

LIVE UNITED®



## FREE TAX PREP (VITA) Returning Preparer Training



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# Zoom Etiquette

- Please set your audio to Mute
- Kindly use the Chat Feature to ask questions, a trainer will be monitoring it
- If needed, please change your Zoom name to your actual name



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# Today's Agenda

- First half – What's new for 2021
- Break
- Second half – a few more complex items that we only seldom see, but need to know how to do



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# What's new for 2021 - part 1

- EIP3 – the \$1,400 stimulus payment
- Child Tax Credit
- Child and Dependent Care Credit
- Earned Income Credit
- Education Credits
- Schedule C business meals

Wait! There's more:



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# What's new for 2021 - part 2

- Itemized Deductions – Schedule A
  - Itemized Medical
  - Mortgage Insurance
  - Charitable
- Residential Energy Credit
- Premium Tax Credit
- Standard Deductions
- Mileage rates
- OH and KY changes



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# More complex items

- Cancellation of Debt
  - Credit Cards
  - Residence
- K-1s
- Medicaid Waiver Payments
- Injured Spouse
- First Time Homebuyer – 2008
- Reciprocal State returns



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# Stimulus Payments

4012: pg. H-8

- SSN/ITIN - No payments are made for an individual with an ITIN, it must be a SSN.
- But, if filing MFJ, if either TP or SP has SSN, the Credit is valid for all those with an SSN.



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# The \$1,400 Stimulus – EIP3

4012: pg. H-8

Good for  
2021 only

Background – There were 3 stimulus payments known as Economic Income Payments (EIPs) in IRS-speak

3 Stimulus payments	EIP 1	EIP 2	EIP 3
Per Taxpayer	\$1,200	\$600	\$1,400
Per Spouse	\$1,200	\$600	\$1,400
Per Dependent	\$500	\$600	\$1,400
Dep. Age Limitation	Under 17	Under 17	<b>Any dependent</b>
Paid during	May – Nov 2020	Dec '20 – Feb '21	Apr – Oct 2021
Reconciled on	2020 return	2020 return	<b>2021 return</b>
Phase out ranges			
Single/MFS	\$75,000 - \$99,000	\$75,000 - \$87,000	\$75,000 - \$80,000
Head of Household	\$112,500 -\$146,500+	\$112,500 -\$136,500+	\$112,500 - \$120,000
MFJ	\$150,000 -\$198,000+	\$150,000 -\$174,000+	\$150,000 - \$160,000

“+” means higher based on number of dependents

We reconcile EIP3 in 2021 just as we did EIP1 and EIP2 last year. Taxpayer should have form 6475 showing payment received.

# Child Tax Credit: the rules

No change  
except for  
age.

4012: pg. G-2

## 1. Child must be a “Qualifying Child” dependent

- Age: 0 -> 17
- Related – Blood kin, adopted, court ordered custody
- Residency – lived with you > 6 months
  - Except for newborns/death of child
- Support – relied on you for over 50% of their support
- US Citizen or resident alien with SSN
  - Kids with ITINs get the “Credit for other dependents”
  - Parents can have either SSN or ITIN

## 2. Child must be claimed on your 2021 return

- Caution with divorced households with a child that alternates between parents in odd/even years



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# Child Tax Credit: the numbers

4012: pg. G-2

Good  
for 2021  
only

	2020	2021
Credit amount now depends on Child's age		
0 -> 5	\$2,000	\$3,600
6 -> 16	\$2,000	\$3,000
17	\$0	\$3,000
Max Refundable Amount	\$1,400	<b>all of it!</b>
Earned Income Required	yes	no
Phase out begins at AGIs:		
Single/MFS		\$75,000
Head of Household		\$112,500
MFJ/QW		\$150,000

# Child Tax Credit: advance payments

4012: pg. G-5

- Half of the Child Tax Credit may have been paid during July->Dec 2021
  - Based on 2020 return, or else 2019 return, or else IRS non-filer portal
- IRS Letter 6419, sent in January 2022, advises taxpayer of amount prepaid
  - We use this data to reconcile the 2021 CTC still owed to the taxpayer
  - We must see this letter to complete such a return
- Maybe add a screen shot when available in TS
- In most cases, this will simply reduce the amount of CTC still paid via the return
  - Normally: half in advance, half with the return
- If taxpayer received too much of an advance payment
  - For example, not claiming a child in 2021 that they claimed in 2020
  - TaxSlayer will calculate the amount to be repaid
    - Amount to be repaid may be reduced by a repayment protection rule (based on AGI)



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# Child (and dependent) Care Credit

4012: pg. G-10

The basic rules stay the same:

- Child must be a dependent
- Child must be less than 13
  - But expenses qualify until the child's 13<sup>th</sup> birthday
- Child must live with TP > 6 months
- Only custodial parent may claim, even if not their year to claim dependency
- TP (and SP) must be working or looking for work
- Expenses for kindergarten or higher do not qualify
- Summer Day camp qualifies, but overnight does not

NOTE: This credit also applies to older persons who are incapable of self-care. BUT,...



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# Child (and dependent) Care Credit

4012: pg. G-12

But, the numbers changed a lot, to the benefit of our taxpayers.

Good for 2021 only

	2020	2021
<u>Can claim expenses up to:</u> For one child For two or more children	\$3,000 \$6,000	\$8,000 \$16,000
Maximum credit %	35%	50%
<u>Maximum credit</u> For one child For two or more children	\$1,050 \$2,100	\$4,000 \$8,000
% reduction begins at	\$15,000	\$125,000
Type of credit	Non-refundable	Fully Refundable

# TAXSLAYER - IMPORTANT ENTRY!

- For both the Child Tax Credit and the Child Care Credit to qualify to be fully refundable, the Taxpayer or Spouse must live in the US for at least 6 months – 100% of our taxpayers?!
- BUT, this must be manually entered in TaxSlayer.
  - In Federal Section
    - COVID-19 Relief
    - Advance Child Tax Credit

## Advance Child Tax Credit

Did you (or your spouse if married filing jointly) have a principal place of abode in the United States for more than half of 2021?

Yes

No

# EITC with no children

4012: pg. 1 – 2/3

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2021 only

	2020	2021
Age	25 -> 64	19* -> no limit
Maximum income	\$15,820 (\$21,710 MFJ)	\$21,430 (\$27,380 MFJ)
Maximum credit	\$538	\$1,502

**Net result will be that many more taxpayers without children will qualify for the EITC in 2021.**

**\*Can not be a dependent.**



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# EITC when filing MFS

4012: pg. 1 - 2

- For years, we've been taught that a taxpayer can't receive the EITC when filing MFS.
- Now, it is allowed if:
  - filing MFS, **and**
  - the taxpayer's child lived with them more than 6 months, **and**
  - The taxpayer lived apart from their spouse the last 6 months of 2021
- The taxpayer can self-declare that they qualify

## Example:

- Mom (27) and daughter (3) moved in with Grandma in April 2021.
- Mom is still married, not divorced (they're still trying to work it out).
- Mom has income of \$32,000 (so not Grandma's dependent).
- Grandma owns and pays for the house (so Mom can't be Head of Household).
- Mom claims daughter on her return, files as MFS, and now can claim EIC.



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# EITC when filing MFS: TaxSlayer entry

In Basic Information -> Personal Information for the Taxpayer. Check the appropriate box.

- Taxpayer can be claimed as a dependent on someone else's return.
- Taxpayer was over age 18 and a full-time student at an eligible educational institution.
- Taxpayer is blind.
- Taxpayer is deceased.
- Taxpayer wishes to contribute \$3 to the Presidential Election Campaign Fund.
- Filing Married Filing Separate and meets the requirements to claim the EIC
- Taxpayer or Spouse served in a combat zone during the current tax year.
- Taxpayer was a nonresident alien for any part of the year.

# EITC LOOK-BACK

4012: pg. I - 1

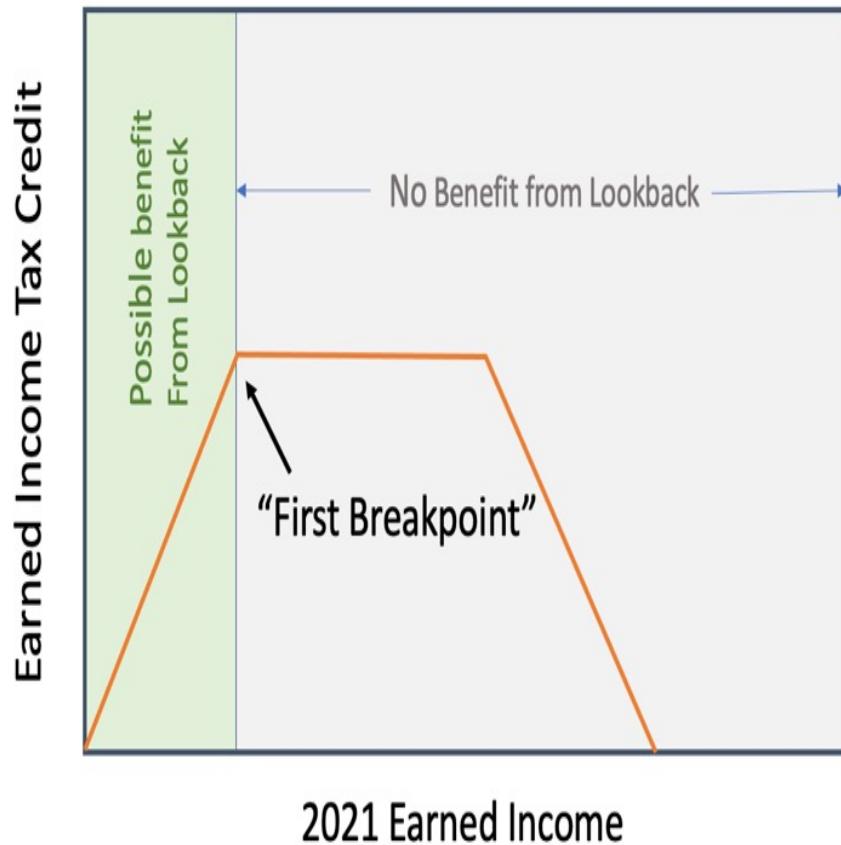
- Again, the taxpayer is allowed to claim their 2021 EITC on the basis of either their 2021 income or their 2019 earned income (if it was higher). (Earned Income is calculated as Wages plus Business profit. It is not necessarily AGI.) This is **In Scope**.
- Entry screen in TaxSlayer – a bit “buried” in Personal Information Screen of Basic Information. There will be no carry-forward of needed data.
- Recommended Technique in TaxSlayer
  - Completely prepare the 2021 return as usual.
  - Note the Refund/Balance Due
  - Go back to Basic Information -> Personal Information.
  - Under Taxpayer’s information, check the box “Taxpayer...2019 Earned Income...”
  - Enter 2019 Earned Income from their 2019 tax return. Continue.
  - If Refund Summary shows a benefit. You’re done. Additional info entries will show on 1040.
  - If no benefit, remove the check box entry.



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# EITC LOOK-BACK “Volcano”



Number of Dependents	First Breakpoint for 2021
0	\$9,820
1	\$10,640
2	\$14,950
3 or more	\$14,950



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# Education Credits

4012: pg. J - 5

Permanent  
Change

- Tuition and Fees adjustment has been eliminated.
- In past, we used the best of the American Opportunity Credit, the Lifetime Learning Credit or the Tuition and Fees Adjustment.
- Now, the Lifetime Learning Credit has been improved with higher phase out limitations, and the Tuition and Fees adjustment has been eliminated.
- From a Preparer's standpoint, this eases our effort as this means one fewer option to check.



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# Sch C: Business Meals at 100%

4012: pg. D - 20

Good for  
2021 and  
2022

- When a self-employed person takes a client/supplier/etc. out for a meal, it is considered as a deductible (business) meal. Business was discussed during the meal.
- This does not apply to a self-employed person (e.g. Uber) simply having lunch.
- In the past, 50% of the cost of business meals were deductible.
- For 2021 and 2022, if paid to a restaurant, they are 100% deductible on Schedule C.



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# Sch A: Itemized medical expenses

4012: pg. F - 6

- The 7.5% of AGI threshold is now permanent!
- No longer the risk of it increasing to 10%.

Permanent  
Change



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# Sch A: Private Mortgage Insurance Premiums

4012: pg. F - 9

- Again, deductible for 2021
- Sometimes called: Mortgage Insurance Premiums
- More commonly called: PMI – Private Mortgage Insurance
- Appears in box 5 on Form 1098
- Must itemize to benefit from this deduction



# Charitable Contributions, if no Sch A

4012: pg. F - 1

Good for  
2021 only

- If a taxpayer does NOT itemize:
  - They can deduct up to \$300 of cash charitable contributions, just like last year. It must be donated cash, not stuff (Goodwill, etc.). Not volunteer mileage.
  - But, new for 2021 if filing MFJ, they can deduct up to \$600.
  - Now the deduction does not reduce AGI. In 2020, it did.



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# Residential Energy Credit

4012: pg. Ext - 6

- Yes, allowed again for 2021.
- Still non-refundable.
- Maximum of \$500 for all tax years after 2005
  - Maximum of \$200 for windows

Good for  
2021 only



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# Premium Tax Credits

Good for  
2021 and  
2022

4012: pg. H-12->25

- Most taxpayers with Marketplace insurance elect to receive a subsidy.
- They receive a 1095-A which details how much they received and when.
- This subsidy payment needs to be reconciled via the Premium Tax Credit.
  
- There were changes in the amounts and some formulas for 2021 and 2022; including a special twist if the taxpayer received unemployment during the year.
  
- TaxSlayer will still handle all the calculations, just realize that there were changes made for 2021.
  
- Pub 4012 – pgs. H-12 -> H-25.



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## NEW NUMBERS – STANDARD DEDUCTION

4012: pg. F-1-2

The standard deduction amounts have increased, but not the gross income test for a qualifying relative. The exemption amount remains zero.

Standard Deduction	2020	2021
Single/MFS	\$12,400	\$12,550
MFJ/QW	\$24,800	\$25,100
Head of Household	\$18,650	\$18,800
Additional Standard Deduction for over 65 – Single/HoH	\$1,650	\$1,700
Additional Standard Deduction for over 65 – Married/QW	\$1,300	\$1,350
Exemption	\$0	\$0
Gross Income Test	\$4,300	\$4,300

# Mileage Rates

4012: pg. D-21, F-6, F-10

Beginning on January 1, 2021, the standard mileage rates for the use of an automobile (car, van, pickup or panel trucks) are:

Mileage Rate	2020	2021
Business	57.5 cents	56 cents
Medical/moving	17 cents*	16 cents*
Charitable	14 cents*	14 cents*

\* Must itemize on Schedule A to claim.

These 2021 rates were determined in December 2020.



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# OHIO Lowered Individual Income Tax Rates

	2020	2021
Tax brackets:	6	5
0% tax rate up to:	\$22,150	\$25,000
Middle brackets:	base	- 3%
Maximum tax rate:	4.797%	3.999%



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# OHIO: Home School Credit

- Up to a \$250 Credit
  - Per return, not per child
- Educational expenses include any of the following:
  - Books, supplementary materials, supplies, computer software, applications, or subscription.
- Educational expenses do not include:
  - expenses or fees for computers or similar electronic devices (tablets) or accessories
- Credit does not apply to students who were temporarily homeschooled during the COVID-19 pandemic.



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# OHIO: Nonchartered Nonpublic School Tuition Credit

- A new credit for tuition paid to Non-Chartered, Non-Tax Supported Schools (NCNT) schools for a taxpayer's dependents
- Credit is capped at lesser of tuition paid or:
  - \$500 for taxpayers whose FAGI is less than \$50k
  - \$1,000 for taxpayers whose FAGI is \$50k or more, but less than \$100k
  - \$0 for taxpayers whose FAGI is \$100k or more
- List of NCNTs is available at [education.ohio.gov](http://education.ohio.gov)



Note: FAGI is Federal AGI

# OHIO Miscellaneous

- Business Income: The NAICS (Business Code) is no longer required.
- Form Ohio Schedule A is now entitled: Ohio Schedule of Adjustments
- Form Ohio Schedule J is now entitled: Ohio Schedule of Dependents
- 2020 Ohio Unemployment: Any taxpayer not yet received a refund for overpayment of Ohio taxes on 2020 Unemployment – Your Site Coordinator has information on how they should proceed



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# KENTUCKY TAX LAW REVIEW

- **STILL FLAT 5% TAX RATE FOR ALL INDIVIDUALS**
- **TAXPAYERS CAN CHOSE TO FILE MARRIED FILING JOINT, MARRIED FILING COMBINED (all income added together), OR MARRIED FILING SEPARATE ON SAME RETURN.**
  - Choice located under Basic Information if filing Joint Federal Return
  - Sometimes it will make a difference, always check
  - Filing Separate will only efile Kentucky for one spouse, other would need to be paper filed
- **RETIREMENT PENSION EXCLUSION STILL \$31,110.**
  - Taxpayer entitled to exclude a higher amount if retired from the Federal government, the Commonwealth of Kentucky or a Kentucky local government and a portion of your pension income is attributable to federal, or Kentucky government service performed prior to January 1, 1998. Examples: firefighters, police offices, and retirees from Kentucky universities. Complete Schedule P listed on main page.



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# KENTUCKY TAX LAW REVIEW

- **EDUCATION CREDIT** - must be added to return – not an automatic process. Student must qualify for Federal American Opportunity (25% or max of \$625 per return) or Lifetime Learning Credits (25% or max of \$500 per return). Not refundable.
  - Must be undergraduate
  - Must be for attending Kentucky Postsecondary Institution.
- **STANDARD DEDUCTION** - \$2,650 for taxpayers under 65.
- **STANDARD DEDUCTION** - \$3,450 for taxpayers over 65 or blind.
- **PERSONAL TAX CREDIT** - taxpayers over 65 OR blind - \$40 each
- No personal tax credits for dependents.



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# KENTUCKY TAX LAW REVIEW

- Military Pay Exclusion for Active Duty – Main page – Subtractions from Income, shown on Schedule M
- Charitable Contribution – up to 60% for cash contributions – shown on Schedule A
- Child and Dependent Care Credit – Uses amount from federal 2441 – up to 20% of federal credit. Not refundable, automatic calculation
- Private Mortgage Insurance (PMI) deduction not allowed on KY Schedule A



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# BREAK, grab a sandwich!

We will resume at...



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# Capital Gains – Stock sales

4012: pg. D – 23-28

- Taxpayer receives a 1099-B, Proceeds from Broker and Barter Exchange Transactions
- Sales of stocks and mutual funds are in scope.
- **Out of Scope:**
  - Sales of assets other than stocks, mutual funds or personal residence
  - Trade in options, futures or other commodities
  - Transactions using Bitcoin or other virtual currencies
- Refer taxpayer to a tax professional for out-of-scope returns
- Remember to always obtain basis from taxpayer if basis is not on the 1099-B



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Alpine Brokerage LLC  
2715 Alpine Lane  
Boston MA 02110  
Account No. 111-227  
Payer's TIN: 95-XXXXXXX

2021  
TAX INFORMATION SUMMARY

TAX REPORTING STATEMENT  
Ronald Davis  
143 Concord Ln, Your City, YS ZIP  
Recipient ID No. 572-00-1804

**Form 1099-DIV Dividends and Distributions**

Copy B for Recipient (OMB NO. 1545-0110)

<b>Box</b>	<b>Amount</b>
1a Total Ordinary Dividends .....	4,560.78
1b Qualified Dividends .....	3,089.56
2a Total Capital Gain Distributions (Includes 2b – 2d) .....	7,006.50
2b Unrecaptured 1250 Gain .....	0.00
2c Section 1202 Gain .....	0.00
2d Collectibles (28%) Gain .....	0.00
3 Nondividend Distributions .....	56.90
4 Federal Income Tax Withheld .....	1,000.00
5 Section 199A Dividends .....	256.96
6 Investment Expenses .....	850.00
7 Foreign Tax Paid .....	34.89
8 Foreign Country/U.S. Possession: .....	Various
9 Cash Liquidation Distributions .....	0.00
10 Non-Cash Liquidation Distributions .....	0.00
11 Exempt-Interest Dividends .....	507.78
12 Specified Private Activity Bond Interest Dividends .....	0.00
13 State .....	YS
14 State Identification No .....	XXXX
15 State Tax Withheld .....	0.00
FATCA filing requirement .....	

**Form 1099-INT Interest Income**

Copy B for Recipient (OMB NO. 1545-0112)

<b>Box</b>	<b>Amount</b>
1 Interest Income .....	345.60
2 Early Withdrawal Penalty .....	0.00
3 Interest on U.S. Savings Bonds and Treas. Obligations .....	0.00
4 Federal Income Tax Withheld .....	0.00
5 Investment Expenses .....	0.00
6 Foreign Tax Paid .....	0.00
7 Foreign Country or U.S. Possession .....	
8 Tax-Exempt Interest .....	0.00
9 Specified Private Activity Bond Interest .....	0.00
10 Market Discount .....	0.00
Market Discount on Noncovered Securities .....	0.00
11 Bond Premium .....	0.00
12 Bond Premium on Tax-Exempt Bond .....	0.00
13 Bond Premium on tax Exempt Bonds .....	
15 State .....	YS
16 State Identification No .....	XXXX
17 State Tax Withheld .....	0.00
FATCA filing requirement .....	

**Summary of Proceeds, Gains & Losses, Adjustments and Withholding**

Term	Form 8949 type	Proceeds	Cost basis	Wash Sale loss disallowed	Net Gain or Loss(-)
Short	A (basis reporter to IRS)	17,749.50	13,932.50		3,817.00
Short	B (basis not reported to IRS)				
Short	C (Form 1099-B not received)				
	Total Short-Term	17,749.50	13,932.50		3,817.00
Long	D (basis reporter to IRS)	8,089.35	5,194.75		2,894.60
Long	E (basis not reported to IRS)				
Long	F (Form 1099-B not received)				
	Total Long-Term	8,089.35	5,194.75		2,894.60
	Grand Total	25,838.85	19,127.25		6,711.60

# Simplified Method

4012: D-37

<b>PAID BY</b>		OFFICE OF PERSONNEL MANAGEMENT RETIREMENT SERVICES PROGRAM P. O. BOX 45 BOYERS, PA 16017-0045		Copy B - File with Federal tax return	<b>2020</b>	GMB No. 1545-0115 Form 1099R Distribution From Pensions, Annuities Retirement or Profit- Sharing Plans; IRA's; Insurance Contracts, etc.
		PAYER's Federal Identification 52-6083699	Recipient's ID No. (Survivor) 204-00-X00X	Account number (Retirement Claim No.) CSA 2916189	1. Gross distribution \$19,250.00	
		5. Employee Contributions/ Designated ROTH Contributions or Insurance Premiums*	PAID TO → JOANINE EMERSON 200 AMBER PLACE YC YS YZIP		2a. Taxable amount	
		7. Distribution Code(s) 4-DEATH BENEFIT			4. Federal Income Tax Withheld \$1,200.00	
		9a. Total Employee Contributions \$37,360.00			State 1 YS	10. State Income Tax Withheld \$550.00
					State 2	11. State Income Tax Withheld

Form 1099-R (Annuity Income) is Being Submitted to the  
Bureau of Internal Revenue - Internal Revenue Service  
  
This information is being furnished to the  
Bureau of Internal Revenue - Internal Revenue Service



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# 1099-R – Use Simplified Method in TaxSlayer

**PAID BY** OFFICE OF PERSONNEL MANAGEMENT  
RETIREMENT SERVICES PROGRAM  
P. O. BOX 45  
BOYERS, PA 16017-0045

Copy B - File with Federal tax return

2020  
OMB No. 1545-0115  
Form 1099R  
Distribution From  
Pensions, Annuities,  
Retirement or Profit-  
Sharing Plans; IRA's;  
Insurance Contracts, etc.

PAYER's Federal Identification 52-6083699	Recipient's ID No. [Survivor] 204-00-X00X	Account number (Retirement Claim No.) CSA 2916189
5. Employee Contributions/ Designated ROTH Contributions or Insurance Premiums*	<b>PAID TO →</b> JOANINE EMERSON 200 AMBER PLACE YC YS YZIP	
7. Distribution Code(s) 4-DEATH BENEFIT		
9b. Total Employee Contributions \$37,360.00		

State 1  
YS 10. State Income Tax Withheld  
\$550.00

State 2  
11. State Income Tax Withheld

Box 1 – Gross Distribution

Box 2 – Taxable Amount

Box 2a – AUTO POPULATES!

Box 4 – Federal Tax W/H

Box 5 – Employee Contributions

Box 7 – Distribution Code

Box 9b – Total Employee Contributions

## What you need to Ask:

- Age of taxpayer(s) at start of payments, and
- How much of employee contributions have been paid out to date.



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# Simplified Method 1 - TaxSlayer

13 - 6666666

Payer Name \*  
OAK ENTERPRISES

Check here if foreign address

Address (street number & name) \*  
9520 Clement Rd

ZIP code \*  
20910 -

City, town, or post office \*  
Silver Spring

State \*  
Maryland

Phone Number  
\* Optional

Does not carry to Form 8880

**!**  
Taxable amount is automatically carried. This can be corrected if necessary.

Do you need to calculate your taxable amount?  
[Click here for options.](#)

2b

Taxable amount not determined

Total distribution

3 Capital gain  
\$

4 Federal income tax withheld

Collapse Menu »

RETURN SUMMARY

	AGI	\$0
Federal	\$0	\$0



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# Simplified Method 2 – TaxSlayer

Practice Tax

Form Finder  
Enter the form number...

Basic Information

Federal Section

Income

Retirement Income

Deductions

Recovery Rebate Credit

Other Taxes

Payments & Estimates

Miscellaneous Forms

## Calculate Taxable Amount

Simplified Method Worksheet BEGIN

Public Safety Officers Distribution BEGIN

CONTINUE

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Collapse Menu »

RETURN SUMMARY

AGI	\$0
Federal	\$0



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# Simplified Method 3 - TaxSlayer

Product List

Form Finder  
Enter the form number...

Basic Information

Federal Section

- Income
  - Retirement Income
- Deductions
  - Recovery Rebate Credit
- Other Taxes
- Payments & Estimates
- Miscellaneous Forms

## Simplified Method Worksheet

[CANCEL](#) [CONTINUE](#)

Gross distribution amount (from 1099-R)  
\$27,000.00

Plan cost at annuity start date

Starting date of annuity \*

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

Collapse Menu »

RETURN SUMMARY

AGI	\$0
Federal	\$0



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# Simplified Method

- Make a note in TaxSlayer!
  - Start date of the annuity
  - Age (ages) of taxpayer(s) at beginning of the annuity
  - Amount previously recovered

# Cancellation of Debt – Credit Card

4012: pg. D - 60

- Taxpayer receives a 1099-C for debt forgiven
- If for a credit card, it is normally fully taxable income and in Scope
- Several exceptions are **Out of Scope**:
  - Bankruptcy and insolvency
  - Student loan forgiveness
  - Car loans
  - Personal loans
- Refer taxpayer to an LITC for these OOS returns. (Our own Center for Great Neighborhoods in Covington is an LITC site.)
- When fully taxable, easy to enter in TaxSlayer
- LITC is Low Income Taxpayer Clinic



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# Cancellation of Debt - Residence

4012: pg. Ext 1-5

- Taxpayer receives a 1099-C for mortgage forgiven in a foreclosure
- Taxpayer can possibly exclude much of mortgage debt forgiven if it is/was their principal residence
- This exclusion was extended through tax year 2025
- Several limitations; including now the maximum amount that qualifies can not exceed \$750,000
- Get an experienced preparer or site leader involved



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# K-1s

## report income from a partnership or a trust

4012: pg. D 48-50

### Within Scope:

- Interest income
- Dividend income
- Qualified dividends income
- Section 199A dividends
- Net short-term capital gains and losses
- Net long-term capital gains and losses
- Tax-exempt interest income
- Royalty income

K-1s with any other type of income are **Out of Scope**

**Net, Some we can do, many we can't**



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# Medicaid Waiver Payments

4012: pg. N-8

- **State Medicaid programs pay taxpayers for providing care for those receiving Medicaid**
- **Ohio reports payments on a 1099-NEC, Schedule C is thus required**
  - If the care provider and care recipient reside in the same home; these payments can be excluded from income by adding an offsetting negative entry entitled IRS Notice 2014-7.
- **KY reports payments on a W-2 (follow entry instructions provided on 4012 pg. N-8)**



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# Injured Spouse

- Form 8379
- A spouse might be considered as “Injured” if their partner has sole liability for previous unpaid debts – for federal or state taxes, for child support, for school loans, etc.
- Allows the couple to still file MFJ, rather than MFS, and partially receive various credits not allowed when MFS – especially the EIC.
- The 4012 is quite deficient in covering this benefit.
- Carefully enter the appropriate data within TaxSlayer.
- Note: Warning to Taxpayer – likely to take at least 14 weeks before any refund is processed for payment.



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# Injured Spouse

## TaxSlayer

- ✓ If Yes  Is the Primary Taxpayer the Injured Spouse?
- ✓ If Yes  If you are married to the spouse with whom you filed the joint return, do you want the refund check issued in both of your names? (if unchecked, refund check will be issued only to the injured spouse)
- Did (or will) the IRS use the joint overpayment to pay any of the following legally enforceable past-due debt(s) owed only by the non-injured spouse?
- Federal tax   ➤ State income tax   ➤ Child support
- Spousal support   ➤ Federal nontax debt (such as a student loan)
- Is the injured spouse legally obligated to pay this past-due amount?
- ✓ If Yes  Check here if you want any injured spouse refund mailed to an address different from the one on your joint return.
- Was the injured spouse's main home in a community property state (AZ, CA, ID, LA, NV, NM, TX, WA, or WI)?
- ✓ If Yes  Did the injured spouse make and report payments, such as federal income tax withholding or estimated tax payments?
- ✓ If Yes  Did the injured spouse have earned income, such as wages, salaries, or self-employment income?
- ✓ If Yes  Did (or will) the injured spouse claim a refundable tax credit, such as the health coverage tax credit, or refundable credit



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# Injured Spouse TaxSlayer

## Example

Allocated Items	Amount Shown on Joint Return	Allocated to Injured Spouse
Wages	\$42,000.00	\$
Interest income or loss	\$2,200.00	\$
Business income or loss	\$0.00	\$
Farm income or loss	\$0.00	\$
Capital gain or loss	\$0.00	\$
Pensions and/or IRA's	\$10,000.00	\$
Other income or loss	\$7,650.00	\$
Adjustments to income	\$0.00	\$
Standard -or- itemized deductions	\$26,450.00 -or- \$0.00	\$
Non Refundable Credits	\$1,775.00	\$
Refundable Credits	\$850.00	\$
Other taxes	\$0.00	\$
Federal tax withheld	\$6,622.00	\$
Estimated tax payments	\$600.00	\$

# Injured Spouse

Review the completed IRS form 8379 with the taxpayer line by line to ensure that your TaxSlayer entries are accurate. The TaxSlayer entry screens use different wording than the actual IRS form.



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# First Time Home Buyer - 2008

4012: pg. H-2

- Form 5405
- Repays the First Time Homebuyer Credit received for purchase of home in 2008
- Maximum Credit was \$7,500
- To be repaid over 15 years beginning in 2010 or when home is sold
- Normally, \$500 per year (or \$250/year each, if MFJ)
- No annual tax document is received, simply a processing reject if not included



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# Reciprocal State

- Taxpayer lives in one state, but a W-2 employer withholds taxes for an adjacent state
- Taxpayer owes taxes to the state they live in
- Taxpayer is due a refund for taxes withheld/paid to the “wrong” state
- OH, KY, and IN are all reciprocal states of each other
- See Mobilize Worksheet, not in the 4012
- Tell taxpayer to meet with their payroll department manager to get this changed!



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# Reciprocal State Gambling Income

Resident of:	Gambling Winnings won in:	
Ohio	Kentucky or Indiana	Not considered reciprocal state income. A full KY (740-NP) or IN (IT-40-PNR) return is required to claim any possible withholding.
Kentucky	Ohio or Indiana	Not considered reciprocal state income. A full OH (IT-1040 – full-year non resident) or IN (IT-40-PNR) return is required to claim any possible withholding. Gambling losses to extent of winnings may reduce taxable income – on Kentucky Schedule A



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# IRS VITA Scope Reminder

- Do not prepare a tax return with any tax issue that is **Out of Scope**.
- If you encounter an issue that is in scope, but you don't understand it or it wasn't covered in your training, **ask** an experienced preparer or site coordinator. If they don't know, **don't do the return**.
- When you can't prepare a return because of an **Out of Scope** or difficult issue, apologize and advise the taxpayer to find another tax preparer.



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# TAX DEFERRAL OF A CORONAVIRUS RELATED DISTRIBUTION FROM A RETIREMENT PLAN in 2020

4012: pg. D-43

- In 2020, the taxpayer was allowed to spread the tax impact of taking a 1099-R withdrawal over 3 years.
- Form 8915-E was used.
- If done, the taxpayer now needs to pay tax on a portion of their 2020 withdrawal. This is done via form 8915-F.
- Regionally, we consider this as **Out of Scope**, due to:
  - Anticipate that we'll rarely see it
  - Lack of Training on it
- Advise the taxpayer that such a payment is due, and they can go to a paid preparer or file it themselves.



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# CREDITS FOR SICK LEAVE AND FAMILY LEAVE

4012: pg. H-9-10

- Only applies to those taxpayer who are Self-Employed (Sch C)
- It provides an additional credit for these special situations.
- Outlined in general on Pub 4012m page H-9 and H-10, utilizes form 7202 (Credits).
- Regionally, we consider this as **Out of Scope**, due to:
  - Anticipate that we'll rarely see it
  - Lack of Training on it
- Advise the taxpayer that while they may qualify for such a credit, we can't prepare their return. They can go to a paid preparer or file it themselves.



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# Wow! A bigger refund?

- Big improvements in:
  - Child Tax Credit
  - Child and Dependent Care Credit
  - Earned Income Credit (without children)
- And all are now fully refundable!



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# Thank you for taking this training!

Thanks for being a VITA volunteer with  
the United Way of Greater Cincinnati's  
Free Tax Prep initiative!



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