

WELCOME!

First Year Tax Preparer Training – VITA

Session 3

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TODAY'S AGENDA

- **Income.** Unemployment compensation, cancellation of debt, retirement cont'd
- **Deductions/Adjustments.** Self-employment tax, QBI, student loan interest, educator's expense, HSA, IRA, charitable contribution, itemization
- **Credits.** Child Tax Credit, Additional Child Tax Credit, Credit for Other Dependents,



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, please join us where we are.
- If you need technical help, please put it in the chat, and a staff member will assist you.



DEPENDENT QUIZ REVISITED

Ashley (40) moved into an apartment with her boyfriend Carl (42) in 2020. Last year, Ashley earned \$42,000 and Carl earned \$2,500. Carl's son Jack (12) lived with the couple for the first seven months of the year, but then moved out of state to live with his mother. Carl pays for groceries and Ashley pays all other household expenses.

Flip here: Pub 4012, pg. C-3

Can Carl claim Jack as a dependent?

No, because Carl himself can be claimed as a dependent by Ashley.



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UNEMPLOYMENT COMPENSATION

Flip here: Pub 6744, pg. 105, Richard Roosevelt

Unemployment compensation is reported on form **1099-G**.

Unemployment compensation is generally taxable.

Enter form 1099-G.

Quick check: Does your screen match?

AGI **\$51,038**

Federal **\$1,776**



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CANCELLATION OF DEBT

If a debt for which the taxpayer is personally liable is canceled or forgiven, the taxpayer must include the canceled amount in income.

It is reported on form **1099-C**.

Enter form 1099-C into TaxSlayer.

Quick check: Does your screen match?

AGI **\$51,813**

Federal **\$1,686**



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RETIREMENT

Flip here: Pub 6744, pg. 106, Richard Roosevelt
Pub 4012, pg. D-40

What does distribution code 1 stand for?

Penalty exceptions for code 1 distributions.

Let's take a look at form 5329 in TaxSlayer.

Quick check: Does your screen match?

AGI **\$52,813**

Federal **\$1,766**



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CURRENT NUMBERS IN TAXSLAYER

(homework assignment)

Advanced Scenario 6, Harris & Carly Franklin: AGI **\$51,145** Federal **\$6,600**

Advanced Scenario 7, Travis & Sylvia Kennedy: AGI **\$54,718** Federal **\$3,374**

Advanced Scenario 8, Richard Roosevelt: AGI **\$52,813** Federal **\$1,776**

Check: Do your screens match?



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Review Test Questions/Answers

Go here: Pub 6744, Basic Scenarios:

- pg. 34, question 3
- pg. 35, question 5
- pg. 54, questions 19 & 22

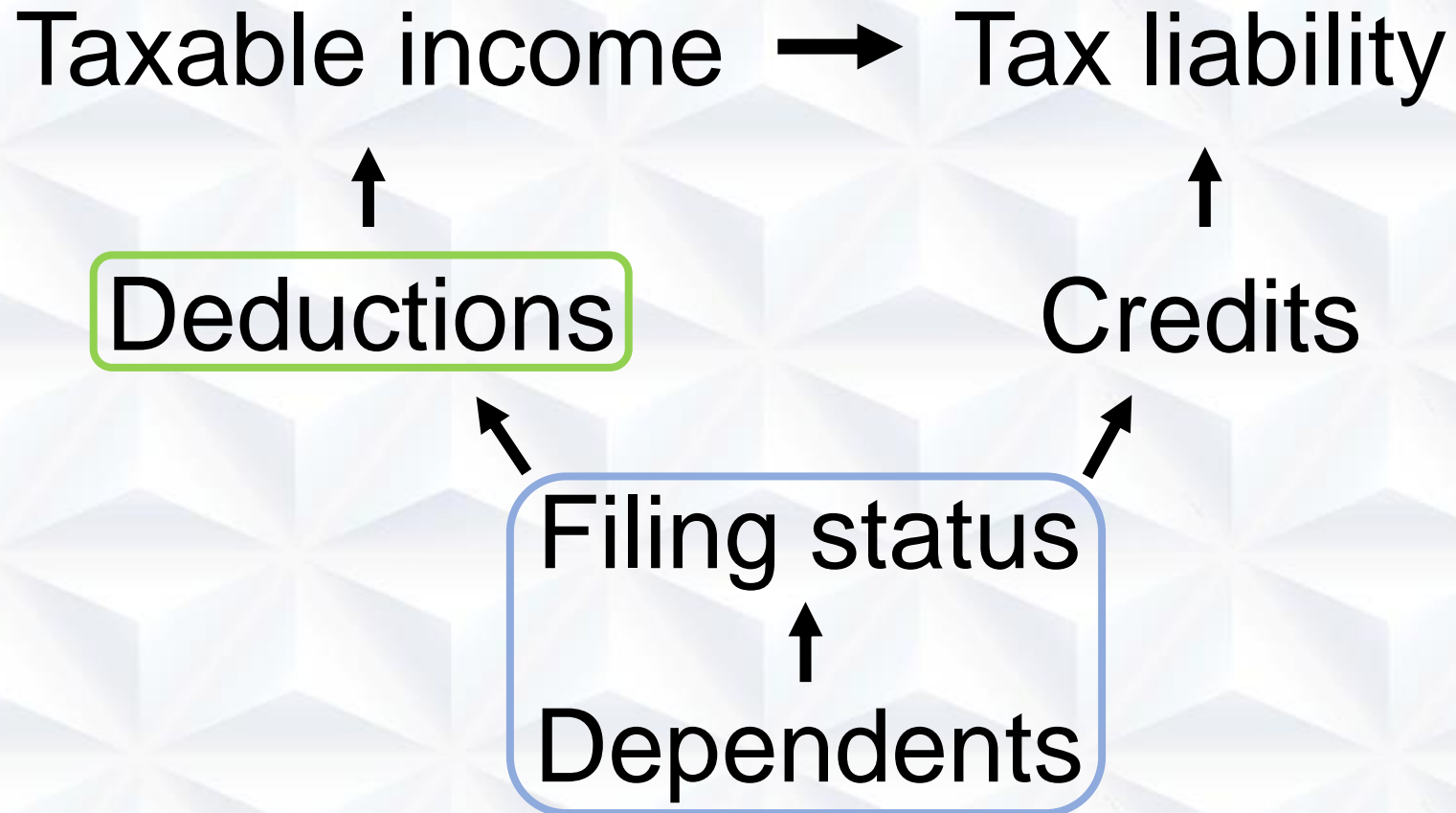
Advanced Scenarios:

- pg. 71, question 1
- pg. 75, question 9
- pg. 107, question 29



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DEDUCTIONS



ADJUSTMENTS

Adjustments are the amounts spent on certain things which are deducted from gross income, resulting in Adjusted Gross Income (AGI).

Adjustments are typically referred to as deductions.

Common adjustments include:

- **Deductible part of self-employment tax**
- Qualified business income deduction
- Student loan interest deduction
- Educator's expense reduction
- HSA deduction
- IRA deduction



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SELF-EMPLOYMENT TAX

In an employer/employee arrangement, the employee's required Social Security and Medicare contributions are split equally between the employee and the employer. For the employer, this is called **Payroll Tax**.

Since a self-employed person is technically their own employer, they pay the entire amount of their Social Security and Medicare contributions. This is calculated as **Self-Employment Tax**.

Clients are often unaware they owe SE Tax before coming to us.



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SELF-EMPLOYMENT TAX

Employers are entitled to deduct payroll taxes from their income. Similarly, self-employed filers can deduct ½ of their self-employment tax.

This is deducted as an **Adjustment to Income.**

TaxSlayer calculates this automatically.



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SELF-EMPLOYMENT TAX

Let's go to the "Summary/Print" view in Richard's return in TaxSlayer.

Look at Form 1040, Schedule , Line 14.



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Common adjustments include:

- Deductible part of self-employment tax
- **Qualified business income deduction**
- Student loan interest deduction
- Educator's expense reduction
- HSA deduction
- IRA deduction



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QUALIFIED BUSINESS INCOME DEDUCTION

Flip here: Pub 4012 – Tab F, page F-12

Taxpayers with profit from self-employment may be eligible for a deduction of **up to 20%** of Qualified Business Income (QBI), minus any capital gains. For VITA purposes, QBI is any in-scope self-employment profit.

Taxpayers must have taxable income before the QBI Deduction, or the deduction is \$0.

The QBI Deduction does not affect the amount of self-employment tax.

TaxSlayer calculates the QBI deduction automatically.



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QUALIFIED BUSINESS INCOME DEDUCTION

Let's go to the "Summary/Print" view in Richard's return in TaxSlayer.

Look at Form 1040, Line 13.

What is Richard's QBI Deduction?



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ADJUSTMENTS

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Common adjustments include:

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- Qualified business income deduction
- **Student loan interest deduction**
- Educator's expense reduction
- HSA deduction
- IRA deduction



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STUDENT LOAN INTEREST DEDUCTION

Flip here: Pub 4012 – Tab E, page E-10

Taxpayers who paid interest on student loans during the tax year may deduct up to \$2,500 of the interest paid – **we enter the total amount.**

Married Filing Separately filers are not eligible. ☹️

Taxpayers receive Form **1098-E** from the lender showing interest paid – if they paid \$600 or more in interest.

Otherwise, clients can often look this information up online.



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STUDENT LOAN INTEREST DEDUCTION

Flip here: Pub 6744, pg. 83, Harris & Carly Franklin

Enter form 1098-E into TaxSlayer.

Quick check: Does your screen match?

AGI **\$48,645**

Federal **\$6,900**



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ADJUSTMENTS

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Common adjustments include:

- Deductible part of self-employment tax
- Qualified business income deduction
- Student loan interest deduction
- **Educator's expense reduction**
- HSA deduction
- IRA deduction



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EDUCATOR EXPENSES DEDUCTION

Flip here: Pub 4012, Tab E – page E-3

Educators often pay for supplies and materials for their classrooms out of pocket. The IRS allows them to deduct a small amount of the expenses paid during the tax year.

This is the **Educator Expenses Deduction**.

The maximum deduction is \$250 – it is doubled for MFJ, with a cap of \$250 per spouse, if both are educators.



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EDUCATOR EXPENSES DEDUCTION

Flip here: Form 6744 – page 78, Harris & Carly Franklin

Let's look at their interview notes together.

According to page E-3 in the 4012, **does Carly qualify for the Educator Expenses Deduction?**

No! She does NOT meet the rules for an eligible educator and, therefore, does not qualify for this deduction.



EDUCATOR EXPENSES DEDUCTION

Let's take a look at TaxSlayer to see how to enter qualifying Educator Expenses!



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- Qualified business income deduction
- Student loan interest deduction
- Educator's expense reduction
- **HSA deduction**
- IRA deduction



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HEALTH SAVINGS ACCOUNT

An HSA is...

- A tax-exempt trust or custodial account, used to pay or reimburse certain medical expenses for those who are covered by a high deductible health plan.
- All HSAs are individually owned and portable.
- The employee (or anyone else on their behalf) can also contribute; contributions are tax-deductible (=tax-free).
- Employer contributions to an employee's HSA are tax-exempt and are stated on the employee's W-2, in field 12, code W.



HEALTH SAVINGS ACCOUNT

a Employee's social security number		OMB No. 1545-0008		This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.					
b Employer identification number (EIN)		1 Wages, tips, other compensation \$25,000.00		2 Federal income tax withheld \$2,500.00					
c Employer's name, address, and ZIP code		3 Social security wages \$25,000.00		4 Social security tax withheld \$1,050.00					
		5 Medicare wages and tips \$25,000.00		6 Medicare tax withheld \$363.00					
		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 See instructions for box 12 W \$1,000.00	
Tom T Smith 123 Main Street Bel Air, MD 21014-1234		13 Statutory employee <input type="checkbox"/>		Retirement plan <input type="checkbox"/>		Third-party sick pay <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
 Copy C—For EMPLOYEE'S RECORDS (See Notice to Employee on the back of Copy B.)

2019

Department of the Treasury—Internal Revenue Service

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HEALTH SAVINGS ACCOUNT

- Contributions (employer + employee + other contributors) are limited to \$3,550 for an HSA that covers only the individual, and \$7,100 for an HSA with family coverage, plus an additional \$1,000 for anyone age 55+.
- Above limit contributions are not deductible and carry a penalty of 6%.
- TaxSlayer will calculate this automatically.
- Total contributions are stated on form 5498-SA.



HEALTH SAVINGS ACCOUNT

CORRECTED (if checked)

TRUSTEE'S name, street address, city, state, and ZIP code T Rowe Price 123 Elm Street Owings Mills, MD 21276-1234		1 Employee or self-employed person's Archer MSA contributions made in 2016 and 2017 for 2018 \$	OMB No. 1545-1518 2019	HSA, Archer MSA, or Medicare Advantage MSA Information
		2 Total contributions made in 2018 \$ 3,600.00	Form 5498-SA	
TRUSTEE'S federal identification number	PARTICIPANT'S social security number	3 Total HSA or Archer MSA contributions made in 2017 for 2018 \$		Copy B For Participant The information in boxes 1 through 6 is being furnished to the Internal Revenue Service.
PARTICIPANT'S name Tom T Smith		4 Rollover contributions \$	5 Fair market value of HSA, Archer MSA, or MA MSA \$	
Street address (including apt. no.) 123 Main Street		6 HSA <input checked="" type="checkbox"/>		
City, state, and ZIP code Bel Air, MD 21014-1234		Archer MSA <input type="checkbox"/>		
Account number (see instructions)		MA MSA <input type="checkbox"/>		

Form **5498-SA**

(keep for your records)

Department of the Treasury - Internal Revenue Service



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HEALTH SAVINGS ACCOUNT

- Distributions are stated on form **1099-SA** (not to be confused with 1099-SSA!)
- Distributions must be used for unreimbursed qualified medical expenses.
- Distributions can be used to cover medical expenses of anyone on the tax return.
- Distributions used for any other purpose are not allowed and carry a 20% penalty unless the owner is 65 or older.



HEALTH SAVINGS ACCOUNT

CORRECTED (if checked)

TRUSTEE'S/PAYER'S name, street address, city, state, and ZIP code T Rowe Price 123 Elm Street Owings Mills, MD 21276-1234		OMB No. 1545-1517 2019 Form 1099-SA		Distributions From an HSA, Archer MSA, or Medicare Advantage MSA Copy B For Recipient This information is being furnished to the Internal Revenue Service.
PAYER'S federal identification number	RECIPIENT'S identification number	1 Gross distribution \$ 1,350.00	2 Earnings on excess cont. \$	
RECIPIENT'S name Tom T Smith Street address (including apt. no.) 123 Main Street City, state, and ZIP code Bel Air, MD 21014-1234		3 Distribution code 1	4 FMV on date of death \$	
Account number (see instructions)		5 HSA <input checked="" type="checkbox"/> Archer MSA <input type="checkbox"/> MA MSA <input type="checkbox"/>		

Form 1099-SA

(keep for your records)

Department of the Treasury - Internal Revenue Service



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HEALTH SAVINGS ACCOUNT

Flip to: Pub 4012, pg. E-7

Let's take a look at TaxSlayer.



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- Qualified business income deduction
- Student loan interest deduction
- Educator's expense reduction
- HSA deduction
- **IRA deduction**



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IRA DEDUCTION

Flip here: Pub 4012, pg. E-10.

Contributions to an IRA can be deducted from a taxpayer's gross income, up to a maximum annual contribution of \$6,000 (\$7,000 if age 50 or older).



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STANDARD DEDUCTION VS. ITEMIZED DEDUCTIONS

Remember: Deductions reduce the taxpayer's AGI, which then reduces the amount of taxable income. The most significant is the standard or itemized deduction.

Taxpayers can choose either the:

- **Standard Deduction:** a fixed amount based on filing status and age, or
- **Itemized Deductions:** the allowable amount of some of the taxpayer's actual eligible expenses.



STANDARD DEDUCTION

Most taxpayers choose the standard deduction.

TaxSlayer calculates the most beneficial option if itemized deductions are entered.

The IRS basically says, **“There are certain essential things you spend money on, and Congress doesn’t want to tax the money you spend on those essentials.”**

So, the IRS calculates a realistic amount for those essentials. This is the **standard deduction**.



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ITEMIZED DEDUCTIONS

Flip here: Pub 4012 – Tab F, page F-1

Let's review standard deduction chart together. Some taxpayers' actual essential expenses may be higher than the standard deduction. In that case, they can choose to claim allowable expenses instead. This is the **itemized deduction**.



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ITEMIZED DEDUCTIONS

Flip here: Pub 4012 – Tab F, page F-5

Let's review the common deductions together.

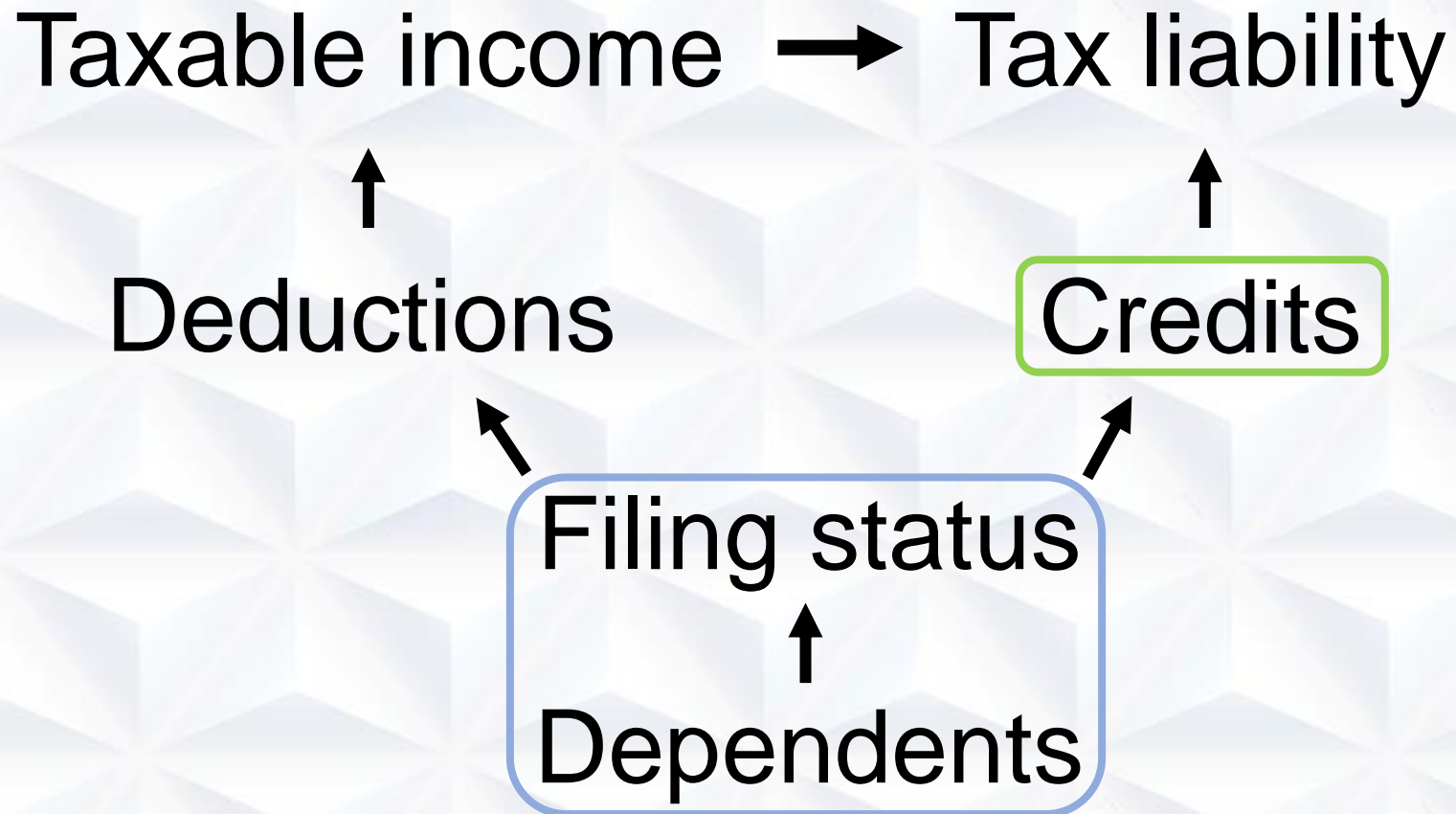
- Some unreimbursed medical & dental expenses
- Some amount of some types of taxes paid (e.g. vehicle registration tax, property tax, state income tax, sales tax)
- Mortgage interest and expenses
- Gifts to charity
- Gambling losses and expenses – only to the extent of gambling winnings

Note: Very few people in the VITA income bracket have enough deductions to itemize.



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DEDUCTIONS



TAX CREDITS

Tax credits directly reduce tax liability, dollar for dollar. They have a greater dollar-for-dollar impact than deductions.

There are **two types** of tax credit:

- Nonrefundable
- Refundable



TAX CREDITS

A **nonrefundable credit** can reduce the tax liability to zero, but that's all. Any excess is not added to the refund – it has no further impact.

A **refundable credit** can reduce the tax liability to zero, and can add to the refund beyond that point.

It is *possible* to receive a refundable credit even if the taxpayer owes no tax and is not required to file a tax return.

Which type of tax credit is the most beneficial?



TAX CREDITS

We'll start by discussing three credits that can be claimed automatically by **taxpayers with dependents** – depending on the type of dependent.

- Child Tax Credit
- Additional Child Tax Credit
- Credit for Other Dependents



CHILD TAX CREDIT

Flip here: Pub 4012 – Tab G, page G-2

The **Child Tax Credit** is a nonrefundable credit of up to \$2,000 per qualifying child.

The amount of a taxpayer's Child Tax Credit depends on the taxpayer's tax liability, modified AGI, and filing status – it is calculated automatically by TaxSlayer.

If a taxpayer owes no tax, can they receive the Child Tax Credit?



CHILD TAX CREDIT

Flip here: Pub 4012 – Tab G, page G-3

Let's review the rules that apply to a qualifying child for purposes of claiming the Child Tax Credit.

What is the extra requirement for this credit?



CHILD TAX CREDIT

Starting with tax year 2018, a qualifying child must have a Social Security Number (not ITIN) by the due date of the return to be eligible for the Child Tax Credit.

(For prior tax years, a qualifying child must have either a SSN or an ITIN by the due date of the return to be eligible for the credit.)



ADDITIONAL CHILD TAX CREDIT

The **Additional Child Tax Credit** is a **refundable** credit of up to \$1,400 per qualifying child (using CTC rules).

Additional Child Tax Credit applies if the taxpayer does not have enough tax liability to use the entire \$2,000 nonrefundable Child Tax Credit **and**

- the taxpayer has more than \$2,500 of taxable earned income
- **OR**
- the taxpayer claims three or more qualifying children – regardless of income

TaxSlayer calculates this for us!



CREDIT FOR OTHER DEPENDENTS

Flip here: Pub 4012 – Tab G, pages G-3 & G-4

The Credit for Other Dependents is a \$500 **nonrefundable** credit typically claimed for qualifying relatives – dependents must be US citizens/nationals/residents with a valid ID number (including ITIN).

The Credit for Other Dependents is essentially a consolation prize – it's available for dependents who otherwise do not qualify for the child tax credit and is meant to offset the loss of dependency exemptions from the last round of tax law changes.

TaxSlayer calculates this for us!



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PRACTICE

Flip here: Pub 6744, pg. 72, Pat and Terri Jefferson

Which credits are Pat and Terri eligible for?



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TAX CREDITS

Now we'll discuss an additional credit that can be claimed by **taxpayers with dependents** who incurred dependent-related expenses.

- Child & Dependent Care Credit



CHILD & DEPENDENT CARE CREDIT

Flip here: Pub 4012 – Tab G, page G-9

The Child and Dependent Care Credit is a nonrefundable credit that allows taxpayers to claim a credit for paying an eligible provider to care for their qualifying:

- Dependents under the age of 13

OR

- Spouses or dependents who are unable to care for themselves



CHILD & DEPENDENT CARE CREDIT

Flip here: Pub 4012 – Tab G, page G-9

To claim this credit, the **taxpayer** must:

- Be claiming the credit for a qualifying person;
- Have earned income or be a full-time student;
- Have incurred the expenses to work, look for work, or attend school;
- Identify who provided the care services with either a SSN or EIN.



CHILD & DEPENDENT CARE CREDIT

Flip here: Pub 4012 – Tab G, page G-10

Let's review the eligible expenses together.

Which of these expenses qualify for this credit?

- Expenses for kindergarten or higher grades **NO.**
- Before-school and after-school care **Yes!**
- Expenses for overnight camp **NO.**
- Expenses for summer day-camp **Yes!**



CHILD & DEPENDENT CARE CREDIT

Flip here: Pub 4012 – Tab G, page G-10

The credit is not allowed for expenses paid to certain relatives – let's review steps 4 – 6 together.

Which relatives do not qualify?

- A relative who can be claimed as a dependent by the taxpayer
- The taxpayer's spouse
- The parent of the person receiving care
- The taxpayer's child who is under the age of 19 at the end of the year



CHILD & DEPENDENT CARE CREDIT

Which scenarios qualify for this credit?

- Paying someone to care for a child while the taxpayer and spouse attend marriage counseling? **NO.**
- Paying a neighbor to watch a child while the taxpayer works and the spouse attends school full-time? **Yes!**
- Paying for weekly care for a disabled spouse while the taxpayer goes grocery shopping? **NO.**
- Paying the taxpayer's 17-year-old stepson to watch a 9-year-old child so the taxpayer and spouse can work? **NO.**



CHILD & DEPENDENT CARE CREDIT

Taxpayers must provide the name, address, and taxpayer identification number of the person or organization who provided the care for their child or dependent.

Most often, taxpayers bring a statement from a childcare center with this information.

Without the provider TIN, we cannot e-file the return unless the credit is removed.



ENTERING THE CREDIT IN TAXSLAYER

This credit is entered in 2-3 steps in TaxSlayer.

1. Enter provider information in Step 1.
2. Enter the amount paid for the care of each person in Step 2.
3. Enter the amount paid for qualifying persons who aren't listed as dependents in Step 3 – **if applicable.**

Note: Page 2 of Form 2441 is used only when Dependent Care Benefits are listed in Box 10 of Form W-2 **or** when one of the taxpayers is a full-time student.



CHILD CARE CREDIT

Go here: Pub 6744, pg. 78 & 86, Harris & Carly Franklin

Once in the Franklins' return, go to Deductions → Credits Menu → Child Care Credit

Let's enter the Franklins' Child Care expenses.

Let's go to Form 1040, Schedule 3, in the Summary/Print view and look for the credit amount.



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CHILD CARE CREDIT

Quick check: Does your screen match?

AGI **\$48,645**

Federal **\$7,200**



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EDUCATION CREDITS

This section is very detailed – but remember, there's no need to memorize as long as we refer to our instructions.



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EDUCATION CREDITS

Flip here: Pub 4012 – Tab J, page J-4

There are two education credits – only one can be claimed for an expense

- American Opportunity Credit (AOC) A portion of the AOC is refundable
- Lifetime Learning Credit (LLC) The LLC is nonrefundable

Which credit is more beneficial?



EDUCATION CREDITS

Flip here: Pub 4012 – Tab J, page J-5

To claim either education credit, taxpayers must:

- **not** be MFS
- **not** be claimed as a dependent on another person's tax return
- **not** have modified AGI that exceeds allowable limits



EDUCATION CREDITS

Flip here: Pub 4012 – Tab J, page J-5

Taxpayers can claim an education credit if:

- they paid **qualified educational expenses** of higher education,
- for an **eligible student** – taxpayer, spouse, or dependent – who,
- was enrolled at or attending an **eligible educational institution**



EDUCATION CREDITS

Flip here: Pub 4012 – Tab J, page J-4

Let's review this chart together.

What are qualified expenses for the American Opportunity Credit?

What are qualified expenses for the Lifetime Learning Credit?



EDUCATION CREDITS

Examples of expenses that do not qualify:

- Student health insurance, fees, or medical expenses
- Parking fees
- Room and board
- Transportation
- Living expenses
- Laptops, tablets or other computers – unless it is a **requirement of enrollment**



EDUCATION CREDITS

Taxpayers can claim a credit for expenses paid out-of-pocket, with credit cards, or with loans – in all of these cases, the taxpayer still pays.

Taxpayers cannot claim a credit for expenses paid with:

- Scholarships
- Pell grants
- Employer-provided educational assistance
- Veteran's educational assistance
- Any other non-taxable payments (other than gifts or inheritances) received for educational expenses



AMERICAN OPPORTUNITY CREDIT

- The maximum credit is \$2,500 per student.
- 40% of the credit – up to \$1,000 – is refundable.
- Expenses must be in pursuit of a degree or recognized educational credential.
- It generally does not apply to graduate programs.



AMERICAN OPPORTUNITY CREDIT

To be eligible for this credit, the student must be:

- At least a ½ time student for at least one academic period beginning during the tax year
- Free of any felony conviction for possessing or distributing a controlled substance



AMERICAN OPPORTUNITY CREDIT

There are two 4-year tests for the American Opportunity Credit:

- The credit can be taken only for four tax years
- The student must not have completed four years of academic credit before the beginning of the tax year – Freshman, Sophomore, Junior, and Senior



EDUCATION CREDITS QUIZ

Flip here: Pub 4012 – Tab J, page J-4

Kevin spent \$1,300 for required books and lab supplies for his first year at college. He also spent \$500 on therapy sessions to help him adjust to college life.

How much can Kevin claim in qualified expenses for the American Opportunity Credit?

\$1,300 for books and lab fees



EDUCATION CREDITS QUIZ

Flip here: Pub 4012 – Tab J, page J-5

Heather is a half-time student in her second year at a community college. Her mother, Sally, paid \$1,400 for her tuition in 2020. Heather also paid \$200 for a parking pass in 2020. Sally is able to claim Heather as a dependent on her tax return.

Who can claim the American Opportunity Credit for Heather's expenses?

Sally



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EDUCATION CREDITS QUIZ

Flip here: Pub 4012 – Tab J, page J-5

Heather is a half-time student in her second year at a community college. Her mother, Sally, paid \$1,400 for her tuition in 2020. Heather also paid \$200 for a parking pass in 2020. Sally is able to claim Heather as a dependent on her tax return.

What is the total of eligible expenses for the American Opportunity Credit?

\$1,400



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LIFETIME LEARNING CREDIT

- This credit is limited to \$2,000 **per return**, not per student.
- Non-degree courses taken to improve job skills are eligible, as are expenses related to non-credit and non-degree courses.
- There is no limit to the number of years it can be claimed and the felony drug conviction rule does not apply.



LIFETIME LEARNING CREDIT

There is a restriction for book expenses. Book expenses are only eligible for the Lifetime Learning Credit if they are both:

- Required for admission, and
- Only available from the institution

For example, if a book is available at the institution and at Amazon.com, it doesn't qualify for the credit – even if it was ultimately purchased from the institution.



EDUCATION EXPENSES PAID BY OTHERS

Assuming the student meets other eligibility requirements, they can include qualified tuition payments made directly to the educational institution by someone else in their qualified expenses.



EDUCATION CREDITS QUIZ

Flip here: Pub 4012 – Tab J, page J-4

Kim is a professional photographer. She enrolled in an advanced photography course at a local community college. The course does not count toward a degree program, but she enrolled to learn new technical skills.

Which credit does Kim qualify for, if any?

Lifetime Learning Credit



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EDUCATION CREDITS QUIZ

Flip here: Pub 4012 – Tab J, page J-4

George is an accountant and hobby photographer. He enrolled in a photography course at a local community college. The course does not count toward a degree program, but he enrolled to learn new technical skills.

Which credit does George qualify for, if any?

NONE.



FORM 1098-T

Form 1098-T shows tuition paid and any scholarships or grants received.

For purposes of calculating education credits, we must subtract the scholarship amount from the tuition paid to calculate the out-of-pocket amount paid by the students.

There may be additional out of pocket expenses not reflected on the 1098-T – such as books and other materials. Be sure to ask the taxpayer!



FORM 1098-T

Go here: Pub 6744, pg. 85, Harris & Carly Franklin

Let's review **Form 1098-T** together.

Are there qualified expenses that can be used to claim an education credit?



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EDUCATION CREDIT

Flip here: Form 6744 – Page 85, Harris & Carly Franklin

Let's review the **Gordon College account statement** together.

Is Harris able to claim an education credit?

Which credit should Harris claim?

What is the total amount of expenses that can be included?



EDUCATION CREDIT

Go here: Pub 6744 – Page 85, Harris & Carly Franklin

Once in the Franklins' return, go to Deductions → Credits Menu → Education Credits

Let's enter Harris' education credit.

Check: Does your screen match?

AGI	\$48,645
Federal	\$8,982



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RETIREMENT SAVINGS CREDIT

Flip here: Pub 4012 – Tab G, page G-14

The **Retirement Savings Credit** is a nonrefundable tax credit for low- and moderate-income taxpayers who are saving for retirement.

Depending on their Adjusted Gross Income (AGI) and filing status, taxpayers can claim the credit for 50%, 20% or 10% of the first \$2,000 contributed to a retirement account.



RETIREMENT SAVINGS CREDIT

Eligible retirement accounts and how the credit is claimed:

- **Workplace retirement accounts** such as 401(k) and 403(b) – TaxSlayer automatically pulls the contribution amount from W-2 boxes 12 – 14
- **Individual Retirement Accounts (IRA)** – Follow instructions in Pub 4012, page G-15



RETIREMENT SAVINGS CREDIT

Flip here: Pub 6744, pg. 82, Harris & Carly Franklin

Did Harris contribute to a retirement account in 2020?

Where do we find the total of his contribution?

Remember, W-2 codes can be found on page D-6 in Pub 4012.



RETIREMENT SAVINGS CREDIT

Flip here: Pub 4012 – Tab G, page G-16

Let's review the chart together.

Based on this chart, is Harris able to claim this credit?

Based on this chart, what % of his contribution would the credit be?

Let's take a look at the Franklins' Form 1040, Schedule 3, line 4.



EARNED INCOME TAX CREDIT

The EITC is a refundable tax credit for low-to-moderate-income working families and individuals.

We call it EITC – it is also called EIC and Earned Income Tax Credit.



EARNED INCOME TAX CREDIT

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We call it EITC – it is also called EIC and Earned Income Tax Credit.

It has been determined to be the single most effective tool to lift children out of poverty, more than any other federal or state program.



EARNED INCOME TAX CREDIT

The most significant requirement for EITC is that the taxpayer must have **earned income** during the tax year.

Remember, not all income is considered earned income.

However, the taxpayer does not need to have a filing requirement.



EARNED INCOME TAX CREDIT

Flip here: Pub 4012 – Tab I, page I-1

Let's look at the **Earned Income Table** together.



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EARNED INCOME TAX CREDIT

The amount of EITC a taxpayer receives is based on

- Filing status
- Number of dependents
- Amount of earned income

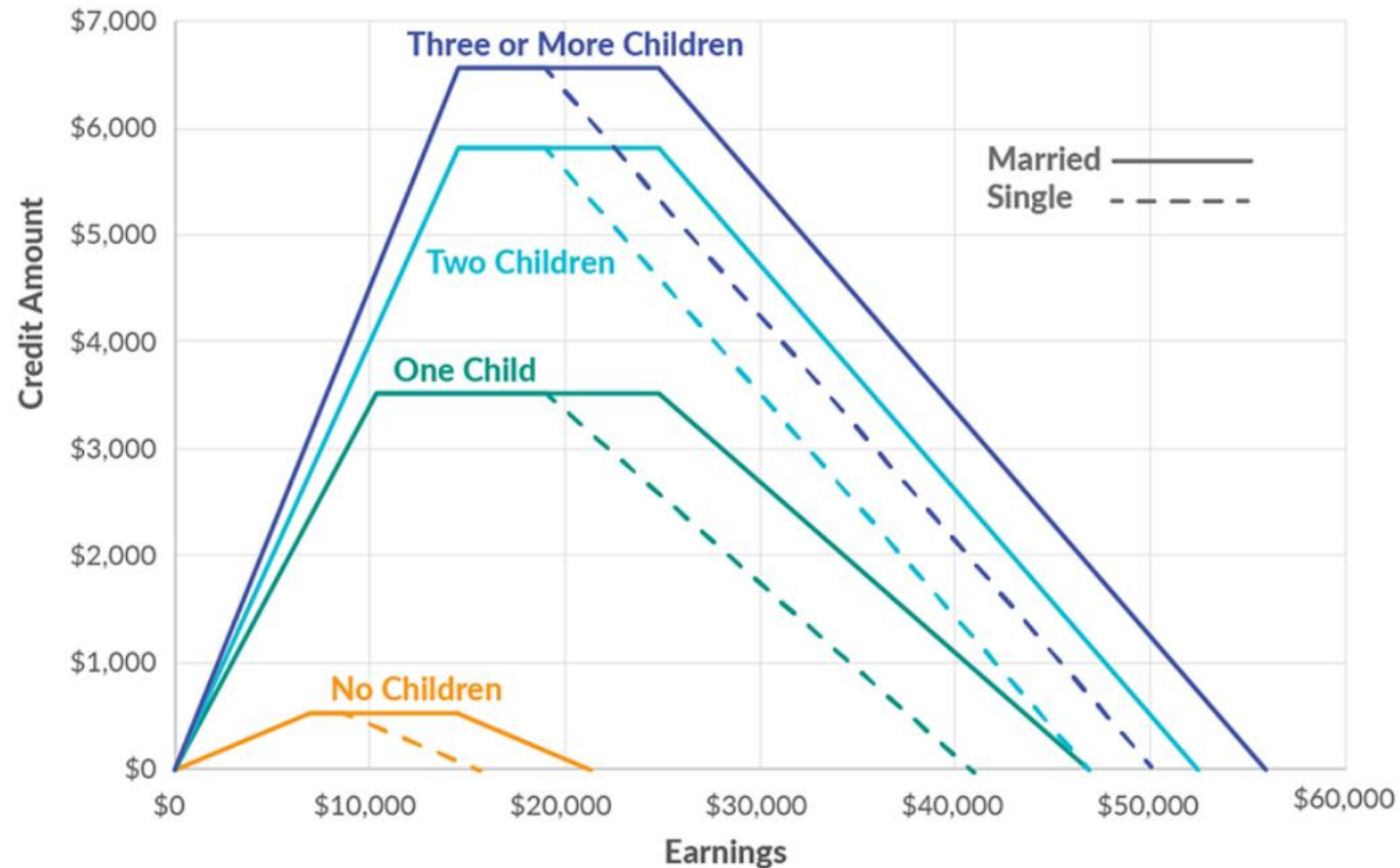
The amount of credit phases in, the plateaus, and then phases out based on income – let's take a look:



EARNED INCOME TAX CREDIT

The Phase-In and Phaseout of the EITC

Credit Amount by Marital Status and Number of Children



Source: Amir El-Sibaie, "2019 Tax Brackets," Tax Foundation, Nov. 28, 2018.

EARNED INCOME TAX CREDIT

Flip here: Pub 4012 – Tab I, page I-2

Let's look at the **Summary of EIC Eligibility Requirements.**



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EARNED INCOME TAX CREDIT

Flip here: Pub 4012 – Tab I, page I-2

There is an added waiver for qualifying child related to EITC – **support.**

Because the rules for a qualifying child dependent differ from those for a qualifying child for EITC, **there may be times when a child is not a dependent, yet qualifies the taxpayer for the EITC.**

Note: The EITC and the Child Care Credit can only be claimed by the custodial parent.



EARNED INCOME TAX CREDIT

If we complete the Dependent section in TaxSlayer correctly, the software will calculate the rest of the credit for us – **the default is to include the dependent.**

Check All That Apply:

- This person was over age 18 and a full-time student at an eligible educational institution.
- Check if this person was DISABLED.
- Check if this qualifying child is NOT YOUR DEPENDENT.
- Check if you wish NOT to claim this dependent for Earned Income Credit purposes.
- Check if this dependent is married.
- This dependent made over \$4,200 of income
- This dependent qualifies for a Multiple Support Declaration.



EARNED INCOME TAX CREDIT

If a taxpayer seems like they should be eligible for EITC, but the software isn't calculating an amount, look at Tab I in the 4012 to determine why.

This is the most significant credit most VITA taxpayers receive – we want to make sure it's applied correctly if they are eligible.

If you can't figure it out, don't worry – make a note for the Quality Reviewer to check it out during the review process.



REFUNDABLE CREDIT DISALLOWANCE

- The IRS can disallow Earned Income Tax Credit, American Opportunity Credit, and Additional Child Tax Credit due to errors in math or in cases of fraud.
- If the IRS determines a taxpayer previously claimed one of these credits due to “reckless or intentional disregard” of the rules, **they cannot claim the credit for 2 tax years.**
- If the error was due to fraud, **they cannot claim the credit for 10 tax years.**



REFUNDABLE CREDIT DISALLOWANCE

Go here: Pub 6744, pg. 80, Harris & Carly Franklin

Let's review **Page 2, Part V** of the intake sheet together.

Did the Franklins indicate that they'd had a refundable credit disallowed in the past?

Can they claim the EITC on this tax return?



REFUNDABLE CREDIT DISALLOWANCE

If the client answers yes to having these credits disallowed, **Form 8862** must be completed in TaxSlayer so they can claim the credit again.

If this form is required for your client at a tax site, speak to your Site Coordinator first!



EARNED INCOME TAX CREDIT

Let's go to TaxSlayer and open the Franklins' tax return.

Check Form 1040, line 27, for the amount of the EITC.

