1/7/2020	11/1/2020	\$3,000	\$2,700	 



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# GAMBLING INCOME

Enter the **W-2G** into the software.

Enter the **lottery winnings** into the software as “Other Income.”

**Quick check:** Does your screen match?

AGI            \$54,718

Federal      \$3,374



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# START A NEW RETURN

**Flip here:** Form 6744, page 99 – Richard Roosevelt

Let's review Richard's **interview notes** and **Intake Sheet** together.

## In this return, we'll cover:

- Self-employment income: Forms 1099-NEC
- Self-employment expenses
- Forms generated within the tax return: 1040, 1040 Schedule 1, Schedule C, Schedule SE
- Cancellation of Debt: Form 1099-C
- Unemployment Income: Form 1099-G



**Tip:** Circle the income you will need to enter!



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# START A NEW RETURN

Go here: [www.unitedwaytucson.org/vitalinks](http://www.unitedwaytucson.org/vitalinks)

- Open **TaxSlayer Practice Lab**.
- Sign in using the username and password you created.
- Select **Start New 2020 Tax Return**.
- Create the return.
- Use the Intake Sheet to complete the **Basic Information** section.
- Enter the Recovery Rebate Credit.
- Enter the W-2.



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# WAGES

Does your screen match?

AGI \$44,650

Federal \$2,719



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# INCOME IV

# SELF-EMPLOYMENT INCOME

**Self-employment** is working for oneself rather than an employer. However, there can be some confusion when self-employed contractors work closely enough with a business to feel like an employee – ex: Uber drivers.

Self-employment income is frequently seen at VITA sites!

All self-employment income and related expenses are reported on **Schedule C or C-EZ.**



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# SELF-EMPLOYMENT INCOME

VITA prepares Individual income taxes, not Business taxes.

Since self-employment income is reported on the Individual income tax return, it qualifies for VITA.

However, there are many conditions that can make these returns out of scope – there is a list in your Volunteer Handbook.



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# SELF-EMPLOYMENT INCOME

- No income taxes withheld
- No payroll taxes withheld (employee/employer portion – 50%: 6.2% SS, 1.45% Medicare)
- Both the employer and employee portion are the taxpayer's obligation (12.4% SS, 2.9% Medicare)



# SELF-EMPLOYMENT INCOME

Common examples of work that produces self-employment income:

- Rideshare driving (Uber/Lyft)
- Handyman work
- Landscaping
- Housecleaning
- Dog walking
- Performing – such as music, theater, etc.

Note: Airbnb is a source of **rental income** and is out of scope.



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# SELF-EMPLOYMENT INCOME

**Enter the 1099-NEC into the software** – when finished, hit continue & choose “Create new Schedule C.”

**AGI**      **\$48,377**

**Federal**      **\$1,709**



After entering a 1099-NEC, you must either add it to an existing Schedule C or create a new Schedule C.



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# SCHEDULE C

**Flip here:** Pub 4012, Tab D – pages D-18

Each Schedule C includes questions about the operation of the taxpayer's business.

Several questions have only one answer that is in scope for our program – TaxSlayer does not indicate which answer is in scope.



# SCHEDULE C

## Out of Scope:

- Net operating loss (NOL)
- Expenses totaling more than \$35,000
- Depreciation
- Home office deduction
- Additional employees
- Schedule K-1 (partnership income)
- Car & truck expenses other than mileage
- Inventory (and Cost of Goods Sold)



# SCHEDULE C

When creating Schedule Cs, separate different types of business activities and combine similar types of business activities.

For example, a rideshare driver for both Uber and Lyft would use one Schedule C to report both sources of income because rideshare driving has the same type of activities and expenses.

A self-employed landscaper who drives with Lyft on the weekends would have two Schedule Cs as the type of business, activities, and expenses are very different.



# SCHEDULE C

**Flip here:** Form 6744 – page 99

## **What do the interview notes tell us about Richard's business?**

- Is he a cash-basis taxpayer? **Yes!**
- Does he materially participate in his business? **Yes!**
- What business code does he use? **Change to 561730 – recently updated by IRS**
- Does his business have a name? **No – leave this section blank**
- Does he have an EIN (hint: does he file Form 1099)? **No – leave blank**
- Does he have a distinct business location? **No – leave blank**
- Is this the first time Richard is filing a Schedule C for driving? **Yes**



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# SCHEDULE C

**Complete the “Questions about your Business” section of the Schedule C – refer to the interview notes!**



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# Quick check: Does your screen match?

## Questions about your Business

### Accounting Method \*

- Cash
- Accrual
- Other

### Method used to value closing inventory \*

- Cost
- Lower of cost or market
- Not Applicable
- Check here if there were any changes in determining inventory.
- Check here if this is the first Sch. C filed by you for this business.
- Check here if you "materially participated" in the operation of this business during the tax year.

**AGI**      **\$48,377**

**Federal**      **\$1,799**



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# CASH INCOME

**Flip here:** Form 6744 – page 99

**What do the interview notes tell us about Richard's business?**

- Does he have any cash income? **Yes.**

When self-employed, cash income (including tips) is added to **gross receipts or sales** on the Schedule C.

**AGI**      **\$48,679**

**Federal**      **\$1,723**



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# BUSINESS EXPENSES

A business expense must be both ordinary and necessary to be deductible on the Schedule C.

An **ordinary expense** is one that is common and accepted in your trade or business.

A **necessary expense** is one that is helpful and appropriate for your trade or business.



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# BUSINESS EXPENSES

**Flip here:** Pub 4012 – Tab D, page D-19

**Let's review together & mark out of scope items.**



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# BUSINESS EXPENSES

**Flip here:** Form 6744 – page 99, Richard Roosevelt

Which of Richard's expenses are **ordinary & necessary**?

- Lawnmower **Yes!**
- Business cards **Yes!**
- Rake **Yes!**
- Gloves **Yes!**
- Lunches **NO.**
- Work clothes suitable for everyday use **NO.**
- Lunch box **NO.**
- Mileage driven from home to 1<sup>st</sup> client's home and from his last client's home to his home **NO.**
- Mileage driven between clients' homes **Yes!**



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# BUSINESS EXPENSES

**Now flip to page D-19 – which Categories fit these expenses?**

**Look at Pub 4012 – page D-17. Where should these expenses be entered?**

**Enter the Supplies on the Schedule C under General Expenses.**



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# BUSINESS EXPENSES

**Quick check:** Does your screen match?

**AGI**      **\$48,404**

**Federal**      **\$1,788**



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# BUSINESS EXPENSES

**Flip here:** Form 6744 – page 99, Richard Roosevelt

We have one more expense to enter:

- Lawnmower
- Business cards
- Rake
- Gloves
- **Mileage driven between clients' homes**



**Look at Pub 4012 – page D-17. Where should these expenses be entered?**



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# BUSINESS USE OF VEHICLES

Self-employed taxpayers can choose one of two ways to deduct vehicle expenses:

1. Actual vehicle expenses
2. Fixed amount per business mile

← This is out of scope!

For 2020, the standard mileage rate for business miles is 57.5 cents per mile. TaxSlayer calculates mileage for us, based on the number of business miles entered.



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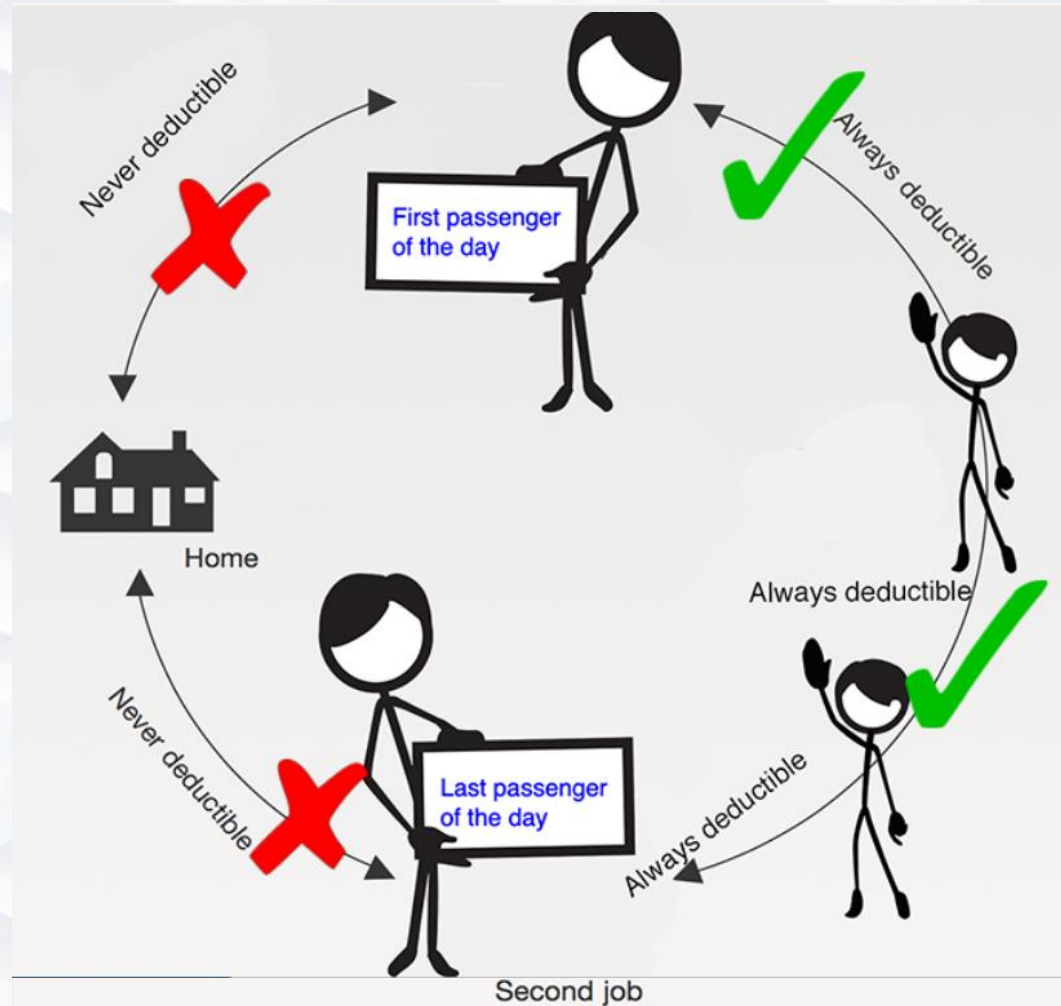
# MILEAGE




- Taxpayers **cannot deduct commuting miles** between home and their main job.
- Taxpayers **cannot deduct miles between their home and their first and last job of the day.**
- Taxpayers **can** deduct transportation expenses **between their main job and second job** or temporary work location, or **between their second and last temporary work location** of the day.
- Taxpayers who use their vehicle for ridesharing **can** deduct miles driven on **passenger trips** and miles driven **between clients.**



# Flip here: Pub 4012 – Tab D, page D-21

Let's review together.



-  Between home and first / last passengers
-  Passenger trip miles
-  Miles between passengers



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# MILEAGE

**Flip here:** Form 6744 – page 99, Richard Roosevelt

What mileage is included in Richard's interview notes?

- Total miles driven in 2020: **9,543**
- Miles driven between clients: **312**
- Miles driven between home & first/last clients of the day: **620**
- Personal miles: **8,611**

**What mileage can Richard claim for his business?**



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# MILEAGE

**Flip here:** Form 6744 – page 99, Richard Roosevelt

What mileage is included in Richard's interview notes?

- ~~Total miles driven in 2020:~~ **9,543**
- Miles driven between clients: **312**
- ~~Miles driven between home & first/last clients of the day:~~ **620**
- ~~Personal miles:~~ **8,611**

**What mileage can Richard claim for his business?**



# MILEAGE – PROOF

The IRS requires taxpayers to maintain a mileage log for their vehicles.

If a return is audited and the taxpayer can't produce a mileage log, the IRS may disallow the expense entirely.

Logs may be in a physical notebook or in an app.

Uber & Lyft do report some – but often not all – mileage.



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# MILEAGE

**Flip here:** Pub 4012 – Tab D, page D-17

**Where do we enter mileage expenses?**

Car and truck expenses



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# MILEAGE

**Enter Richard's mileage** on the Schedule C under Car and Truck expenses.

Use the interview notes!



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# Quick check: Does your screen match?

## Car and Truck Expenses

Please Note: Actual car or truck expenses must be entered in the depreciation menu for this business. You cannot claim both actual expenses and mileage for the same vehicle.

Description of Vehicle \*

Pick-Up



Date you placed your vehicle in service for business purposes \*

3



15



2020



Of the total number of miles you drove your vehicle during the tax year, enter the number of miles you used your vehicle for each of the following.

Business miles \*

312

Commuting

620

Other

8611

- Check if you have (or your spouse has) another vehicle available for personal use.
- Check if your vehicle was available for personal use during off-duty hours.
- Check if you have evidence to support your deduction.
- If yes, check if the evidence is written.



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# BUSINESS EXPENSES

**Quick check:** Does your screen match?

**AGI**      **\$48,238**

**Federal**      **\$1,832**



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