JANUARY 13, 2024

LET'S GET YOU CERTIFIED!

VITA TAX TRAINING

CERTIFICATION TESTS

https://apps.linklearntaxescertification.com/authn/login?next=%2Fdashboard

- Volunteer Standards of Conduct
- Intake/Interview and Quality Review
- Basic (for new volunteers)
- Advanced (all others)

- 80% or more is passing score
- 2 attempts

FORM 1040 AND THE INTAKE/INTERVIEW FORM

- http://www.irs.gov/pub/irs-pdf/f1040.pdf

- http://www.irs.gov/pub/irs-pdf/f13614c.pdf

PRACTICE LAB

- The IRS has provided a Practice Lab where you can access the software and practice.
- You will use this for your Basic and Advanced Certifications
- Go to https://vita.taxslayerpro.com/IRSTraining
- The password to get started is **TRAINPROWEB**
- Now created your login and password or sign in if you have already created your login and password

PASSING THE "VOLUNTEER STANDARDS OF CONDUCT"

- All VITA volunteers must pass the Volunteers Standard of Conduct test with at least 80% and sign 13615 Volunteer Standards of Conduct Agreement form.
- All preparers must use form 13614-C (Intake form) for every return.
- The taxpayer must be part of the review process.
- The tax preparer and the quality reviewer must be certified up to the level of difficulty of the tax return.
- If the tax return requires an advanced certification, the preparer and the quality reviewer must have passed the advanced test.
- If the taxpayer has self employment income the preparer must have advanced certification.

PASSING THE "VOLUNTEER STANDARDS OF CONDUCT"

- VITA is a free tax service. A volunteer cannot accept compensation for preparing a return. Compensation includes cash, gift cards or anything that has monetary value. Accepting or asking for tips is forbidden.
- A volunteer cannot use personal information obtained from the client for his/her own gain.

PASSING THE "VOLUNTEER STANDARDS OF CONDUCT"

- A volunteer who knowingly prepares a false return is in violation of the standard.
- Example
- A taxpayer comes in and says he needs a big refund. The taxpayer received cash from his self employment business.
- The volunteer tells the taxpayer not to declare the cash income because his refund will go down.

PASSING THE "VOLUNTEER STANDARDS OF CONDUCT"

- A volunteer cannot have the taxpayer's refund deposited into the volunteer's bank account.
- A quality reviewer who unknowingly approves a return with mistakes is not in violation of the standards.
- A volunteer who is in violation of the Standards of Conduct can be removed and barred from the VITA program.

PASSING THE "VOLUNTEER STANDARDS OF CONDUCT"

- A VITA volunteer should explain to the client
- 1) a 13614-C must be completed before the return is prepared
- 2) an interview will be conducted and additional questions may be asked
- 3) a quality review will be conducted by someone other than the preparer
- Greeters must pass the ethics test.

PASSING THE "INTAKE/INTERVIEW AND QUALITY REVIEW"

- Use Pub 4012 to determine if return is in scope
- All preparers must use form 13614-C (Intake Form) for every return.
  - All intake form questions should be answered. Change unsure answers to yes or no
  - Make sure the dates are entered for divorces, legal separations, and for widows/widowers. This validates filing status
  - Tip income falls under advanced preparer returns
- Before starting the return, the preparer should make sure the return is within his certification level.
- If the taxpayer gives you a 1099 INT, you should ask if the taxpayer received any interest without a 1099INT.

PASSING THE "INTAKE/INTERVIEW AND QUALITY REVIEW"

- Must view photo ID to prevent identity theft
- Every return needs to have a quality review by someone other than the preparer.
  - This is an effective way to ensure an accurate return
- The taxpayer signs the return after quality review and after being advised that he/she is responsible for the contents of the return.

PASSING THE "BASIC EXAM"

- *Personal Exemptions*
- Personal and dependency exemptions have been eliminated. No deductions for exemptions can be taken.
- However it is still necessary to learn the rules for claiming dependents.

PASSING THE "BASIC EXAM"

Rules for Dependents

Dependency exceptions have been eliminated.

- Have a qualifying identification number
- Meet a citizenship test
- Meet a separate return test
  - Not have filed a joint return (unless filed for the sole purpose of obtaining a refund).

PASSING THE "BASIC EXAM"

Rules for Dependents

- To be considered a dependent the person must be a:
  - Qualifying Child
  - Or Qualifying Relative

PASSING THE "BASIC EXAM"

Rules for Dependents

- If you have a qualifying child you may be eligible for all of the following:
  - Head of household
  - Child tax credit
  - Credit for other dependents
  - Child care credit
  - Earned income credit

PASSING THE "BASIC EXAM"

Qualifying Child – 4 Tests

- Relationship test
- Age test
- Abode test
- Support Test

- *Dependency Exemptions*
  Additional Requirements for Qualifying Children

PASSING THE "BASIC EXAM"

Qualifying Child – Relationship Test

- Person must be child , grandchild, foster child, brother , sister or descendant of brother or sister (niece or nephew)

PASSING THE "BASIC EXAM"

Qualifying Child – Age Test

- Person must be under 19 or under 24 and a full-time student.
- A full-time student is a student who was enrolled for at least 5 months out of the year.
- **or a permanently and totally disabled person**

PASSING THE “BASIC EXAM”

Qualifying Child – Abode Test

- The person must have lived in the same principal abode as the taxpayer for over one half of the year.
- Temporary absences do not count. If a child goes away to school, the child is still considered to be living at home. This applies also to the earned income credit.

PASSING THE "BASIC EXAM"

Qualifying Child – Support Test

- The dependent must **not** have provided over 50% of his own support.
- We do not care who provided over 50% of the support.
- We do not care who provided over 50% of the support.

PASSING THE "BASIC EXAM"

Qualifying Child – Support Test

- The dependent must **not** have provided over 50% of his own support.
- We do not care who provided over 50% of the support.
- We do not care who provided over 50% of the support.

PASSING THE "BASIC EXAM"

Remember…

- Custodial parent can sign form 8332 , Release of Claim to Exemption for Child of Divorced or Separated Parents, to give exemption to noncustodial parent.
- If the custodial parent signs the 8332, the custodial parent also gives up the child tax credit if applicable.

PASSING THE "BASIC EXAM"

Tests for Qualifying Relative…

- Relationship
- Gross income
- Support
- Dependency

PASSING THE "BASIC EXAM"

Qualifying Relative-Relationship Test

- Same relations as qualifying child
- Parents or grandparents
- Aunts or uncles
- Son-in-law, daughter-in-law , mother-in-law , father-in-law, brother-in-law and sister-in-law
- Basically, all relatives except cousin
- Individual who has lived in the same principal place of abode as the taxpayer for the entire year and is a member of the household

PASSING THE "BASIC EXAM"

Qualifying Relative-Gross Income Test

- The person must have gross income of ***less than $4700 in 2023.***
- Scholarships do not count.
- Social security benefits do not count.

PASSING THE "BASIC EXAM"

Qualifying Relative-Support Test

- The taxpayer must have provided over 50% of the support for the dependent (exceptions for children of divorced parents)
- Support includes fair rental value of lodging furnished to the dependent
- Cost of items directly paid out for the benefit of the dependent such as clothing, education, gifts, medical, and entertainment.
- A proportionate share of expenses attributable to the whole household such as food.

PASSING THE "BASIC EXAM"

Remember…

- If a person provides over 50% of his own support, he cannot be claimed as a dependent.

- If a person provides over 50% of his own support, he cannot be claimed as a dependent.

PASSING THE "BASIC EXAM"

Question…

- Linda's mother lives with her. Her mother's only income is social security of $6000. Linda provides over 50% of her mother's support. ***Pub 4012-C-3***
    - Can Linda claim her mother as a dependent?
- Linda's mother does not live with her. Her mother's only income is social security of $6000. Linda provides over 50% of her mother's support.
    - Can Linda claim her mother as a dependent?

PASSING THE "BASIC EXAM"

Filing Status

- Married filing jointly or separately
- Head of household
- Surviving spouse
- Single

PASSING THE "BASIC EXAM"

Filing Status – MFJ or MFS

- A joint return may be filed by a couple if they are considered married for tax purposes on the last day of the tax year.

- They may choose to file separately.
- For most situations, married filing separately is not the optimal filing status.

PASSING THE "BASIC EXAM"

Filing Status – HOH

- An individual may file as head of household if the individual:
- a. is considered single for tax purposes
- b. is a U.S. citizen or resident; <u>AND</u>
- c. pays over half the costs of maintaining a household in which a qualifying child or qualifying relative lives for more than half of the tax year

PASSING THE "BASIC EXAM"

Filing Status – HOH
…………………………..to be clear

- To claim head of household, the taxpayer must pay over 50% of the cost of maintaining the household and a qualifying child or qualifying relative must live in the household for over 6 months of the year.
- There can only be one head of household in each residence.

PASSING THE "BASIC EXAM"

Filing Status - Exceptions:

- i. A qualifying child does **<u>not</u>** have to be a tax dependent to qualify a taxpayer as head of household - all other relatives must qualify as a tax dependent.
- ii. Parents do not need to live in the taxpayer's household to qualify a taxpayer as head of household - all other relatives (including children) must live in the taxpayer's household.

PASSING THE "BASIC EXAM"

Filing Status - Exceptions:

- An individual could be legally married and still qualify as single for tax purposes.
- A legally married individual may file as head-of-household if the individual:
  - lived apart from the spouse for the last 6 months of the year;
  - pays over half of the cost of maintaining a household in which the taxpayer and a dependent child lived for over half the year; <u>AND</u>
  - is a U.S. citizen or resident.

PASSING THE "BASIC EXAM"

Filing Status – Surviving Spouse or Qualifying Widow/Widower with Dependent Child

- A widow or widower may file as a surviving spouse in the two years after the year the decedent spouse died if the surviving spouse:
- a. has not remarried;
- b. is a U.S. citizen or resident;
- c. was qualified to file a joint return in the year of death;
- d. has at least one dependent child living at home during the entire year; <u>AND</u>
- e. paid over half of the expenses of the home.

PASSING THE “BASIC EXAM”

Filing Status – Surviving Spouse or Qualifying Widow/Widower with Dependent Child

- If a spouse died in 2023 and you did not remarry, you can file married filing jointly for 2023.
- Jim and Jane Smith were married. In March 2023, Jim died.
- For 2023 if Jane did not remarry, she could file married filing jointly with Jim as her spouse.

PASSING THE “BASIC EXAM”

Filing Status – Single

- Taxpayer is not married as of December 31 of the tax year and does not fall into any of the other categories.

PASSING THE "BASIC EXAM"

Question…

- Linda's mother lives with her. Her mother's only income is social security of $6000. Linda provides over 50% of her mother's support. Linda is not married.
  - **What is Linda's filing status?**

- Linda's mother does not live with her. Her mother's only income is social security of $6000. Linda provides over 50% of her mother's support. Linda is not married.
  - **What is Linda's filing status?**

PASSING THE "BASIC EXAM"

Question…

- Fred and Patty live together. They are not married. They each have a child (ages 6 and 4) who lived with Fred and Patty the entire year. Both Fred and Patty each earned $20000 of income. Each paid over 50% of the support for his/her child.
- Fred pays over 50% of the cost of maintaining the household.
    - **Can each claim head of household?**

PASSING THE "BASIC EXAM"

Question…

- Fred and Patty live together. They are not married. Fred has 2 children (ages 6 and 4) who lived with Fred and Patty the entire year. Both Fred and Patty each earned $20000 of income. Fred paid over 50% of the support for his children.
- Patty pays over 50% of the cost of maintaining the household.
  - **What is Fred's filing status?**

PASSING THE "BASIC EXAM"

ITIN's

- If a child does not have a social security number but has an ITIN the parent can claim:
  - Child care credit
  - Credit for other dependent
  - Head of Household

  - **The parent cannot claim child tax credit.**

PASSING THE "BASIC EXAM"

Question…

- Sam lived with his sister Sara all year. Sam is 30 years old and permanently and totally disabled. Sam received social security benefits of $8000. Sam provided over 50% of his own support.
- Sara is 27 years old. She paid over 50% of the cost of maintaining the house where they lived.
  - **Can Sara claim Sam as a dependent?**

PASSING THE "BASIC EXAM"

EIC

- If taxpayer has child or children, to claim EIC
  - Must meet requirements of qualifying child (Remember taxpayer and child must share the principal place of abode for more than 6 months of the year.)
  - Taxpayer must have earned income
  - ***Parents and child must have valid social security numbers (ITINS and ATINS are not eligible)***

- If taxpayer does not have children
  - Principal place of abode is US for more than 6 months of the year
  - Must be at least 25 and no older than 64
  - Must not be a dependent of another taxpayer.

PASSING THE "BASIC EXAM"

Pension Income

- Normally pension income is not considered earned income.
- However, if you are receiving disability pension income and you are under 65, the income is considered earned income.
- **If taxpayer has child or children, to claim EIC**
  - Must meet requirements of qualifying child (Remember taxpayer and child must share the principal place of abode for more than 6 months of the year.)
  - Taxpayer must have earned income
  - ***Parents and child must have valid social security numbers (<u>ITINS and ATINS are not eligible</u>)***

- **If taxpayer does not have children**
  - Principal place of abode is US for more than 6 months of the year
  - Must be at least 25 and no older than 64
  - Must not be a dependent of another taxpayer.

PASSING THE "BASIC EXAM"

Pension

- Normally pension income is not considered earned income.
- However if you are receiving disability pension income and you are under 65, the income is considered earned income.

PASSING THE "BASIC EXAM"

What is Earned Income

- Wages, Salary
- Tips
- Self employment income

What is NOT Earned Income

- Unemployment is not earned income.
- Social security is not earned income.
- Pension benefits are not earned income.

PASSING THE "BASIC EXAM"

Definition of a qualifying child

- 1) Son, daughter, eligible foster child, brother , sister , or descendants
- 2) Under age 19 at the end of 2023
- Or
- Under 24 and a full time student
- Or
- permanently and totally disabled
- 3) Lived with you more than half the year

PASSING THE "BASIC EXAM"

Question…

- James and Sally Owens are citizens of England. They do not have social security numbers. They have ITINS. Their total earned income in 2023 was $32000. They have one son who has a social security number. The child is 2 years old, lived with his parents the entire year and was totally supported by his parents.
  - Can James and Sally claim their son as a dependent?
  - Can James and Sally claim EIC?

PASSING THE “BASIC EXAM”

Question…

- Pam is married. Her husband left home in March 2020 but has never returned. Pam pays over 50% of the cost of maintaining the house where her two children live. They are 4 and 2. She provides all of the support of her children.
  - **What is her filing status?**

PASSING THE "BASIC EXAM"

Remember…

- If you received a 1099-C for cancelled debt, under most circumstances you must report the amount as income. The income is reported on line 21 of the 1040 as Other Income.
- Unemployment compensation must be reported on your tax return.

PASSING THE "BASIC EXAM"

Gambling Winnings

- A person who has gambling winnings must report the winnings as income. Gambling winnings are reported on form W-2G.
- Even if no form is received all winnings must be reported as other income.
- Do not subtract gambling losses.
  - Sara went to a casino and had $1500 of gambling winnings and $1800 of gambling losses.
  - She must report $1500 as other income and can deduct $1500 on Schedule A if she itemizes.

PASSING THE "BASIC EXAM"

Adjustments to Gross Income are subtracted from Gross Income

- Examples
- ***Deductible IRA***
- **Student loan interest (maximum is $2500)**
- **Penalty for early withdrawal from CD**
- 50% of self employment tax

- Payment of jury duty proceeds to employer
- **Educator expense up to $300**

PASSING THE "BASIC EXAM"

Remember

- There is **no** longer an adjustment for a charitable contribution up to $300.

PASSING THE "BASIC EXAM"

Standard Deductions

- Taxpayers receive a standard deduction depending upon filing status.
- For 2023
- Single; MFS $13,850
- MFJ; Surviving Spouses $27,700
- HOH $20,800

PASSING THE "BASIC EXAM"

Standard Deductions – Blind or/and 65+

- If the taxpayer is Blind **or** 65 and over and MFJ or MFS, an additional $1,500 is added to the standard deduction.
- If the taxpayer is Blind **and** 65 and over and MFJ or MFS, an additional $3,000 is added to the standard deduction
- If the taxpayer is Blind **or** 65 and over and filing single or HOH, an additional $1,850 is added to the standard deduction.
- If the taxpayer is Blind **and** 65 and over and filing single or HOH, an additional $3,700 is added to the standard deduction.

PASSING THE "BASIC EXAM"

Who can claim American Opportunity Credit?

- Parents can claim the American Opportunity Credit if the child who is attending college is their dependent.
- The student must have been at least a half time student for one academic period during the year. The student must not have finished the first four years of higher education at the beginning of the tax year. No felony drug conviction.
- The taxpayer can claim the American Opportunity Credit if they are not claimed as a dependent on someone else's tax return.

PASSING THE "BASIC EXAM"

American Opportunity Credit and Lifetime Learning Credit

- Up to $4000 qualifying expenses which includes ***tuition and books. Remember books.***
- **Room and board are *not* qualified expenses**.
- Qualifying expenses are reduced by scholarships received.
- Course related books can only be a qualified education expense for the American Opportunity credit.
- Books are not qualified expenses for the Lifetime Learning credit.
- Room and board are not qualified expenses for the American Opportunity Credit or the Lifetime Learning Credit.

PASSING THE "BASIC EXAM"

How the American Opportunity Credit is calculated

- Maximum expense is $4000.
- First $2000 is counted as credit.
- 25% of next $2000 is calculated as credit.

- **Example :** Expense is $2400.
- First $2000 counts as credit. Then multiply remaining $400 times 25%=$100. Total credit =$2100.
- Nonrefundable credit= 2100 times .6 =1260.
- Refundable credit =2100 times .4=840.

PASSING THE “BASIC EXAM”

How the Lifetime Learning Credit is calculated

- You calculate the lifetime learning credit by multiplying qualified education expenses by 20%. The maximum expenses which can be claimed is $10,000 per tax return ($2,000).

PASSING THE "BASIC EXAM"

Question

- Susie is enrolled in one class at the local college. She is not enrolled in a degree program. She paid $600 for the course and $200 for the books.
  - **Is she eligible for the American Opportunity credit?**
  - **How much are her qualified education expenses?**

PASSING THE "BASIC EXAM"

Scholarships

- If a scholarship was used for tuition and other qualified expenses, it is not taxable.
- If the scholarship was used for room and board or other personal expenses, the scholarship is taxable to the recipient.

PASSING THE "BASIC EXAM"

Education Credits - MFS

- If your filing status is married filing separately, you are not eligible to claim any education credits or tuition deduction.

PASSING THE "BASIC EXAM"

Child Tax Credit

- The maximum amount of the child tax credit per qualifying child is $2,000.
    - Nonrefundable tax credit

Additional Child Tax Credit

- The maximum amount of the additional child tax credit per qualifying child is $1,600.
    - Refundable tax credit

PASSING THE "BASIC EXAM"

Other Taxes

- Self employment tax is added as other tax
  - Use schedule SE
  - ½ of the SE tax is deducted as an adjustment to gross income.
- Withdrawal from traditional IRA
  - Must be included in income
  - 10% Penalty for early withdrawal of IRA or pension of amount withdrawn if taxpayer is under 59 1/2. (exceptions apply.)

PASSING THE "BASIC EXAM"

Remember

- If you owe tax every year, what can you do?
  - Fill out a W4 to have more tax withheld by your employer
  - Fill out a W4 P to have more tax withheld from your pension
  - Make estimated tax payments.
  - Pay as much as you can by deadline.
  - Use the Tax Withholding Estimator

PASSING THE "BASIC EXAM"

Remember

- What if you owe tax, but you cannot pay the entire amount?
- What should you do?
  - File your return by the deadline.
  - Pay what you can.
  - Set up an installment plan.

PASSING THE "BASIC EXAM"

Social Security Income

- Generally, a portion of social security income is taxable.
  - **Combined income is**: Your adjusted gross income plus nontaxable interest plus half of your Social Security benefits.
- Up to 85% of your Social Security benefits are taxable if:
  - You file a federal tax return as an "individual" and your combined income is more than $34,000.
  - You file a joint return, and you and your spouse have a combined income of more than $44,000.

PASSING THE "BASIC EXAM"

Social Security Income

- Up to 50% of your Social Security benefits are taxable if:
  - You file a federal tax return as an "individual" and your combined income is between $25,000 and $34,000.
  - You file a joint return, and you and your spouse have a combined income between $32,000 and $44,000.

PASSING THE “BASIC EXAM”

Remember

- Use form 8888 to split a refund to send to different checking or savings accounts.

PASSING THE "BASIC EXAM"

What is considered a payment?

- The following are considered payments to the federal government
  - Federal withholding on W2 and 1099 R
  - Refundable credits
  - Refunds from prior year applied to current year
  - Estimated tax payments

PASSING THE "BASIC EXAM"

File or not file?

- Even if you are not required to file, you should file in order to get a refund.
  - A taxpayer must file a return if their gross income was equal to the standard deduction or more based on their filing status.
  - Example:
    - Amy is a head of household. Her earned income was $16,000. She is not required to file, but she should file if she is entitled to a refund.

PASSING THE "BASIC EXAM"

Remember

- If you had a divorce decree finalized after Dec 31,2018, you do not have to declare alimony as income and the payor cannot take the payment as a deduction.

PASSING THE "BASIC EXAM"

Required minimum distributions

- A taxpayer who is 73 or older is required to take a distribution from a retirement account.
  - This is an increase from age 72 in 2022 tax year.

PASSING THE "BASIC EXAM"

Important Changes for 2023

- Due Date of Return
  - Deadline for tax filing is April 15, 2024
- Tax Form Changes
  - New Form 7206, Self-Employed Health Insurance Deduction, replaced worksheet in Publication 535
  - 1040-X, Amended Returns, can now select direct deposit for refunds

PASSING THE "BASIC EXAM"

Important Changes for 2023

- Tax Law Changes
  - **What provisions have expired?**
    - The temporary 100% deduction for food or beverages from restaurants ended December 31, 2022.

PASSING THE "BASIC EXAM"

Tax Law Changes

- **What temporary provisions are still in effect?**
- Exclusion from gross income is available for student loan forgiveness after 2020 and before 2026 for most forgiven student loans. See Publication 970 for details.
- Exclusion from gross income of canceled qualified principal residence indebtedness (through 2025).
- An employer may contribute up to $5,250 annually toward an employee's student loans, and such payment is excluded from the employee's income through 2025. The $5,250 cap applies to both the student loan repayment benefit as well as other educational assistance (e.g., tuition, fees, books) provided by the employer.
- For most years, only taxpayers and families whose household income for the year is between 100 percent and 400 percent of the FPL for their family size may be eligible for the PTC. Extended for 2023, taxpayers with household income of 100 percent or more of the FPL could be eligible for a PTC

PASSING THE "BASIC EXAM"

Tax Law Changes

- **What provisions are new?**
- **Additional distributions to qualified public safety employees.** The exception to the 10% additional tax for early distributions is expanded to include additional distributions made to qualified public safety employees after separation from service on or after December 30, 2022.
    - Distributions to those employees separating from service on or after they reach age 50 or those employees with 25 years of service with the plan, whichever is earlier.
    - Distributions to firefighters covered by private sector retirement plans; and
    - Distributions to those employees who provide services as a corrections officer or as a forensic security employee providing for the care, custody, and control of forensic patients, who meet the age requirement above.
- **Distributions to terminally ill individuals.** The exception to the 10% additional tax for early distributions is expanded to apply to distributions made to terminally ill individuals on or after December 30, 2022.
- **Required minimum distributions (RMDs).** Individuals who reach age 72 after December 31, 2022, may delay receiving their RMDs until April 1 of the year following the year in which they turn 73.

PASSING THE "BASIC EXAM"

Tax Law Changes

- **What provisions are new? - continued**
- **Energy efficient home improvement credit.** This credit was previously named the nonbusiness energy property credit. Through December 31, 2022, it was a $500 lifetime credit. Beginning January 1, 2023, the amount of the credit is equal to 30% of the sum of amounts paid by the taxpayer for certain qualified expenditures, with an **annual credit of generally up to $1,200**. Electric or natural gas heat pump water heaters, electric or natural gas heat pumps, and biomass stoves and biomass boilers have a separate aggregate yearly credit limit. See the Miscellaneous Credits lesson for details.
- **Repayment of qualified birth or adoption distributions.** Individuals may repay qualified birth or adoptions distributions at any time during the 3-year period beginning on the day after the date on which such distribution was received. For distributions made on or before December 29, 2022, repayment must be made before January 1, 2026.

PASSING THE "BASIC EXAM"

Tax Law Changes

- **What provisions are new? - continued**
- **Certain corrective distributions not subject to 10% early distribution tax.** Beginning on December 29, 2022, the 10% additional tax on early distributions doesn't apply to distributions of amounts contributed to an IRA in excess of the contributions limit which are withdrawn on or before the due date (including extensions) of the income tax return.
- **Excise tax for distributions less than required minimum distribution amount reduced.** The excise tax for distributions that are less the required minimum distribution amount is reduced to 25% beginning in 2023. There is a reduced excise tax rate of 10% for taxpayers meeting additional requirements.
- **Public safety officer exclusion from gross income** of up to $3,000 for insurance premiums no longer requires that the plan directly pay the insurance premiums.

PASSING THE "BASIC EXAM"

Tax Law Changes

- **What provisions are new? - continued**
- The deduction for all personal exemptions is suspended (reduced to zero), effective for tax years 2018 through 2025.
  - For 2023, the gross income limitation for a qualifying relative is \$4,700 (\$300 increase).

PASSING THE "ADVANCED EXAM"

Unemployment Income

- Unemployment compensation is taxable income

Medicaid Waiver Payments

- Medicaid waiver payments may be excluded from taxable income if the caregiver and the patient are living in the same home.
  - However, the waiver payments may be included when calculating the earned income credit.

PASSING THE “ADVANCED EXAM”

Health Savings Accounts

- Remember that nonprescription drugs can be reimbursed by an HSA distribution (qualified expense).
- But, nonprescription drugs do not count as a medical expense on Schedule A Itemized Deductions.

PASSING THE "ADVANCED EXAM"

Taxable Income

- Gross Income -Defined Code Sec. 61 includes in gross income "all income from whatever source derived." Specific examples listed in the statute include:
  - Compensation for services
  - Business income
  - Gains from sale or exchange of property
  - Interest
  - Rents
  - Royalties
  - Dividends
  - Alimony
  - Pensions and annuities
  - Income from the discharge of indebtedness
  - Jury duty
  - Unemployment compensation

PASSING THE "ADVANCED EXAM"

Taxable Income – What we usually see

• Wages	W2
• Interest	1099 Int
• Dividends	1099 Div
• Capital gains/losses	1099 B
• Pensions	1099 R
• Social Security	SSA 1099
• Unemployment	1099 G
• Self employment Income	1099 Misc
• Gambling winnings	W2 G

- Jury duty (If you have to give to employer, you can take as an adjustment)

PASSING THE “ADVANCED EXAM”

Non-Taxable Income – What we usually see

- Workmen’s compensation
- Gifts
- Federal tax refunds
- State tax refund if taxpayer did not itemize in the prior year.
- Child support (not income to recipient and is not a deduction for person who paid)
- Municipal bond interest

PASSING THE "ADVANCED EXAM"

Self Employment

- Net self employment income is reported on Schedule C and transferred to line 3, Part 1, Schedule 1, and then the total additional income is transferred to line 8 of the 1040.

- Net income equals revenue minus expenses. Income reported on form 1099-NEC in the box labeled "Nonemployee compensation" is reported on Schedule C. Cash income is also reported on Schedule C, as well as income from a 1099-K form.

PASSING THE "ADVANCED EXAM"

Self Employment

- If you have $400 or more of self employment income, you are subject to self employment tax.
- The self employment tax is added to other taxes and ½ of the self employment tax is subtracted from income as an adjustment.

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Self Employment – Vehicle expenses

- Vehicle expenses can be computed using the actual method or standard method (mileage).

- If you are using the standard mileage rate to deduct vehicle business expenses, you cannot deduct actual vehicle expenses such as car insurance, gas, or car repairs.
  - In either case you can deduct parking expenses and tolls.
  - The standard rate for mileage in 2023 was 65.5 cents per mile.

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Self Employment – Expenses

- Self employed taxpayers can deduct expenses related to the business on Schedule C.
  - Examples
    - Bottled water for customers
    - Safe driver fees
    - GPS device fee

    - Personal health insurance **is not** deductible as a business expense on Schedule C.

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Qualified Business Income Deduction

- If eligible, a taxpayer can deduct 20% of business income.
- However, the QBI does not reduce the taxpayer's self employment liability.

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Gambling Winnings/Losses

- You must report gambling winnings.
- You report gambling winnings as Additional Income on line 8b of Schedule 1 of the 1040 which transfers to line 8 on the 1040 form.
  - Do not subtract gambling losses.
- If you receive a 1099-C, this is a cancellation of debt.
  - You report cancellation of debt as Additional Income on line 8c of Schedule 1 of the 1040 which transfers to line 8 on the 1040 form.

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Commuting

- If you are an employee and you drive from home to work or from work to your home, this is called commuting.
- **You cannot deduct any mileage expenses for commuting.**

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Capital Gains and Losses

- Stocks and mutual funds are considered capital assets.
- If you own a capital asset for longer than a year before you sell it, you will have a long-term gain or loss.
- If you own a capital asset for a year or less before you sell you will have a short-term gain or loss.
  - The difference is how they are taxes; ordinary income or capital gains
- To calculate gain or loss, you subtract your basis from the proceeds.
  - Generally, your basis is your cost. However, if you receive a taxable dividend or a capital gain distribution which is reinvested in the stock or mutual fund, the amount of the dividend or capital gain is added to the basis.

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Capital Gains and Losses

- A mutual fund or brokerage may issue a 1099-DIV. This form will document the amount of dividends received by the taxpayer.
- This form may also report the amount of capital gain distributions. Remember to add this amount in with the sale of capital assets.

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Child and Dependent Care Credit

- Eligible children must be under age of 13 or disabled. Remember under 13 (12 and under).
- Taxpayers must be gainfully employed.
- The maximum expense is $3000 for 1 qualified child or $6000 for 2 or more qualified children.
    - 20-35% based on AGI
- Must use form –2441
- Can get credit for paying a relative except dependent child
- Need identifying information of child-care provider
- Custodial parent can claim child-care credit even if the parent cannot claim dependency exemption.
- **Overnight camp is not a qualified expense**

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Marketplace Insurance

- If a person is enrolled in the marketplace,
- The person would get form 1095 A.
- The person must file form 8962 (Premium Tax Credit) to reconcile the tax credits.
- Return will reject if person does not report marketplace insurance.

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Exceptions to 10% Penalty for early withdraw

- If you take money out of an IRA before you are 59 ½, you may have to pay a 10% penalty on the amount of the withdrawal.
- However, there are exceptions.
  - Education
  - Health insurance premiums
  - First time home buyer
  - The above are for IRAs only. 401ks are not eligible for exemption from penalty.

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Disallowance of EIC

- If a person's earned income credit was disallowed, after 2 years the person can file form 8862 to be reinstated.

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Identity Protection PIN

- If your social security number has been stolen, you will be assigned a 6-digit PIN by the IRS.
- The PIN will be added to your return during preparation.
- Not adding the PIN will cause the return to be rejected and delay processing of your return.

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What if taxpayer can't pay the tax due?

- They can pay using credit card
- They can apply for a full 120 day agreement online.
- They can submit form 9465 installment agreement

VITA TAX TRAINING

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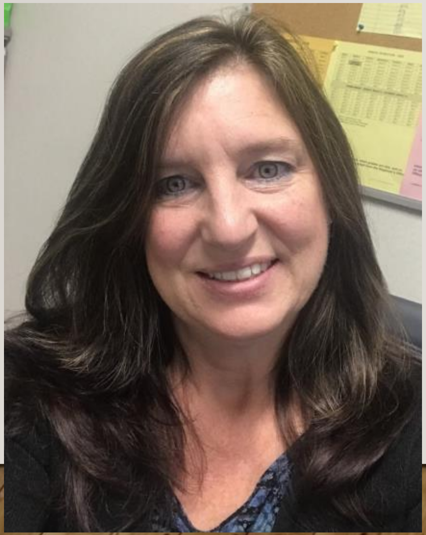

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