AARP FOUNDATION TAX-AIDE

CALIFORNIA

COUNSELOR REFERENCE MANUAL

(CRM)

For TaxSlayer Pro Online

TAX YEAR 2024

February 8, 2025

Suggestions? Corrections? Email Elisabeth at duckbookeditor@gmail.com

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Where to Mail Returns and Payments

What	**Internal Revenue Service**	**California Franchise Tax Board**
Electronic filing with balance due (mail the payment and payment voucher ONLY)	Internal Revenue Service P.O. Box 802501 Cincinnati, OH 45280-2501 (Form 1040-V and payment)	Franchise Tax Board P.O. Box 9428**67** Sacramento, CA 94267-000**8** (CA Form 3582 and payment)
Paper return with balance due, and **check enclosed** (mail the signed return and the payment)	Internal Revenue Service P.O. Box 802501 Cincinnati, OH, 45280-2501 (Form 1040, needed documents, and payment)	Franchise Tax Board P.O. Box 942867 Sacramento, CA 94267-0001 (CA Form 540, needed documents, and payment)
Paper return with (a) refund, (b) nothing due, or (c) balance due, **but check <u>not</u> enclosed** (mail the signed return)	Internal Revenue Service Ogden, UT, 84201-00**02** (Form 1040 and needed documents)	Franchise Tax Board P.O. Box 9428**40** Sacramento, CA 94240-0001 (CA Form 540 and needed documents)
Amended return, with or without payment [If in response to a letter from the IRS or FTB, see the last row below, instead]	Internal Revenue Service Ogden, UT, 84201-00**52** (1040-X, with or without payment; if payment is included, do *not* include a Form 1040-V)	Franchise Tax Board P.O. Box 9428**40** Sacramento, CA 94240-0001 (revised CA Form 540, Schedule X, with or without payment; if payment is included, do *not* include a Form 3582)
Estimated payments (mail the payment and voucher)	Internal Revenue Service P.O. Box 80250**2** Cincinnati, OH, 45280-250**2** (Form 1040-ES)	Franchise Tax Board P.O. Box 9428**67** Sacramento, CA 94267-000**8** (Form CA 540ES)
Automatic six-month extension – **with payment** (mail the form and payment)	Internal Revenue Service P.O. Box 802503 Cincinnati, OH, 45280-250**3** (Form 4868 with payment)	Franchise Tax Board P.O. Box 9428**67** Sacramento, CA 94267-000**8** (Form CA 3519 with payment)
Automatic six-month extension – no payment (mail the form)	Internal Revenue Service Ogden, UT, 84201-00**45** (Form 4868)	Do not submit anything
Response to a letter from the IRS or FTB	Mail to address specified in letter, with 1040-X, if needed, any needed documentation, and payment as needed (if possible)	Mail to address specified in letter, with Schedule X and revised Form 540, if needed, any needed documentation, and payment as needed (if possible)

GENERAL INFORMATION

- Volunteering with AARP Foundation Tax-Aide: direct interested persons to **aarp.org/tavolunteer**, 888-775-2277, or put them in contact with your District Coordinator (DC) or Local Coordinator (LC).
- Direct those interested in volunteering for other AARP programs, including the AARP Foundation Experience Corps and the AARP Driver Safety Program, to **aarp.org/giving-back**; they can also call the above phone number.
- Donations: Tax-Aide volunteers cannot accept money, nor are they allowed to bring up the subject of donations with a taxpayer.
  - Taxpayers who ask about donations should be told that they may send a check payable to the "AARP Foundation Tax-Aide", to the AARP Foundation Tax-Aide Program, 601 E Street, NW, Washington DC 20049 (envelopes with this address already on them can be helpful). Ask them to write your sub-state - CA1, CA2, CA3, CA4, or CA5 **-** on the check's memo line.
- If the laptop computer in your custody is lost or stolen, you must report the loss/theft within 24 hours to your LC **and** to the AARP National Office, 800-424-2277, ext. 32038 or 36027 (202-434-2038/6027 outside of regular business hours). You also should promptly notify your local police department.

RESOURCES

AARP Tax-Aide Program

- Chromebooks issued to counselors include, as a default, links to counselor reference materials such as the NTTC-modified version of Pub 4012.
- From other computers, those materials are at **https://ta-nttc.tiny.us/NTTC-Resources** (NTTC Google Drive).
  - It shouldn't be necessary to go to the Libraries section of the Volunteer Portal (**volunteers.aarp.org**) to find reference materials for tax preparation. .
- The shared CA-wide REFERENCES Google Drive (**tiny.cc/ca-ref**) includes CA-specific material, such as an electronic copy of this manual, as well as selected links to NTTC-prepared reference materials.
- Act on information from "IRS Volunteer Tax Alerts" that are emailed to all volunteers. If needed, Tax-Aide will send specific guidance separately.

Internal Revenue Service and Franchise Tax Board

- IRS website – Publications ("Pubs"), forms, and answers to tax questions: **irs.gov/**
- Franchise Tax Board (State of California)
  - Publications, forms, and answers to questions: **ftb.ca.gov**
  - Email for questions from Tax-Aide and similar free tax preparation services programs: **volunteercoordinator@ftb.ca.gov**
  - MyFTB – Information for a taxpayer: estimated tax payments made, balance due, CA wage and withholding information: **ftb.ca.gov/myftb** (requires prior year's state tax information to register for an account; PIN will be sent via mail, after registration, and is required to log in).

****Don't share Volunteer Hotline numbers with taxpayers****

IRS PHONE NUMBERS M-F 6am to 5:30pm, Sat 6am to 2pm, Pacific Time		**FTB PHONE NUMBERS** M-F 8am to 4pm, Pacific Time	
Volunteer Hotline*	**800-829-8482**	**Volunteer Hotline**	**800-522-5665**
Tax Information	800-829-1040	Volunteer Coordinator	916-845-7052
Automated Refund Info	800-829-1954	General Number	800-852-5711
e-file Help Desk (for rejects)	866-255-0654	Automated Service	800-338-0505
ID Protection Specialized Unit	800-908-4490	ID Theft Resolution Coordinator**	916-845-3669

* For tax law issues

** ***Note for CA returns:*** In ID-theft cases, paper-file the California return. The FTB contacts the taxpayer regarding discrepancies. Contact the CA ID Theft Resolution Coordinator only after setting up a federal ID theft case.

TaxSlayer

- TaxSlayer has a Knowledgebase to consult for answers to common questions: **taxslayerpro.com/support**.
- The "VITA/TCE User Guide – TaxSlayer Pro Online" is a comprehensive document, with extensive screen shots, for everything that Tax-Aide does in TaxSlayer: from the Main Menu, Office Client List, or similar page, click "VITA/TCE Publications and User Guides" in the left navigation bar, wait for "Loading media" to finish, click the "Attachments" tab, then click "TaxSlayer Pro Online User Guide".
  - o The first 10 or so pages of content describe logins and passwords; the next 240+ pages are for administrators; the next 330+ pages cover how to prepare a tax return; the final 100+ pages are again for EROs and administrators.
- The TaxSlayer VITA/TCE blog is at **vitablog.taxslayerpro.com**.
- During the tax season, TaxSlayer provides real-time support via chat and phone support (800-421-6346) from 8am to midnight EST on weekdays, 8am to 8pm on weekends.
  - o On-line chat is available inside a taxpayer return – click "Help & Support", and then "Chat With Us".
    - ***Note:*** Chat is *not* available within Practice Lab.
  - o You can also email questions to **support@vita.taxslayerpro.com**; hours for response are the same as above. *Don't provide excessive personal information about a taxpayer* – the last name and last four digits of the taxpayer SSN, plus your EFIN (see the bottom of federal Form 8879) or SIDN (see the bottom of Form 1040 of the PDF for the taxpayer, in the "PTIN" field) is sufficient.

Recommended steps for researching an unfamiliar topic

- Question the taxpayer thoroughly and review their paperwork to obtain all relevant facts.
- Begin with the Tax-Aide-specific **NTTC-modified version of Pub 4012**, VITA/TCE Volunteer Resource Guide, (a Chromebook link) which provides information for most common questions, including questions related to TaxSlayer, in an easy-to-use format. **This version is updated for Tax-Aide scope.**
  - o Note that the print version of this is an IRS publication issued in October, **missing Tax-Aide specific information**.
  - o Pub 4491-X, VITA/TCE Training Supplement, is normally published by the IRS in December and contains updates to Pub 4012, Pub 4491, and other IRS publications. The NTTC version of Pub 4012 (link above) is updated shortly after.
- Review what **this manual** recommends. (You can search the electronic version or use the index at the end; an **updated electronic version** is usually released by early February.)
- Consult the instructions for the relevant tax form you're working with.
  - o In TaxSlayer, if not in a return: click "IRS Publications, Instructions, and Fill-In Forms" (left navigation menu), then "Instructions".
  - o In TaxSlayer, if in a return: click the taxpayer name to get the pull-down menu > Helpful Tools > IRS Publications.
  - o CA: **ftb.ca.gov/forms/search**
- For California tax questions, consult one of these FTB Pubs:
  - o **California Personal Income Tax Booklet – Instructions for Form 540**
  - o **1001, Supplemental Guidelines to California Adjustments** (available via e-mail only)
  - o **1005, Pension and Annuity Guidelines**
  - o **5130, VITA/TCE California Volunteer Reference Manual**
- Ask a more experienced counselor.
- Review NTTC documents - **https://ta-nttc.tiny.us/NTTC-Resources**
- Use one of the Volunteer Hotlines on page **1.**

WHAT TAX-AIDE CAN AND CANNOT DO - SCOPE

In general

- The AARP Foundation Tax-Aide Program is limited in scope. Our mission is to provide high-quality free income tax assistance and tax form preparation to low and moderate-income individual taxpayers, with special attention to those ages 50 and older.

- The NTTC publishes the *Tax-Aide Scope Manual*, **https://ta-nttc.tiny.us/Scope-Manual**, a comprehensive list of which federal tax forms are in-scope and which are ***out-of-scope***. Each site should have printed this document for reference; it's available as a link in Chromebooks.
  - ***Note: Don't use*** Pub 4012's "Scope of Service" section (pages v through xxi); it differs from the Tax-Aide Scope Manual.
- Also ***out-of-scope*** are certain high-income tax returns:
  - 1, 2. The additional Medicare tax on earned income or net investment-income tax [Schedule 2 Line 11, from Form 8959] applies for modified adjusted gross income (MAGI) over $250,000 for MFJ, $125,000 for MFS, and $200,000 for all other statuses (2024)**.**
    - MAGI is defined *here* as the total of Medicare wages (box 5 of Form W-2s), plus unreported tips (Form 4137, line 6), plus independent contractor income that the taxpayer thinks should have been treated as wages (from Form 8919, which is ***out-of-scope***).
  - 3. If the taxpayer has *any* (net) business income [Schedule 1 Line 3] and adjusted gross income (AGI) less the standard or itemized deductions exceeds $191,950 ($383,900 for MFJ) for 2024, the return is ***out-of-scope*** due to complexity of calculating the 20% Qualified Business Income ("QBI") deduction.
  - There are further nuances that make high-income returns out-of-scope: see **https://ta-nttc.tiny.us/Scope-Manual** page iv
  - ***Note:*** It is **not** appropriate to spend time preparing a return simply to see if a threshold has been reached (if so, preparer's and taxpayer's time has been wasted). **If AGI appears close to the threshold,** the taxpayer should be advised we can't prepare the return.
- When something is ***out-of-scope***, there are two possible ways of dealing with it:
  - If it involves something that must be reported on a tax return, tell the taxpayer we can't prepare the return.
    - For example, income from more than 14 days' building/room rental **must** be reported, even if the taxpayer has a loss [the tax return is required to *document* the claimed loss], but is ***out-of-scope.***
  - If the issue involves something optional – such as the deduction for a Simplified Employee Pension (SEP) plan (Schedule 1 Line 16), the taxpayer can choose:
    - (1) Don't take that option (almost always this will be claiming a credit or a deduction), and have Tax-Aide prepare the return, for free. If the taxpayer chooses this option, **document the decision** in a note (page **8**) and in the Intake Booklet.
      - *Note:* It's *not an option* to omit expenses on Schedule C! Omitting information from a tax return *cannot legally be done if it benefits the taxpayer.* [Increasing net income on Schedule C can increase various credits, including EIC, that depend on the amount of earned income.]
    - (2) Use a paid tax preparer or use tax software themselves, particularly where the option involves significant dollar amounts. You must advise the taxpayer of this choice.

Preparing an out-of-scope return

Knowingly going out-of-scope violates Tax-Aide Standards of Professionalism and should be reported to your LC; ***an incident report must be submitted***.

- Volunteers who knowingly prepare out-of-scope returns risk the loss of protection from personal liability; they are also subject to counseling and may be removed from the program for failure to follow policy.

Other critical issues

- The Tax-Aide program only prepares individual tax returns (Form 1040). (Form 1040-SR has larger font and better readability but is otherwise the same.)
- Tax returns for other entities are ***out-of-scope***.
- Regardless of training and/or certification, if you aren't confident in your knowledge of forms or issues relating to a taxpayer's return, you are not to prepare or review that return.
- When volunteers are uncertain if a complete, accurate return can be prepared, refer taxpayers to another counselor or site, or to a paid preparer. Alternatively, taxpayers may elect to prepare their own returns; free software is at **irs.gov/filing/free-file-do-your-federal-taxes-for-free**.
  - The IRS has a list of federal tax preparers with credentials and select qualifications, such as enrolled agents, at **irs.treasury.gov/rpo/rpo.jsf**, searchable by credential and zip code.
  - The California Society of Enrolled Agents (csea.org) has a search to locate nearby EAs, **findanea.org**.
- ***CA policy:*** Federal or California returns that require income splitting are ***out-of-scope*,** primarily because California is a community property state. Income-splitting is required for:

- MFS returns (see limited exceptions, in the Married Filing Separately section, page **14**)
- Registered Domestic Partners (RDP), in their federal returns, as well as any CA return filed as MFS
- Returns of any filing status where a divorce occurred during the tax year, but there was an intact household at any time earlier in the calendar year
- Injured spouse allocation (Form 8379).

CA policy: California residency scope

- California defines a resident as anyone who is either:
  - Present in California for other than a *temporary or transitory purpose*, or
  - Domiciled in California, but outside California for a *temporary or transitory purpose*, such as work.
    - For more detail, see FTB 2020 Publication 1031 Guidelines for Determining Resident Status.
  - *Note:* The FTB presumes residency if a person spends nine months or more of the calendar year in California.
  - *Note:* A person becomes a resident of California when they make it their home versus when they come for a visit.
- For full-year residents of California, always file a CA tax return (Form 540) when filing a federal return, unless the taxpayer has already filed for CA, such as by using the FTB's free **CalFile** service.
- For part-year residents and California nonresidents who have income sources in CA, CA Form 540NR is required, which is ***out-of-scope***.
  - A site is allowed to prepare only the Federal return in such cases (if the State Coordinator allows it). Otherwise the federal return is ***out-of-scope*** as well.

ONLINE PROCEDURES

- TaxSlayer Pro Online is web-based software that is accessed via an Internet browser.
  - ***Note:*** In this manual, the software is referred to simply as "TaxSlayer".

LOGIN PROCEDURES

- Verify that you're connected to the Internet.
- Open TaxSlayer in your browser.
  - The same URL is the starting point for preparing or amending both current year and prior year returns: **vita.taxslayerpro.com/ProAvalon/Login/**
  - Returns prepared for training purposes are done in the Practice Lab, which is at a different URL, and has different usernames and passwords
- If logging into TaxSlayer from a new computer (one from which you have not logged in to TaxSlayer before), **or from a new browser**, then after you type your username and password, TaxSlayer displays the **Verify Account** page.
  - You need to select a delivery option to get a security code for logging in.
    - Your LC should have set up these for your username: a cell phone number (for a text) and/or email address.
    - TaxSlayer sends an email or a text message, depending on what you specify; you must enter the code from the email or text message to confirm your identity. (Tip: if you have online access to TaxSlayer, then you probably have online access to your email, but texts are generally faster.)
  - ***Tip:*** If your site does its Quality Review process by having the reviewer use the preparer's computer, *and* the preparer logs off and the reviewer logs on as part of this process, then *each person doing reviews might want to log into **each computer** where they are likely to do a review, **before** the site is active for the day, to avoid having to do multi-factor authentication during the day.*
  - After 15 days, your multi-factor authentication (MFA) expires, and you must authenticate yourself again when you log in. You must also go through the MFA process if you log in after clearing cookies from your web browser; you should set your browser to automatically clear cookies at shutdown.
- If you forget your password, you must go through the multi-factor authentication process to reset it.
- When you create a new password, your password must be at least **eight** characters long and contain at least one special character - !@*& and so on. *A minimum of at least nine characters is more secure; **ten** characters are recommended.*
  - Passwords are case-sensitive; usernames are not.

- o Passwords expire after 90 days.
- ***Note:*** After 12 minutes of inactivity within a return, TaxSlayer will display a pop-up warning. TaxSlayer logs you out after 15 minutes of inactivity.

NAVIGATION WITHIN A RETURN

- While in a return, the normal layout of your screen is a column on the left for navigation (including a search box), plus a main work area with either a menu or with fields for entering information. In addition, the taxpayer's name shows in the upper right *after* Basic Information has been entered; this is important because a pull-down menu displays when you click on the taxpayer's name, as discussed below. (See **Pub 4012** page D-6 for an illustration; the taxpayer's name is "Sample Taxpayer".)
- On a menu page – such as **Income**, in the Federal Section – you can click *anywhere on a line* to select the action ("Begin" or "Edit") for that line; *you don't need to directly click the "Begin" or "Edit" button.*

Left Navigation Bar

Note: The left navigation bar is hidden if your screen or browser window is too narrow. In such cases, you can force it to appear by clicking the double right-arrows in the upper left of the browser window.

- Most of the items on the navigation bar are self-explanatory. Some brief notes:
  - o "Enter the Form Number" is discussed in the section Getting to a Specific Page to Enter Information, page **6**; note that text (like "INT" can also be entered).
  - o The "E-file" section is the final section to be worked. It must be done for **every** return, even if that return will be paper filed. It is where bank account information is entered, and taxpayer demographic information is collected.
  - o Summary/Print opens the **Calculation Summary** (Form 1040) page. The dollar amounts here are links; clicking on a dollar amount opens the specific TaxSlayer page where information can be entered or edited.
    - ***Tip:*** The **Calculation Summary** page, when initially opened, compresses the left navigation bar to a thin strip with only icons showing. Hovering the mouse over the visible icons automatically widens the navigation bar.
    - ***Tip:*** Click the **Summary View** icon (green) to see an expandable view of the tax return, with links that similarly go to specific TaxSlayer pages. This may be easier than navigating Form 1040 and its schedules.
  - o When clicked, three items on the left navigation bar - Basic Information, Federal Section, and Summary/Print –will show subsections; this can be a faster way to get to those subsections.
- After information has been entered in a data entry page, a related item appears in the left navigation bar when it is fully expanded vertically. For example, entering a 1099-R in TaxSlayer causes "Retirement Income" to appear in the Income section of the left navigation bar.
- ***Warning:*** if you're on a page where you've entered information, *don't* click a left navigation link after you've finished entering data. Instead, **click "Continue" to save what you've entered**, *then* (from the menu page that you are now on) click to go elsewhere.

Taxpayer Name Drop-Down List

Clicking on the taxpayer's name, or the downward-pointing symbol to its right, displays a drop-down list, which TaxSlayer calls **Tools**. [The taxpayer's name will show only *after* all Basic Information has been entered.]

- Clicking on "Your Office" exits the return, taking you to the screen where you can start a new return, or do a client search to find an existing return.
- "Si hablo Espanol?", when clicked, shows a pop-up window. If you select "Espanol", TaxSlayer pages will be in Spanish, not English; similarly, tax forms will print in Spanish.
  - o This is a *toggle* – to return to English, click on this option, then, in the pop-up window, select "English."
  - o If you select this option, then on the **Personal Information** page, you should also check the box "Taxpayer prefers to receive written communications from the IRS in a language other than English."
- Clicking on "Notes" opens a pop-up where notes can be added, and existing notes can be seen. See the Notes section, page **8**.
- "Helpful Tools", a pop-up window, has only three useful links:
  1. "IRS Publications" opens a new browser window with the **IRS page to search for publications, instructions, and forms**.

2. "Prior Year Comparison" compares the current tax year return to *any* prior year tax return which has been done at the same site, or a 3-yr comparison--though it may not be a complete line-by-line match.
   - ***Note:*** This is also available from the **Calculation Summary** (Summary/Print) page.
3. "Print or View Your Return" is a shortcut to display the PDF for the return. It is essentially the equivalent of clicking "Summary/Print" in the left navigation bar.

- o ***Note:*** *Don't* use the "User Manual" link – it isn't tailored for Tax-Aide, and isn't updated. Use Pub 4012.

- "Quick File" (not recommended) builds a list of pages that TaxSlayer sequentially displays for entering information. At most Tax-Aide sites, many tax returns involve Carryforward from the prior year; thus, using Quick File is not useful, and this manual doesn't discuss it.

Getting to a Specific Page to Enter Information

- **In the Federal Section,** a specific TaxSlayer page can be reached in three ways:
  - (1) Click on a specific section along the left navigation bar (such as, in the Federal Section, select "Deductions"). Then drill down as needed – for example, selecting "Credits Menu", then "Child Care Credit (Form 2441)" takes you to **F2441 - Child Care Credit - Page 1**.
    - If information has already been entered for a type of income, expense, or credit, an individual item will appear in the left menu.
    - ***Note:*** If you see the "Guide Me" option, have your LC correct the preparer setup for your username.
  - (2) In the left navigation bar, use the search box "Enter the Form Number." Often, you'll only need to enter a few characters.
    - You aren't limited to just form *numbers* – for example, typing "SSA" (or "ssa"; capitalization is irrelevant) generates a list of five links, four leading to the **Social Security SSA-1099** page.
    - ***Note:*** **In this manual, the suggested text to be entered in the search box, to get to a specific page, is shown by the <u>underlined text</u> within the bolded name of a TaxSlayer page.**
    - A few pages in the Federal Section are **no**t reachable from the search box – the only way to get to them is via the menu structure. When that is the case, this manual says so.
    - **Pub 4012** starting on page O-10 has a multi-page list of forms and topics for navigating TaxSlayer, showing the search keyword for each.
  - (3) Click "Summary/Print" in the left navigation bar, which displays Form 1040; then click any blue dollar figure (such as on Line 1, "Wages, salaries, tips, etc.") to go to the related TaxSlayer page (in this example, that would be the **W-2** page).
- **In the State Section,** the only way to navigate is by the menu system (click the edit icon to start editing or reviewing information entered in this section).

<u>ENTERING INFORMATION</u>

Concepts

· **Information entered on a page is NOT saved until you click "Continue", "Save", or "Save & Enter Another".** If your session times out before you make that click, data entered on the page won't be saved.
· **In the State Section, you must click "Continue" or "Back" until you reach the top-level state menu.** At that point, TaxSlayer lets you exit the State Section.

- Most TaxSlayer pages don't have a "Back" button. Instead, clicking "Continue" is the equivalent of saying "I'm done with this page, take me up one level."
  - It's possible to use a **browser** action (back arrow) to go back one page in TaxSlayer without saving.
- Pages for entering information usually have a "Cancel" button. If you don't want to enter any information on that page or decide that you don't want to keep changes you made, click "Cancel" instead of "Continue."
  - If you click "Continue", TaxSlayer sometimes saves the page even when no information was entered. *Warning:* That opens the possibility that a page without any entries will be printed in the tax return, and, worse, the e-file may contain a page that could cause an IRS reject.
- When you open a page, information from other places may be used to fill (as appropriate) fields on that page. For example, on a TaxSlayer **W-2** page, the Employee address information is filled using information from the **Personal Information** page.

  - **If you later change the information on the source page, that change does not replicate on other pages where information has been entered.**
    - For example, suppose that you entered information in two **W-2** pages, then realized, when working on a 1099-R form, that the taxpayer's address was entered incorrectly in the Basic Information section. So, you go to the **Personal Information** page and change the address information there. You're still not done - you must go to those two **W-2** pages and check the employee addresses there, to make sure that they're correct – because they won't have changed when you changed the address on the **Personal Information** page.
- TaxSlayer's general approach is that each taxpayer document has a matching TaxSlayer page. But sometimes there won't be a 100% match – information on a paper document might need to be entered in TaxSlayer both on a main page and *somewhere else*.
  - If *somewhere else* is a TaxSlayer page within the Federal Section of TaxSlayer, this isn't a big deal – you should finish the main page, then go to that other page.
    - For example, if a Form SSA-1099 has Medicare premiums and a taxpayer has a Schedule C business income, you usually enter the premiums under General Expenses in Schedule C, to claim SEHI, rather than on the **Social Security SSA-1099/RRB-1099 Tier I** page.
  - If *somewhere else* is in the State Section, you should **delay** entering information there until you've finished the Federal Section of the tax return.
  - If you don't immediately go to a second TaxSlayer page to finish entering information, **you should have a system** so that you don't forget about later entering this information. E.g., you could highlight which information on the paper document has to be entered later (if you have paper documents), and/or make a written note about information, and/or create an internal TaxSlayer note (see page **8**), and/or use a post-It on the document.
    - With an internal TaxSlayer note, you'll automatically be reminded when you start the process of completing the E-file section, because the first page in that section shows all notes.
    - The reviewer will similarly see all internal notes when finishing the quality review, in the E-file section, or earlier if the reviewer specifically checks for notes. That's why preparers generally shouldn't delete notes – just add to them to indicate something was DONE rather than needing to be done.
- Although TaxSlayer has Notes, they can't be used for **calculating totals**, such as when there are multiple property-tax payments during a year. If you calculate a total and enter only that total in TaxSlayer, document the calculation in the taxpayer's records and/or typed into a note, depending on local policy.

Specifics

- On a TaxSlayer page for entering information, fields marked with a red asterisk (*) are *required*. If "Continue" is clicked when such a field does not have an entry, TaxSlayer displays an error message.
- In TaxSlayer, *calendar dates* are entered in three separate fields: Month, Day, and Year. If no data has yet been entered, the format is shown by MM DD YYYY.
  - You may type date information, rather using the drop-down list. *Use the tab key to move between fields*.
  - In some cases, such as on the **Capital Gains Transaction page**, you can't enter February 29 until you select the year, so TaxSlayer can confirm it was a leap year.
- Dollar amounts can be entered without cents (**recommended**).
  - To enter a dollar amount **without** cents, round **up** for 50 to 99 cents, round **down** for 1 to 49 cents.
    - When adding multiple dollar amounts to determine the amount to enter in TaxSlayer, don't round the individual numbers. Include the cents when adding dollar amounts, then round the total.
  - If so directed by your LC, enter cents and let TaxSlayer do the rounding.
    - TaxSlayer rounds the dollar amount after you click "Continue".
- There are several ways to reduce the number of times you need to take a hand off the keyboard to use your computer mouse or trackball or similar:
  - Sometimes simply pressing [Enter] ([Return]) does the trick, as on the initial SSN Create Return screen.
  - Tab between fields (Shift-Tab to reverse).
  - Tab to a button (such as "Begin" or "Continue") and press [Enter] ([Return]) instead of clicking the button.
    - You can tell when a button has been selected because its background color turns black. [This is unfortunately not helpful for "Edit" buttons, whose background color is already black.]
  - For check boxes, use the space bar to select or unselect.

        - *Note:* You can also click anywhere on the line with the check box to select.
    - In a drop-down list, [type the first letter of the choice you want, and then] use the up or down arrow, if necessary, to go to the exact choice.
- Regardless of how you enter alphabetical information, TaxSlayer prints returns with ALL CAPITAL LETTERS, except for Basic Information names and address.
    - Entering information may be faster if you turn on caps lock. For Chromebooks, press the [Alt] key plus the Search key on the left of the keyboard (it has a magnifying-glass icon).
- TaxSlayer automatically removes periods and extra (double) spaces in text fields.
- If, after you click "Continue", you see an error message at the top of a page, you can go <u>directly</u> to the problem field on that page by clicking on the error message.

<u>COMMUNICATING WITHIN TAXSLAYER</u>

Return Tags

- On the **Client Search (Office Client List)** page and the final page of the E-file section, returns can be marked with *tags*, such as "Waiting on Signature"; TaxSlayer refers to these as "return tags."
    - On the client list page, when you're looking at a row of information for a specific return, the icon for return tags is immediately left of the printer icon. It is grayed out unless a tag has been created; click on it to add a return tag or delete (uncheck) an existing return tag.
- In Practice Lab, TaxSlayer provides a very limited set of return tags. In production, LCs can add desired return tags.
- The **Client Search (Office Client List)** page has a "Filter by Return Tag" field, which can be used, for example, to list all returns that have a return tag of "Need More Info."
- *Notes* can be used to expand on a return tag. For example, for a return with the "Need More Info" tag, a note would specify which information is missing.

Notes

- **Within a return,** TaxSlayer has a standard way to record free-form information: *notes* (also referred to as "personal notes" or "sticky notes").
    - After the Basic Information section is completed, the taxpayer name appears at upper right of the screen.
    - Clicking on the taxpayer's name, or the downward-pointing symbol to its right, displays a drop-down list, which includes "Notes."
    - Clicking on "Notes" opens a pop-up where notes can be added, and existing notes can be seen.
- Notes are limited to 200 characters, so give a Note a useful name, such as "City Pension" or "DMV Fees".
- Notes **do carry forward** to the next year's return.
    - Carryforward notes are visible as part of the Carryforward process, at the beginning of the process of creating a new return.
        - If a Carryforward note is **not** applicable to the tax year being prepared <u>or a future return</u>, delete it.
- Creating or editing a note automatically includes the tax preparer's name and a date/time stamp.
    - That information is visible when the note is opened after initially saving it, **but only from the Client Search (Office Client List) page.**
    - If the note is edited after being created, the note shows information about the *most recent* tax preparer who edited the note, and the date/time of that (most recent) edit, not when the note was created or previously edited. For this reason, it is helpful to initial notes (for example, "2/24 KJ").
- You can paste the contents of a group of spreadsheet cells to a note (such as where you've added some dollar amounts together), but only the cell values are copied, not the cell structure. So, for example, information in second and subsequent columns won't be aligned.
- You can change the color of the notes, but any change is made to *all* notes.
- If you want to look at **existing notes** when **within** a return, follow the same process (see above) for creating a note; you'll then see a pop-up window, "Found notes", which lists the title of each existing note.
    - To view the content of a note, **double-click** the title of that note. Notes can't be deleted here.
- On the **Client Search (Office Client List)** page, tax returns with notes have a *blue* flag, rather than a grayed-out flag, in the column to the right of the STATUS column.
    - Notes can also be **added** from this page; the user interface is better than when adding notes within a return.
- Printing notes:

  - o Notes can be included as part of a print package if the LC or another administrator, in the Advanced Print Setup Menu, selects "Print Supporting Notes with Tax Return."
  - o If notes exist for a return, and aren't included in the print packet, the notes can be printed from the **Client Search (Office Client List)** page: once notes are opened, click "Print PDF" to create, then print, a PDF for all notes.
- In general, a preparer shouldn't delete a note that reminds the preparer of something that needs to be done. Instead, the note should be changed to indicate something was DONE. Retaining notes can be very helpful to the person doing the quality review. They can also be useful carryforward for future returns.

INITIAL STEPS FOR A TAX RETURN

INTERVIEWING THE TAXPAYER

- ***Note:*** Some of this may have been done by a Client Facilitator (CF).
- Verify the taxpayer's Social Security number (see the Social Security Number section, page 11) and identity (original photo-issued ID, such as valid U.S. driver's license, employer ID, school ID, U.S. state ID, Military ID, national ID, visa, or passport).
- Explain the tax-preparation process, particularly the responsibility of the taxpayer for the return, and that a separate QR is done.
- Review the information provided by the taxpayer on the first three pages of the Intake Booklet.
  - o Complete the dependent information on page 1 (five columns in the greyed areas), if there are any possible dependents.
  - o Confirm that the three consents have been responded to – for each, the taxpayer has either signed the page, or the CF or taxpayer has written "DENY" or "DECLINE", or similar, on the page.
    - ▪ If neither has occurred for a consent, determine what the taxpayer wants, and, if the taxpayer doesn't want to agree to the consent, mark the page accordingly.
  - o If not comfortable with the complexity of the return, talk to your LC about another counselor preparing the return.
- Ask the taxpayer to provide any information that they might have omitted from the Intake Booklet.
  - o Write that information on the relevant page in the Intake Booklet.
- Review all supporting documentation, such as SSA-1099 forms, Form W-2s, and Form 1099-Rs, and place these in the order they'll be used (normally, in the order listed on pages 2 to 3 of the Intake Booklet).
  - o **Compare information on pages 2 [and 3] of the Intake Booklet to the documents provided by the taxpayer to determine if those pages are correct and complete and to identify missing documents; correct as needed.**
  - o Make sure no item is out-of-scope. Finding something ***later*** that is out-of-scope means that a lot of time has been wasted for both preparer and taxpayer.
    - ▪ The most common out-of-scope items are (a) income from rental property, and (b) *out-of-scope* codes in box 7 of a Form 1099-R. But there are dozens of other circumstances that make a return *out-of-scope*. The rule of thumb is that <u>if you see something unusual, research it immediately</u> – look in the scope manual, ask your LC or another counselor, etc.
  - o **An electronic version of a tax form** (such as a document viewed on a taxpayer's phone) **is acceptable.**
    - ▪ You have the option to refuse to use such a document, and to ask for a paper copy, if the electronic version is difficult to read.
    - ▪ Keep in mind that taxpayer mobile phones' cameras and video are **not** allowed to be used in the tax preparation area or where other taxpayers' documents are present, because of the (small) risk of taking a photo or video of others' tax information.
    - ▪ If an electronic version of a tax document is used, *note this on the related Intake Booklet page.*
- Compare the dollar amounts on the previous return, if available, to any dollar amounts on pages 2-3 of the Intake Booklet, and to the dollar amounts on the supporting documents for the current return. Where there appear to be differences, ask the taxpayer about those differences.
  - o **This is also a good way to identify missing documents.** After you have a general idea of the taxpayer's income (from reviewing documents, or from entering information in TaxSlayer), **consider whether total income seems adequate to live on**.
  - o A taxpayer may be receiving Supplemental Security Income (SSI) (not taxable, nor reported on tax returns), or living on savings, or doing something else that explains their low income and doesn't affect

their return. Alternatively, the taxpayer may actually be a dependent of another person or may have omitted taxable income. *If stated sources of income seem clearly inadequate, ask the taxpayer for more information.*

- Tax-Aide policy is that the interview should be complete *before* starting to create a return in TaxSlayer.
  - For example, ***out-of-scope*** issues should be identified by doing a thorough interview, not when entering document information in TaxSlayer.

Taxpayer and/or spouse not available

- A return when the taxpayer (and/or spouse, if MFJ return) is **deceased** is in scope. We require no documentation of relationship or right of representation.
  - For signature requirements, see the section Deceased Person - Signature Requirements, page **128**.
- Signature requirements are usually set by the LC; see the section Married Filing Jointly, page **127**.
- A return where an unmarried taxpayer is **alive** but not present (or for MFJ returns, neither taxpayer is present) is ***out-of-scope*** unless the person with the taxpayer's paperwork has a Power of Attorney form with authority to **sign for the taxpayer**, as discussed in the section Power of Attorney (POA), page **128**. This also applies to a parent who wants Tax-Aide to do the return for a child, and vice versa.

DETERMINING IF A RETURN SHOULD BE PREPARED

- Charts A through C of **Pub 4012** (tab A) cover who **must** file.
  - **Unusual filing thresholds or requirements:**
    - The filing threshold is **$5** for MFS returns and for MFJ returns where the taxpayer and spouse were separated as of December 31.
    - If filing MFJ, and either (a) the taxpayer did not live with the spouse on December 31, or (b) the spouse died during the tax year and two lived apart on the date of death, then the filing threshold is **$1** of gross income.
      - "Lived apart" means in separate households, not a temporary absence, such as being in a hospital.
    - If the taxpayer received a Form 1099-S, the taxpayer must file to report the sale, even if there is no tax due or other filing requirement.
  - ***CA process note:*** A dependent may have no **federal** filing requirement but still be required to file a **CA** return. For 2024, if a dependent had income of more than $5,540 ($11,080 if filing MFJ, HoH, or QSS), then the dependent must file a CA return (and a federal return should also be prepared, since the CA return uses federal tax information as its base).
    - However, if *unearned* income is greater than $450, then there is still a filing requirement if total income is greater than $1,300.
- Chart D of **Pub 4012** (tab A) lists who would **benefit** from filing, even if they have no filing requirement. The most common situations are:
  - To get a refund of federal and/or state income taxes withheld (such as a return done for a dependent, who had taxes withheld on Form W-2)
  - To get an income-based **refundable** credit: federal EIC, American Opportunity Credit, etc.
  - ***CA process note:*** For tax year 2024, a taxpayer age 18-24 or 65+, with some earned income but no dependents, is not eligible for federal EIC, but **is** eligible for the *refundable* CalEITC if their (federal) AGI is less than the limit (see page **113**). If so, **they should file.**
- If the taxpayer has **no taxable income** – that is, AGI would be zero or even negative, but the taxpayer **needs** a tax return for legal or governmental reasons, or **wants** to file for any reason, including concerns about identity theft, then an adjustment is required so that the return can be e-filed; enter $1 as taxable interest, with the description "To enable efiling" or simply "Bank".
- If a taxpayer does not file a return, record the taxpayer as a Q&A on the daily Activity Log.
- For taxpayers who must file and who have one or more dependents old enough to work, ask about any earned income for the dependent(s). The dependent(s) may also be required to file (see **Pub 4012** page A-4).
- For taxpayers who must file and who have one or more dependents of any age, ask about any unearned income (typically interest, dividends, and/or capital gains) of the dependents.
  - A child under the age of 18, or under the age of 24 and a full-time student, is subject to the "Kiddie Tax". [Unearned income includes *all taxable income other than earned income*: taxable interest, pension and annuity income, etc. "Unearned income" for the purpose of the "Kiddie Tax" also includes taxable scholarship and fellowship grants not reported on a Form W-2.]

ORGANIZING YOUR WORK

- Putting documents in good order and keeping them that way through the entire process can reduce errors.
- While or after interviewing the taxpayer, sort all supporting documents by type, into the following sequence, if a Client Facilitator has not already done so. (The order follows the Intake Booklet.)
  - Last year's tax return
  - Social Security cards, ID cards
  - Income: W-2s, 1099s (INT, DIV, MISC, SSA, Retirement, and so on)
  - Expenses, deductions
  - 1095-A (marketplace health insurance)
- **Pub 4012**, starting on page O-10, has a helpful multi-page list of forms and topics for navigating TaxSlayer, showing the search keyword for each, the respective 1040 line, and how to navigate to the related page in the Federal Section of TaxSlayer.

STARTING A NEW RETURN

- On **Main Menu** page, go to the "Start New Tax Return" line and click "Select."
- Screenshots and other information about starting a return begin on **Pub 4012** page B-11.

Taxpayer Profile

- If a taxpayer profile other than "Basic (no Profile)" is selected, TaxSlayer will, *after* the Basic Information section has been completed, sequentially open each TaxSlayer page in that profile, in the sequence listed in the profile, for you to enter information. Your LC can change your taxpayer profile back to "Basic".
- Many tax returns involve Carryforward from the prior year; in such cases, a taxpayer profile is not useful. For that reason, and because the related TaxSlayer function, Quick File, has not been fully developed, this manual omits any further discussion of the taxpayer profile functionality.

Social Security Number

- If the return is for a **married couple**, one of whom is **deceased**, the Social Security number of the surviving spouse should be placed first on the tax return, as the primary taxpayer, regardless of whether that person was listed first on a prior year return. <u>But:</u>
  - ***Note:*** If Carryforward data is available from the prior year, and the <u>deceased</u> taxpayer was the <u>primary</u> taxpayer in that prior year, consider entering the SSN of the *deceased* taxpayer when starting a return, and then changing the information on the **Filing Status** page so that the surviving taxpayer is listed first. This option is desirable when the joint return has a lot of Carryforward data that otherwise would be lost.
    - If you choose this option, you must change names and Social Security numbers on the **Personal Information** page: the survivor becomes the primary taxpayer (is listed first) and the deceased person is listed as the spouse.
    - For this option, you also need to switch identification on various pages ("Whose W-2 is this?"; "Recipient" for 1099-Rs, and so on), as you enter dollar information. (If you're unable to switch identification, then delete the page and create it again with the correct taxpayer name.)
- **Any** of the following are acceptable by Tax-Aide for Social Security number verification when used together with an acceptable photo ID, per **Pub 4299, Privacy, Confidentiality, and Civil Rights - A Public Trust** and the AARP Tax-Aide Policy and Procedures Manual (PPM):
  1. **Last year's prepared and filed return**, unless self-prepared.
  2. Social Security card (a copy or photo is acceptable)
     - ***Note:*** The Social Security Administration (SSA) may issue a card with the notation "VALID FOR WORK ONLY WITH DHS AUTHORIZATION" – this is a valid Social Security number.
  3. **Social Security Benefit Statement, Form SSA-1099 or RRB-1099**
     - ***Note:*** SSA documents which show only a partial (truncated) SSN (such as ***-**-1234) **are** acceptable for Social Security number verification **if** the number is consistent with other taxpayer documents, at least one of which must show the full SSN, and the taxpayer presents acceptable photo identification.
  4. **A letter from the SSA showing name and Social Security number**, or other documents from the SSA.
  5. **An IRS letter or card assigning an ITIN**.
- For privacy reasons, don't ask a taxpayer to state their SSN aloud or say it aloud yourself.
- If a tax form, such as a W-2, has an incorrect SSN, <u>the return cannot be e-filed.</u>

- Rather than paper file, the taxpayer may, as an alternative, contact the payer to get a corrected tax form and then return to the site with that corrected form. If the taxpayer wants to do this, complete the return as far as possible, then mark it with a note and a return tag indicating that more information (the corrected form) is needed.

- If the taxpayer has a nine-digit number beginning with 9 and a fourth digit of 7 or 8, this is an ITIN , not a SSN. [See the section Individual Taxpayer Identification Number (ITIN), page **141**.]
  - The taxpayer should bring the IRS letter which assigned their ITIN.
    - If a tax form has an incorrect ITIN, the return cannot be e-filed. However, if a tax form has a (bogus) SSN, **this does not affect the ability to e-file the return.**
  - For expired or expiring ITINs, see the section Individual Taxpayer Identification Number (ITIN), page **141**.
- If the taxpayer has neither an SSN nor a valid ITIN, the taxpayer must file a Form W-7 with the tax return.
  - Enter 000-00-0000 as the SSN.
    - TaxSlayer assigns a non-duplicative SSN for such returns for your site, starting with 000-00-0001, and incrementing by 1.
  - The return must be paper filed. (After the Basic Information section is completed, create a note (page **8**) saying that, and include the reason.)
  - See instructions in the section Paper Returns that Include a Form W-7, page **129**.

Carryforward Information from the Prior Year Return

- If TaxSlayer finds the previous-year tax return for the SSN that you entered, and Carryforward is possible to the current return, it displays a **Pull Data to Current Return** page.
  - Carryforward is possible in two situations:
    - The previous return was done at the site where the tax return is being done.
    - The previous return was done at a Tax-Aide, other TCE, or VITA site, and the taxpayer agreed to the first consent, which authorizes Carryforward to **any** Tax-Aide/TCE/VITA site.
  - **Before** clicking "Continue" to accept the default of carrying forward **all** prior year data:
    - Compare the current year tax documents provided by the taxpayer against what is listed on the TaxSlayer page, to identify missing documents for the current year.
    - Uncheck the "Pull Item?" box for any document, such as a 1099-R or 1099-INT, where the taxpayer is certain there was no withdrawal, or the account was closed, or other reasons why there is no current year document.
      - ***Warning:*** If the prior year return was MFJ, but the current year return is not (most commonly because the spouse died during the prior year), *make sure all Carryforward items for the person no longer on the return* ***are removed*** *before telling TaxSlayer to continue.* Else, the only way to remove an erroneous spousal Carryforward item, such as a 1099-R, is **to add the spouse back to the return, delete the item, then delete the spouse.**
      - Otherwise, when in doubt, leave a document in. The taxpayer may be mistaken and the paper document may turn up.
    - Likewise, review dependents. When in doubt, **leave dependents in**. They are easy to remove later, but difficult to add (e.g., taxpayer may not have brought dependent Social Security cards); re-entering dependent information incorrectly can easily cause an e-file reject.
    - Similarly, review the Carryforward notes – delete those that are not relevant to the current *or a future* return.
      - When in doubt, leave the note, but edit it to make clear that it is from a prior year. (Deleting a note from the current return does *not* remove it from the prior return.)

OPENING AN EXISTING RETURN

- You can open a previously created return from the **Main Menu** by selecting "Client Search." That takes you to the **Client Search (Office Client List)** page. (In TaxSlayer, "office" is the equivalent of "site".)
  - You'll see a list of returns, sorted by Social Security number. (This may not be obvious, because the first five digits of SSNs may be replaced by five "Xs" per your LC's decision.)
    - ***Note:*** Your LC may let you see only the returns you created. If so, and if accepted returns are moved to an "archive" preparer name (such as "Z ZZSITE"), the list will be quite short.
    - Clicking on "Do Not Show Accepted Returns" is the other way to shorten the list.
  - You can sort the list by clicking on a column name, such as "STATUS" or "LAST".

- If the list of returns is more than one page, you can use the "Search Client list" box to search for text (part of a taxpayer's first name or last name, typically) or a number (part of a taxpayer's Social Security number or phone number).
  - ***Note:*** The search also includes the "PREPARER" column.
  - ***Note:*** If you're looking for a return that is in progress, checking the "Do Not Show Accepted Returns" box may be very helpful.
- When you find the return you want, click the "Select" button. TaxSlayer will open the return at the **Summary/Print** page, displaying "Calculating Return."
  - You can stop the calculating by clicking on either "Basic Information" or "Federal Section" in the left navigation bar.
- After it finishes calculating, TaxSlayer displays the **Calculation Summary** page for the return.
  - The **Calculation Summary** page, when initially opened, compresses the left navigation bar to a thin strip with only icons showing. You can expand the left navigation bar by clicking the double right arrows at the top, but you can also just *click an icon* - for example, click the stethoscope icon to go to the Health Insurance section.
    - ***Note:*** To stop the "Calculating Return" process when you go into a return, click on a section name in the left navigation bar.
  - Alternatively, you can select a line in the Form 1040, or one of the six supporting schedules, for which you want to enter information or review entries; click on the blue dollar figure to go to the relevant page.
  - *New:* If you click the "Go to Last Checkpoint" button, TaxSlayer goes to the last page that was accessed in the return prior to reopening it, not including the **Calculation Summary** page itself.
- ***Note:*** If a return was started by *someone else* but is not yet complete, your LC may have to assign the return to your username so you to see the return and select it for editing.

BASIC INFORMATION

- Starting on page B-17, **Pub 4012** describes in detail how to complete the Basic Information part of a return in TaxSlayer (four sections).
- Enter the required basic information using the first page of the taxpayer-completed Intake Booklet, plus last year's return, if available. Information about the taxpayer(s) and any dependents then flows from the Basic Information section to other pages in TaxSlayer.
  - **Pub 4012** pages B-6 and B-7 explain the various fields on the first page of the Intake Booklet.

FILING STATUS

- ***Note:*** If the person listed as the *taxpayer* (as opposed to the *spouse*) is a nonresident alien (see **Pub 4012** tab L) to help determine this), the return is ***out-of-scope***.
- Click to select the correct filing status. If you are unsure, the best options are:
  - AARP Foundation's "**Qualifying Child or Relative Resource Tool**" has a decision tree for determining filing status, as well as a page of "Helpful Definitions". The decision tree is especially helpful for Head of Household and Qualifying Surviving Spouse filing statuses. (This is discussed on page **20**.)
  - **Pub 4012** page B-14 has a six-question interview.
  - The IRS online "Interactive Tax Assistant" at **irs.gov/help/ita** (select "What is My filing Status?").
  - **Pub 501, Dependents, Standard Deduction, and Filing Information**, is the authoritative source.
- ***Do not use*** TaxSlayer's Filing Status Wizard. ***TaxSlayer does not guarantee that the wizard covers all circumstances or that the result is correct.***
- ***Warning:*** If you change the filing status in a return, *TaxSlayer erases the entire State return.* So if there are any doubts about a filing status, resolve them before creating the State return or entering any needed information in the State Section.

Married

- An individual is "married" if they are married under domestic or foreign law as of December 31 of the tax year.
  - The IRS considers someone to be married unless there is a court decree for legal separation, including separate maintenance, or the marriage is permanently dissolved by divorce, or by death ***in a prior year***.

    - If there is a court decree for legal separation as of year-end, individuals must file as "Single" or, if they qualify, as "Head of Household".
  - Rules for determining filing status apply equally to common-law marriages which were established in a state that recognizes this type of marriage. **But see CA policy under Single status**, page **16**.
    - *CA legal note*: A common-law marriage cannot be created by consent or cohabitation within California boundaries; California does not recognize such situations as creating a legal marriage. But it does recognize common-law marriages created in other states.
  - Filing rules are not affected if the spouse is a US citizen or resident alien who resided outside of the U.S. during the tax year.
  - Filing rules are not affected if the spouse does not have a Social Security number or ITIN.
- A surviving taxpayer normally would file as MFJ if their spouse died during the tax year, with the deceased spouse still listed on the tax return.
  - ***Warning:*** It is strongly recommended that the surviving spouse be listed *first* on the MFJ return, *particularly* if the return shows a refund due.
    - Putting the surviving spouse first does *not* prevent Carryforward *if* you create the return using the SSN of the person listed first on the prior year's return. But if you do that, you and the deceased taxpayer is listed first, you need to *switch,* on the **Personal Information** page, the two names, two SSNs, and two DOBs, and for documents carried forward, such as 1099-Rs, you need to *change* "Taxpayer" to "Spouse", or vice versa.
  - If the taxpayer ***remarried during the tax year***, the MFJ filing would be with the new spouse, and the filing status for the tax return of the deceased spouse would be MFS.
    - *CA policy:* If the deceased spouse lived with, or commingled funds with the surviving spouse for any part of the tax year, then both the MFJ and MFS returns are ***out-of-scope***.
- Married persons must file as MFJ, MFS, or HoH; they aren't eligible to file as Single.
- If either the taxpayer or spouse is geographically unavailable, an MFJ return is **still in scope** and can be prepared but must be done as a **paper return**.
  - The taxpayer who is being helped is responsible for getting the signature of his or her spouse on the federal and state returns.
- If the spouse is a nonresident alien, an election can be made for the spouse to be treated as a resident, in which case the spouse's worldwide income must be included in the return. If the taxpayers wish to make this election, the return is ***out-of-scope*** **the first year** of this election. See **Pub 4012** pages L-3 to -4 for details.
- *CA policy:* Tax returns for couples who are registered domestic partners (RDP) in CA are ***out-of-scope***.
  - Such couples **cannot file as MFJ on their federal return**. They are not legally married for federal tax purposes, though they do file as if legally married for state tax purposes.
  - The IRS has ruled that RDPs must each report, on their tax return, half the combined [community] income earned by the partners, with exceptions explained in Pub 555 (TaxSlayer doesn't correctly handle the exceptions). Determining what is community income, and income splitting, are both ***out-of-scope***, so doing a federal return for someone who is an RDP is ***out-of-scope***.

Married Filing Separately

- MFJ is *almost always* a better filing status than MFS, but a married taxpayer may be unable or unwilling to file MFJ, and it requires the spouse's participation.
- If at year-end the taxpayer has a court decree for legal separation, the filing status must be either Single or HoH; MFS is *not* an option.
- For a taxpayer who is **not** legally separated: before deciding that the filing status should be MFS, see if the taxpayer qualifies as HoH, which is more advantageous. For HoH, the person must:
  - Meet all five tests shown in box 7 of the "Determination of Filing Status – Decision Tree" on page 8 of the AARP Qualifying Child or Relative Resource Tool, **and**
  - Meet all California conditions for filing as MFS (even though filing as HoH); see next paragraphs.
- *CA policy:* CA state coordinators decide if their districts can prepare MFS returns, **including married HoH**.
  - For tax year 2024, all districts in **CA1**, **CA2** and **AZ** *will* do MFS returns, if all criteria (below) are met; all districts in **CA4, CA5** and **NV** *will not* do MFS returns; and in **CA3**, District Coordinators will decide whether their districts will do MFS returns, for returns where all criteria below are met.
- *CA policy:* In California, a community property state, Tax-Aide will prepare a return as married HoH or MFS **ONLY** when all the following conditions are met [these conditions are more restrictive than those in **Pub 555, Community Property**]:

1. Preparation of the return is approved by the LC each year.
2. The couple has separated, has lived apart the entire year, there was no intention to reconcile throughout the tax year, AND there continues to be no intention to reconcile.
3. The taxpayer and spouse have not communicated about, or agreed to, an allocation of any community income.
4. If the taxpayer has earned income, the taxpayer and spouse did not transfer, directly or indirectly, any of this earned income before the end of the year (excluding transfers satisfying child support obligations or transfers of under $100). The taxpayer must report all earned income on his or her return.
5. The taxpayer reports all his or her Social Security payments in full on the tax return, and reports all his or her 1099-R payments in full on the tax return.
6. The taxpayer is willing to report, and does report, both separate (that is the taxpayer's) and community-property interest, dividends, and capital gains on the return, with nothing allocated to the spouse.

- Filing as MFS requires the completion of Form 8958, Allocation of Tax Amounts Between Certain Individuals in Community Property State. *It is recommended that you do this before entering any income.*
  - Go to the **Married Filing Separately Allocations (Form 8958)** page [Federal > Miscellaneous Forms].
    - If you go to this form *before* entering any income information in TaxSlayer, you don't need to allocate any income to the spouse.
    - [Workaround] If you go to this form *after* entering one or more income items in TaxSlayer, allocate $1 to the spouse for each of those items, as TaxSlayer incorrectly won't allow $0.

Head of Household

- Normally a person filing as HoH is unmarried. But a married person **can** file as HoH rather than MFS if they meet all five tests on the right side of the "Determination of Filing Status – Decision Tree" page of the Qualifying Child or Relative Resource Tool.
  - ***CA policy:*** Because CA is a community property state, a HoH return is ***out-of-scope*** for a married taxpayer unless that taxpayer has lived apart from their spouse *for the entire year,* and is also ***out-of-scope*** if there was **any** commingling of funds during the year, excluding transfers for child support obligations or transfers under $100. See preceding section for the 6 criteria that must be met.
    - ***Note:*** **In CA4, CA5,** and **NV,** a legally married taxpayer must file as MFJ or the return is ***out-of-scope.***
- If the filing status is marked as "Single", and an entry is made in TaxSlayer's Dependent section, TaxSlayer then asks "You've selected a Single filing status but also added a dependent. Would you like to change your filing status to Head of Household?"
  - *Do not change the filing status* simply because TaxSlayer suggests this option. The "Single" status should have been selected *after* determining that no other person listed on page 1 of the Intake Booklet was a qualifying person for HoH status. If that determination wasn't made, then see the discussion at the beginning of the "Filing Status" section.
- ***Note for CA returns****:* California requires an additional form, CA Form 3532, for those filing HoH.
  - TaxSlayer offers the option to complete this form immediately after you finish the **Personal Information** page. However, if the needed dependent information doesn't yet exist (no Carryforward, or a new qualifying dependent), then don't accept this option – complete the CA Form 3532 later.
  - Failure to complete the form *will* generate a warning message when starting the E-file section.
  - The page for entering information is at State Section > Basic Information > **Complete California Form 3532 (Head of Household)**.
    - TaxSlayer has a drop-down list to select the qualifying child.
      - ***Warning:*** TaxSlayer lists *all* dependents, rather than just dependents who qualify the taxpayer for this filing status.
    - "Number of days … " is normally 365 or 366 for those born during the year or died during the year.
    - For dependent income, enter the *federal* income of the dependent.
  - [Workaround] If TaxSlayer's E-file section reports an error for this form, review it and make corrections. If you find no errors, or TaxSlayer doesn't change the error message after you fix a mistake:
    - Save and exit the return, then reopen it to see if the error message has gone away.
    - If the error message persists, delete the entire CA state section and recreate it, being careful to correctly enter all required information in the TaxSlayer page for the Form 3552, as well as redoing any other state-related pages in which you entered information.

- ***Note for CA returns**:* If the taxpayer cannot file as HoH because the qualifying relative for HoH died within the previous 2 tax years, **and** the taxpayer was at least 65 years old at year-end, see the Senior Head of Household Credit, Code 163, CA Form 540, Page 2, lines 43-45 section, page **113**.
  - ***Note:*** This CA credit is nonrefundable. If CA Form 540, page 2, line 34, Tax, is zero, then there is no point in adding this credit to the CA return.

Qualifying Surviving Spouse

- QSS status preserves the benefits of filing as MFJ.
- If the taxpayer's spouse died within the prior 2 tax years, the taxpayer did not remarry by December 31 of the tax year, and the taxpayer has a child or stepchild for whom the taxpayer *can* or *might have been able to* claim a dependent exemption for the current tax year, the taxpayer can file as QSS.
  - A child <u>does</u> qualify as a dependent if they *would have been* a dependent except (a) the child's income is too high; (b) the child is filing a MFJ return, or (c) the *taxpayer* is a dependent of someone else.
- QSS status also requires that:
  - That child must have lived in the taxpayer's home, except for temporary absences, for the entire year.
  - The taxpayer *did or could have* filed as MFJ for the year of the spouse's death.
  - The taxpayer paid more than half the cost of keeping up their home during the year.
- If the taxpayer appears to meet the above criteria, use the resource documents listed at the top of the Filing Status section (page **13**) to confirm eligibility.

Single

- As noted above, a person who is married at year end, and has no separation agreement in place by that time, can file as MFJ (with his or her spouse); as HoH, with a qualifying dependent and if meeting all other requirements; or as MFS. What that person **cannot** legally do is file as Single.
- ***CA policy:*** Because CA is a community property state, the return of a taxpayer who becomes divorced or legally separated *during* the tax year, and wants to file as single, is ***out-of-scope*** if the taxpayer did not *live apart from his or her spouse for the entire year* and is also ***out-of-scope*** if there was **any** commingling of funds, other than alimony paid after the date of the divorce decree or legal separation agreement.

<u>PERSONAL INFORMATION</u>

Names

- When the return is e-filed, the IRS checks only the first four characters of the last name against their records.
  - You should check tax documents, such as Form W-2s, to make sure that the taxpayer's name is correct, keeping in mind that only those first four characters are critical. If there is an incorrect name, the **return must be paper filed**.
    - After the Basic Information section is completed, create a note (see page **8**) saying that, and why.
    - Rather than paper file, the taxpayer may, as an alternative, contact the payer to get a corrected tax form and then return to the site with that corrected form. If the taxpayer wants to do this, complete the return as far as possible, then mark it with a note and a return tag indicating that more information (the corrected form) is needed.
- The taxpayer's first name(s), initial, and last name, in TaxSlayer, should be as they appear on their Social Security card, prior year tax return, Social Security statement, etc. A hyphen can be entered only as part of a *last* name; for a first name, use a blank space rather than a hyphen.
  - If the taxpayer provides the prior year's return, use the name as entered and successfully filed last year, unless the taxpayer has notified the Social Security Administration (SSA) of a change in name (such as because of a marriage).
    - If the SSA has been notified, use the new name in the tax return, and put information about the old name into a note (see page **8**).
    - If the taxpayer has **not** notified the SSA about a name change, or is unsure, use the prior name, but put information about the new name into a note (see page **8**).
  - If no prior year return is available, then consider the following:
    - Examples of how to determine the last name of a taxpayer start on **<u>Pub 4012</u>** page B-19.
    - When the Social Security card has multiple names, normally you enter all but the last in the first name field, leaving a space between each name. (For example, someone named ELIAM HUNTER

SYKES WINSDORSON would have WINSDORSON as the last name, ELIAM HUNTER as the first name, and "S" as a middle initial, because the first name field is limited to 14 characters.)

- *However,* for some Hispanic names, the last two names may constitute the legal last name. In that case, they should both be entered in the last name field.
- Another exception: when the SS card prints the name on two lines, generally the second line consists of what SSA considers the last name. Use the entire second line as last name.

- It is good practice to enter questionable last names on the Social Security card or ITIN letter into a note (see page **8**), for use by your ERO in case the last name causes an e-file reject.

- For MFJ returns, TaxSlayer automatically enters the Spouse's last name as being the same as the Taxpayer. If it is different, then change it.
- ***Note for CA returns:*** If the last name of the taxpayer (or if a MFJ return, the spouse) has changed from the prior year tax return, enter that information in the State Section (Basic Information > Additional Personal Information).
- ***Note for CA returns:*** If the last name of the taxpayer includes a hyphen, TaxSlayer removes the hyphen on the CA return, to prevent the CA return from being rejected.

Date of Birth

- If an age-dependent credit is claimed, the IRS checks the date of birth against the IRS records.
- If the taxpayer was 71 to 73 years old on December 31 of the tax year, and has Form 1099-R income from an IRA, 401k, or similar source, review Required Minimum Distribution (RMD) requirements with the taxpayer.
  - A taxpayer's first RMD now is required in the year they reach age 73; though it can be deferred until April 1 of the following year. (If deferred, the taxpayer must take *two* RMDs in that following year.)
    - ***Note:*** Those born before January 1, 1950 (those who were age 72 by December 31, 2022) were required to start taking RMDs earlier, so should not need any reminders.
  - More information about the RMD requirements and penalties can be found below, in the section 5329 Part IX – RMD Not Taken, page **99**.
- The age of the taxpayer as of December 31 of the tax year is shown on the **Calculation Summary** (Form 1040) page (select Summary/Print on the left navigation menu), which also shows the age of the spouse (if any) and each dependent (if any).

Spouse Social Security Number

- See the section Starting a New Return, page **11**, for acceptable means of SSN or ITIN verification.
  - For expired or expiring ITINs, see the section Individual Taxpayer Identification Number (ITIN), page **141**.
- For **MFS returns**, if in scope, where the spouse's SSN or ITIN is unknown, enter 111-00-1111. The return cannot be e-filed; the return **must be paper-filed**; write "unknown" wherever the spouse's SSN appears on Form 1040 and related forms.
  - After the Basic Information section is completed in TaxSlayer, create a note (page **8**) saying the return must be paper-filed, and why.
- For **MFJ returns**, if the spouse has neither an SSN nor a valid ITIN, there are two possibilities: (1) the spouse is a nonresident alien **and** the taxpayer doesn't want to apply for an ITIN for the spouse, or (2) the taxpayer wants to file a Form W-7 with the tax return, in order to apply for an ITIN for the spouse.
  - For a nonresident alien <u>not</u> applying for an ITIN, enter 111-00-1111 for the SSN. Otherwise, to start the process for applying for an ITIN, enter 000-00-0000; after you click "Continue", TaxSlayer replaces the SSN field with a note saying, "This return contains a Form W-7, Application for an ITIN for this Spouse."
  - The return **must** be paper filed; after the Basic Information section is completed, create a note (page **8**) saying that, and why.
  - If you entered 000-00-0000, the first page for W-7 information (asking the reason for filing the W-7) **must** be completed to avoid an error message.
    - In TaxSlayer, the page is at Federal Section > Miscellaneous Forms > **Application for ITIN (Form W-7)** [not reachable via the search box].
    - Instructions for the form can be found at **irs.gov/pub/irs-pdf/iw7.pdf**; note the requirement for the taxpayer to provide supporting documentation when the form is submitted.

  - If one or more fields on the printed Form W-7 are blank because a question(s) was not answered in TaxSlayer, tell the taxpayer they must fill in these fields manually before submitting the Form W-7 with the tax return.

Occupation(s)

- Complete as appropriate – RETIRED, UNEMPLOYED, and STUDENT are acceptable.
- DECEASED is the appropriate entry if the Taxpayer or Spouse died during or after the tax year.
  - See the "*Fourth box"* discussion in the next section for more entries for a deceased taxpayer or spouse.

Other Personal Information

Note*: there are 12 boxes below the Taxpayer's occupation, and nine boxes below the Spouse's occupation. The numbering below is for the Taxpayer's boxes. (For three of the Taxpayer boxes, the response depends on* the situation with both *Taxpayer and Spouse.)*

- [*First box*] Do *not* check "Check here if the Taxpayer can be **claimed as a dependent** on someone else's return" if **both** of the following are true, because if both are true, the taxpayer *can* claim others as dependents. [Checking the box prevents the taxpayer from being able to claim any dependents.]
  - (1) The person who *could* claim the taxpayer as a dependent *is not required to file a tax return*. (For example, most of that person's income was from Social Security.)
  - (2) The person who *could* claim the taxpayer as a dependent either (a) didn't or won't file a tax return for the year, or (b) did or will file a tax return, but **only** to claim a refund of estimated or withheld taxes and didn't or won't list the taxpayer as a dependent.
  - ***Note for CA returns:*** If you checked that the taxpayer (or, for a MFJ return, the spouse) can be claimed as a dependent on someone else's return, you **do not** need to enter that information in the State Section; TaxSlayer automatically makes the appropriate adjustments on CA return.
- [*Second box*] A **full-time student** is a person who was enrolled for some part of at least five calendar months (which need not be consecutive) in a given calendar year, where the enrollment was for the number of hours or courses considered full-time attendance by the school. *Note that this is* ***different*** *from the American Opportunity Credit criterion of "at least half time".*
  - Student status can be critical in determining if someone is a qualifying child.
  - irs.gov's **Qualifying Child Rules** ("Age" section) has detailed definitions of "full time" and "school".
- [*Third box*] If the taxpayer and/or spouse qualify as **blind**, check the appropriate boxes.
  - The taxpayer should keep a letter from a physician or optometrist if this is the first time they qualify.

Deceased Spouse/Taxpayer

- [*Fourth box*] If the taxpayer or spouse is **deceased**, check the box and enter date of death.
  - Date of death is matched with the IRS's database (obtained from SSA) – a mismatch may cause an e-file reject.
    - Note: The Tax-Aide program does **not** require taxpayers to provide a death certificate.
  - Advise the taxpayer that IRS processing time is longer for a deceased taxpayer return.
  - If the deceased taxpayer had a pension without survivor benefits, any unrecovered employee pension contributions may be reported on Schedule A line 16, on the final tax return for that taxpayer. See **Pub 575, Pension and Annuity Income**, for details.
  - If the return is filed by someone *other than* a surviving spouse, there are additional requirements **if a refund is due**, because *the IRS won't issue a refund in the name of a deceased taxpayer*. Specifically, the return must **include a Form 1310,** Statement of Person Claiming Refund Due a Deceased Taxpayer. There are two options: (1) e-file, with this form included in the return, and separately mail the form, signed, to the IRS, with any required documentation as described in the **instructions that accompany that form**.; or (2) paper-file the return, and *either* (a) attach a Form 1310 and any required documentation for that form, *or* (b) attach a court certificate showing appointment of the taxpayer as the personal representative for the estate.
    - Regardless of whether option (1) or option (2) is chosen, create a note (per page **8**) saying what is being done and why.
    - If e-filing, complete the page **Form 1310 for Refund Due a Deceased Taxpayer [**Federal Section > Miscellaneous Forms > Claim a Refund Due to a Deceased Taxpayer].
      - Print an extra copy of the Form 1310 for the taxpayer to sign and mail to the IRS.

        - ***Note for CA returns:*** For this situation (return not filed by a surviving spouse, **and** a CA refund claimed), either Form 1310 with any appropriate supporting documents, or certified copies of the letters of administration or letters of testamentary, must be submitted with the state return, which should be **paper filed.**
    - ***Note for CA returns:*** Additional information concerning a deceased taxpayer **must** always be entered in the State Section. This can be done after finishing the Basic Information section of the federal return. *TaxSlayer should issue a State Validation Error if you forget to do this.*
        - Go to the **Complete If The Taxpayer Or Spouse Listed On The Return Is Deceased** page [State Section > Basic Information > Deceased Taxpayer or Spouse].
        - Enter the name of the guardian or executor in the Guardian\Executor field at the top of the screen. If MFJ, this is normally the surviving spouse. In this case, TaxSlayer correctly fills in the Decedent Representative Information section below. If the surviving spouse is listed as the Taxpayer on the current return as recommended on page **11**, the Taxpayer's name should be in the Spouse fields, and the Taxpayer fields blank.
        - For an unmarried deceased taxpayer, or if both taxpayer and spouse are deceased, enter the name of the person who is their representative or executor as Guardian\Executor and enter that person's name again in the Taxpayer fields below, and in the Spouse fields if applicable.

- [*Fifth box*] If the taxpayer has indicated that they want to direct an amount to the **Presidential Election Campaign Fund** (in the Intake Booklet), then check the appropriate box(es).
    - This has no effect on the calculations for taxes owed or refunds due.
- [*Sixth box*] If the taxpayer or spouse served in a **combat zone** during the current tax year, the return is ***out-of-scope*** for Tax-Aide sites without Military certification.
- [*Eighth box*] For **digital assets**, including cryptocurrency, virtual currency, and non-fungible tokens (NFTs), if the taxpayer had *income* from a digital asset, *the return is* ***out-of-scope***. But if the taxpayer simply purchased a digital asset (with U.S. dollars) and held it, there's no income to report; the return is in-scope.

Address

- The address entered in TaxSlayer is the **current mailing** address of the taxpayer, not the address where the taxpayer lived during the tax year, nor the physical address where the taxpayer currently lives *if* the taxpayer has his or her mail sent to another address.
- In the "Address (Number and Street)" field, fractions are allowed. This is also the field where a post office box or private mailbox ("PMB") would be entered; the PMB goes at the *end* of the field.
- The "Apartment" field is limited to letters and/or numbers and cannot be more than six characters. If necessary, put information like "Space 203" (for a mobile home) in the main address field.
    - TaxSlayer does not carry information in the Apartment field to the address line of tax documents entered in TaxSlayer. (Since the IRS does *not* validate addresses on tax documents, this isn't a big deal.)
- ZIP code – entering the ZIP code automatically fills the city and state, but you may need to manually change the city if the ZIP code is shared by multiple cities.
    - If entering the ZIP code doesn't automatically fill the City and State fields, recheck the ZIP code that you entered.
- ***Warning:*** if a TaxSlayer page that has the taxpayer address (such as the **W-2** page) has been used, and subsequently the address in the **Personal Information** page is corrected, the correction *won't affect the TaxSlayer pages that have already been used.* In this example, the **W-2** page needs to be edited again to change the incorrect taxpayer address on that page.
- ***Note for CA returns:*** If the address has changed from that on the prior year tax return, that fact should be in the State Section (Basic Information > Additional Personal Information).

Phone Number

- *TaxSlayer requires a telephone number for the taxpayer to complete the **Personal Information** page.*
    - If the taxpayer does not have a phone or is unwilling to provide a number, ask them to provide the phone number of a friend, relative, or neighbor, "just in case."
        - If the phone number entered is not that of the taxpayer, also create a note (see page **8**).
- A phone number is important because **Tax-Aide may need to call the taxpayer when a return is rejected**, or where we belatedly discover that there is an error in the return, or when the taxpayer leaves items behind.
- Page 1 of the Intake Booklet asks for one phone number for the taxpayer and one for the spouse.

  - o If these are the same, enter the number as the Daytime Telephone number.
  - o If they are different, or if a taxpayer provides both a regular phone number and a cell phone number, enter one as the Daytime Telephone number and the other as the Secondary Telephone number.

Primary Client Email

- The Intake Booklet has space for the taxpayer to enter one e-mail address (page 1).
- Starting with tax year 2022, you may enter the taxpayer's email address on the **Personal Information** page.
  - o For MFJ returns, TaxSlayer displays an additional field for the email address of the spouse.
- *Before you enter email addresses, check with your LC that these will be useful.*

DEPENDENTS AND QUALIFYING CHILDREN

- There are several good resources for determining if someone is a qualifying child or qualifying relative, including whether that person can be used to claim EIC:
  - o AARP Foundation's "Qualifying Child or Relative Resource Tool", D19929, formerly the Tri-Fold.
    - ▪ LCs may order the **June 2023** laminated version via the Portal; any future corrections are on this errata sheet: **ta-nttc.tiny.us/QC-QR-Tool-Errata** .
    - ▪ The **June 2023** fully-updated version is available at **ta-nttc.tiny.us/QC-QR-Tool**.
  - o The Dependent Qualification Calculator at **cotaxaide.org/tools/Dependent Qualification Calculator.html**
  - o **Pub 4012** tab C
  - o The IRS "Interactive Tax Assistant," at **irs.gov/help/ita** (select "Whom May I Claim as a Dependent?")
- Student status can be critical in determining if someone is a qualifying child. A **full-time student** is a person who was enrolled for some part of at least five calendar months (which need not be consecutive) in a given calendar year, where the enrollment was for the number of hours or courses considered full-time attendance by the school. *Note that this is **different** from the American Opportunity Credit criterion of "at least half time".*
  - o irs.gov's **Qualifying Child Rules** ("Age" section) has detailed definitions of "full time" and "school".
- ***Note:*** Starting with the 2018 tax year, the term "dependent" essentially means a person who qualifies the taxpayer for either the child tax credit ($2000) or the credit for other dependents ($500).

Entering Information in TaxSlayer

- The "Dependents/Qualifying Persons" section of TaxSlayer is where two types of people are entered:
  - o Living in the taxpayer's household, and either having a relationship (parent, daughter, etc.) or getting more than half of their support from the taxpayer – those who meet the support test (if a QC, that person doesn't provide more than half their support; if a QR, the taxpayer provided more than half the support)
  - o Not living in the taxpayer's household, but having a relationship (parent, son, etc.) and being supported by the taxpayer.
- TaxSlayer automatically enters the taxpayer's last name as the dependent's last name. If that is incorrect, then change the last name.
- Enter dependents and qualifying children [starting with the youngest one first].
  - o ***Note:*** The Intake Booklet asks the taxpayer to list "everyone who lived with you last year". A taxpayer who follows this instruction may list someone who is neither a qualifying child nor a dependent (such as a roommate who pays a portion of the rent of an apartment). In such cases, ***don't*** enter that person in TaxSlayer. [Generally, the taxpayer won't know that person's SSN/ITIN, and won't understand why we are asking for such information.]
- Checking the box labeled "Check box if the dependent does not have an SSN/ITIN/ATIN", and then checking "Yes" for "This dependent will be completing a Form W-7, Application for ITIN:" requires completing Form W-7 within TaxSlayer.
  - o Such a return **must be paper-filed** - create a note (page **8**) saying that.
  - o See instructions in the section Paper Returns that Include a Form W-7, page **129**.
- ***Note for CA returns:*** California gives an exemption credit for dependents who would otherwise qualify but do not have a Social Security number and are ineligible for an ITIN. (If eligible for an ITIN, the taxpayer should file a W-7 – see previous paragraph.)
  - o To claim the CA dependent exemption credit in this situation, taxpayers need to complete FTB Form 3568, Dependent Identification Number Requirement Exception (available only by e-mail) and attach the documentation required by that form to their tax return.

- [Workaround] Checking the box that the dependent does not have an SSN/ITIN/ATIN, then checking "No" regarding filing a W-7 *blocks the federal return from being e-filed*. To avoid this problem, enter 111-00-1111 for the Social Security number of the dependent, and *answer "No" to "Was this person a U.S. citizen, U.S. national, or U.S. resident alien?"*
  - Explain the situation in a TaxSlayer note (page **8**).
  - The CA return must be **paper filed**; after printing it, line through the 111-00-1111 SSN and write "No ID".
- Relationship – choose from the drop-down list.
  - ***Note:*** An adopted or fostered individual is treated as if biologically related.
  - For a *stepparent*, use "Parent".
    - ***Note:*** A parent of a taxpayer's stepparent is considered unrelated.
  - For a *great-grandchild*, use "Grandchild".
  - For a *great-niece* (or grandniece), and for a great-nephew (or grandnephew), the entry in TaxSlayer **depends on whether the person is a qualifying child**.
    - If the person meets the criteria to be a qualifying child, use "Niece" or "Nephew".
    - Otherwise, use "None." The person is considered unrelated.
  - If an *in-law*, use "Other". (An in-law is never a qualifying child but *can* be a qualifying relative for things like HoH status, education credits, and child and dependent care.)
  - ***CA legal note:*** In California, someone aged 21 or older is no longer a foster child. If that child is disabled, the foster parent needs to formally adopt the child to claim him or her as a qualifying child.
- Number of months the dependent lived in the home – choose from the drop-down list.
  - For dependents who were born or died during the tax year, select "12."
  - A dependent is still considered to be living with the taxpayer when the taxpayer or the dependent is *temporarily absent* from the home because of school, business, military service, medical care, or vacation.
  - [Workaround] If the individual is a **qualifying relative** who did NOT live in the taxpayer's home for one month or more (such as a son or daughter over the age of 24, living elsewhere all year, fully supported by the taxpayer), then select "Other Reasons," rather than entering zero.
    - If you enter zero months, TaxSlayer will only give the credit for other dependents if you tell it the parent has a Form 8332.
  - If the taxpayer is a noncustodial parent who has the right to claim a dependent credit for a **qualifying child** who lived with the custodial parent, **choose "Divorce/Separation". DO NOT enter "0" months**.
    - A divorce decree can be used in place of a Form 8332 only if it clearly states the name(s) of the dependent children and the years (including "ongoing") for which the claim to exemption has been released.
    - Click "Continue" twice to get to a checkbox to indicate this.
    - *Tax-Aide no longer sends Form 8332 to the IRS.* ***Inform the taxpayer that they must retain that form for their records and provide it to the IRS upon request.***
- In the "Please answer the following" section:
  - "Over age 18" means that the dependent was at least 19 years old as of December 31 of the tax year.
  - A **full-time student** is a person who was enrolled for some part of at least five calendar months (which need not be consecutive) in a given calendar year, where the enrollment was for the number of hours or courses considered **full-time** attendance by the school. *Note: this is different from the AOC definition of "at least half-time."*
    - If the dependent is age 24 or older as of December 31 of the tax year, checking the box for a full-time student makes no difference for tax purposes.
  - An **eligible educational institution** is an accredited postsecondary institution.
    - If there is any doubt as to accreditation, check the U.S. Department of Education database at **ed.gov/accreditation**.
    - Enrollment in high school *does meet the criteria for being a full-time student*.
  - "Check if this qualifying child is NOT YOUR DEPENDENT" should be checked if the person does not pass all the tests to be a dependent; for example, if that person provided more than half of his or her support for the year. (For more information about those tests, see **Pub 4012** tab C.)

    - Checking this box means that the person **won't be listed in the "Dependents" section of Form 1040.** It also prevents the taxpayer from getting the child tax credit or the credit for other dependents for that person.
    - *Tip: use this when you need to show the taxpayer the difference a dependent makes on the return.*
    - Also use this box if the person is not a dependent on the return but it's possible the person *will* be a dependent in the future. This prevents having to re-enter and reverify the dependent on a future return.
  - If the dependent is 16 years or older at year end, **ask** the taxpayer if the dependent is married or not; do not assume unmarried status.
  - The final checkbox, regarding a **Multiple Support Declaration, Form 2120** (latest revision is October 2018), is relevant only to **qualifying relatives**, not to qualifying children, and should be checked *only if the taxpayer did not pay over half of the dependent's support but still wants to claim the dependent as a qualifying relative.*
    - To make such a claim, no other person can have provided more than 50% support for the dependent.
- Taxpayers who are divorced or legally separated as of the end of a tax year cannot claim their (former) spouse as a dependent, even if that (former) spouse resides with the taxpayer, and even if the taxpayer provides more than half the support for the (former) spouse.

IRS IDENTITY PROTECTION PIN

- If taxpayer, spouse, or dependent experienced IRS-related identity theft (a fraudulent tax return was filed using their SSN/ITIN) and previously worked with the IRS to fix this, the IRS will issue a CP01A letter with an IP PIN for e-filing. The IRS sends a new IP PIN letter each year before the tax season; this PIN must be used for **all e-filed returns during the calendar year**, *regardless of tax year of the [amended] return*.
  - The taxpayer should mark "Yes" on Page 1 of the Intake Booklet for "… been a victim of tax related identity theft or issued an Identity Protection PIN?"
- Residents of all states can also voluntarily apply online to get an IP PIN, as described in **Pub 5367, Identity Protection PIN Opt-in Program for Taxpayers**. Then, each year they **must** obtain a new IP PIN through their account at **irs.gov/ippin**.
- For a MFJ return, enter the IP PIN only for whoever was issued the IP PIN on the IRS letter. (But check to see if both the taxpayer and spouse have an IP PIN.)
- An IP PIN is entered on the **IRS Identity Protection Pin** page, which can be reached in two ways.
  - From the **Basic Information** menu
  - In the Federal Section [Miscellaneous Forms > IRS Identification Pin]
- *New:* TaxSlayer now has an e-file warning if there was an IP PIN on the prior return but not the current return.
- If the taxpayer received an IP PIN but can't find it, there are three options:
  - The taxpayer can call the IRS ID Theft hotline, 800-908-4490, to get the IP PIN reissued. The IRS mails the IP PIN to the taxpayer's address of record within 21 days.
  - The taxpayer can go online (to **irs.gov/ippin** ; click "Get an IP PIN") and, by accessing or creating an account (see above), retrieve their IP PIN.
  - If the taxpayer can't retrieve or get a new IP PIN, the return **must be paper-filed** (create a note - page **8** - saying that).
- More information can be found on **Pub 4012** page P-5, "IP PIN Guidance for Identity Theft Victims."

INTAKE BOOKLET – ADDITIONAL NOTES

- The first several pages of the Intake Booklet consist of IRS Form 13614-C, Intake/Interview & Quality Review Sheet.
- Page 1 of the Intake Booklet has the information about taxpayer disability that isn't entered in the Basic Information section of TaxSlayer, but may require action:
  - If the taxpayer checked "Yes" for **"Totally and permanently disabled"** on page 1 of the Intake Booklet, then the taxpayer may be eligible for the tax credit on Schedule R, Credit for the Elderly and Disabled, because of that disabled status.
    - Detailed information on this credit, including other criteria such as low income, is on page **95**.
  - Note that page 1 does not ask if the taxpayer is single. Rather, an unmarried taxpayer must select from several options.

- *Note:* **Widowed** has potential implications for the cost basis of a sale of a home or marketable securities - see the sections Entering Capital Gains and Losses, page **49**, and Sale of Home, page **52**.

FEDERAL SECTION - INCOME

Note: **Pub 4012** page D-4 has a list of income that is *not* taxable and does *not* have to be entered in TaxSlayer.

LINE 1A - TOTAL AMOUNT FROM FORM(S) W-2

Go to the **W-2** page [Income > …]

- **Pub 4012** pages D-8 through D-10 explain how to enter Form W-2 information in TaxSlayer.

Substitute W-2

- *Note:* **Certain Medicaid Waiver Payments (MWP) are *not* reported on a W-2** (because no tax of any type was withheld), yet may still qualify the taxpayer for EIC. The IRS has instructed such taxpayers to treat the income as if on a W-2 (based on their last pay stub) even if they didn't receive a W-2 for these payments. *Note:* The IRS has *not* specifically said to "create a substitute W-2" for such income, but is a clear way to achieve the result. See the section W-2 Form – Excludable Medicaid Waiver Payments, page **27**, for MWP details, then (possibly) the instructions below.
- Otherwise, if the taxpayer hasn't received a Form W-2 by February 15th, and has tried and failed to get a copy from the employer, they can contact the IRS for possible assistance (800-829-1040 or in-person visit).
- Alternatively, a substitute Form W-2 can be used. This requires a pay stub for the last pay period for which pay was received in the tax year, showing cumulative pay, and withholding for the year.
  - Start a **W-2** page, as usual, but select "This is a substitute W-2."
  - Fill out the rest of the TaxSlayer **W-2** page as usual, except:
    - If the employer EIN is unknown, leave that field blank and see the next main bullet point.
    - ***CA process note:*** If the CA state EIN is not known, use "999999." ***Do not*** leave this field blank; that prevents the income from being used to calculate CalEITC.
  - When you click "Continue", TaxSlayer opens a page to collect additional information for Form 4852.
    - If the employee has an ITIN, do *not* enter an SSN.
- **A return with a substitute W-2 where the employer EIN is unknown must be paper-filed** - create a note (page **8**) saying that.
  - The taxpayer must sign Form 4852, automatically printed by TaxSlayer, mailed with the paper federal return.
  - ***Note for CA returns:*** The taxpayer must also sign CA Form 3525, mailed with the paper CA return.
- The taxpayer may need to follow up with the Social Security Administration to get credit for FICA taxes paid.
  - The taxpayer should wait until they get an SSA statement that includes the tax year for which the return is being prepared before contacting SSA.
    - If the SSA statement shows that the employer failed to report wages to the SSA, the taxpayer should give the SSA a copy of the Form 4852.
- If the taxpayer later gets a W-2 with different amounts, the taxpayer may need to amend their return.

W-2 Form - Employee Name

- If this is a MFJ return, make sure the "Whose W-2 is this?" question has been answered correctly. (The default is the taxpayer.)
- If the employee's name on the Form W-2 does not match the name in the **Personal Information** page (say, because of a name change), it is not possible to change the name on the TaxSlayer **W-2** page to match the paper Form W-2. In this situation:
  - Make sure the Social Security number on the paper Form W-2 *matches* the SSN in TaxSlayer. If it doesn't match, then (assuming the form does in fact belong in this tax return) see the next section below.
  - If the SSN is correct but the name is wrong, the return should still be e-filed. The taxpayer should contact the employer to get their name changed so that next year's W-2 is correct.

W-2 Form - Employee SSN

- If the employee on the Form W-2 is filing using an ITIN, then any SSN on the paper Form W-2 **won't** be valid for that employee.

   - If TaxSlayer has an ITIN for the employee on the **Personal Information** page, it automatically asks for "ITIN SSN" information on any **W-2** page for that employee. Type in the SSN shown on the paper Form W-2. The return **can still be e-filed.**
- If the taxpayer has an SSN but a different (incorrect) SSN is on the paper Form W-2, the employee must request a corrected Form W-2 from the employer.
   - If a corrected Form W-2 cannot be obtained, do not change the correct SSN on the TaxSlayer **W-2** page to match the incorrect SSN on the paper Form W-2.
      - The return **must be paper-filed,** and an explanation provided about the erroneous SSN; create a note in TaxSlayer (page **8**) with that information. Either print that note or draft a separate explanation for the taxpayer to mail with their return. To create a Preparer note, go to the **Preparer Note** page [Miscellaneous Forms > Explanations > ...].
- ***Note:*** A Form W-2 with a blank in the SSN box is invalid. If the taxpayer has such a Form W-2 and can't get it corrected, the return is ***out-of-scope***.

W-2 Form – Employee Address

- If the employee address on the paper Form W-2 doesn't match what TaxSlayer fills in, on the **W-2** page (information taken from the **Personal Information** page), then *change the information on the **W-2** page in TaxSlayer* so it matches the paper Form W-2.
   - If the information on the paper Form W-2 is simply not current (the employee has moved, or just changed the mailing address), no further action is required for the federal return. Advise the taxpayer to update their address with the employer.
   - If the information on the paper Form W-2 is correct and the information in the **Personal Information** page is wrong, go back to the Basic Information section and change the taxpayer address.
      - This correction *won't affect TaxSlayer pages that have already been created.* You'll need to go back and make corrections to those pages.
   - If the information on the paper Form W-2 is current but incorrect (say, the wrong street number), discuss with the taxpayer whether the employer has been notified of the need to make a correction.

W-2 Form - Employer's ID, Name, and Address

- If employer information has been entered in another return **at the same site** during the **current** or **prior** year, TaxSlayer fills in employer name and address after the employer's identification number (EIN) is entered.
   - Make any changes necessary so that the information on the **W-2** page matches the paper copy. (Some employers use the same EIN for W-2s with different employer addresses. Also, companies move.)
   - Ampersands (&**),** hyphens (–**),** and slashes (/**)** are allowed in the employer's name field.
- If the EIN field on the paper Form W-2 is missing:
   - Do not create a bogus number or enter a Social Security number for the EIN; that causes an IRS **e-file reject**.
   - The taxpayer should contact the employer to get a valid EIN (but also see the next section, "Incorrect EIN"). In rare cases, you may be able to get the EIN from an internet search, or from the return of another taxpayer at your site who worked for the same employer (more common).
   - If the employer is no longer in business, or the taxpayer is otherwise unable to get a valid EIN, the return **must be paper filed**; create a note (page **8**) saying that.
- ***CA process note:*** Form W-2s issued by California In-Home Supportive Services (IHSS), **now located in West Sacramento, at PO Box 1717** (EIN 94-2629822), show the name of the person being cared for (often a relative) as the employer. For such W-2s, if TaxSlayer fills the Employer Name field, that field almost certainly must be changed. . ***The state EIN also must be changed.***
   - If the employer (person receiving care) and the employee (taxpayer**)** reside in the same home, see also the section W-2 Form – Excludable Medicaid Waiver Payments, page **27**.
- Boxes 15 and beyond: See the section W-2 Form - State Information, page **30**.

Incorrect EINs

- Unfortunately, occasionally an EIN is entered incorrectly. After the e-filed return is rejected by the IRS, the ERO or preparer normally must call the taxpayer to get the correct number. But sometimes it is possible to find the correct EIN online, so that the taxpayer doesn't need to be called.

- In TaxSlayer, in the Reports section, under "Other Data Reports", is the *EIN Report*, which lists, by employer name, all EINs entered in all returns done at the site during the tax year. *Note that this report is available for the three prior years as well as the current year.*
- Other sources for EINs, online, are:
  - o Nice user interface, quick to check: **eintaxid.com**
  - o Bogart "**EIN database**" (list)
  - o The IRS has a database of registered charitable organizations, best searched via **melissa.com/v2/lookups/npo/**
- If an EIN that is found in an online search isn't very close to the number entered in TaxSlayer, *don't use it*. Instead, call the taxpayer to get the correct EIN.

W-2 Form – Entering Information

- Enter information from the paper Form W-2 in TaxSlayer exactly as shown on the paper form, unless otherwise stated below.
- The amount entered in box 1 populates boxes 3 through 6, plus 16 (after the State Name has been selected).
  - o If the amounts in boxes 3 through 6 do not match the paper Form W-2, change the amounts on the TaxSlayer page so that everything *does* match. Rounding is ok.
  - o If the amount in box 1 is subsequently changed, the change *will* affect the amounts in boxes 3 through 6.
    - ▪ ***Note for CA returns:*** When you change the amount in box 1, TaxSlayer ***won't* change box 16, state wages**, which is used to calculate CalEITC. Normally, if you change the amount in box 1, you should make a **manual change to the box 16 amount.** However, be aware that sometimes box 16 should not equal box 1, as discussed in the section W-2 Form - State Information, page **30**.
  - o Normally if there are **different** (non-zero) amounts in boxes 1 and 5, the difference will show as (be explained by) an entry in box 12. However, when an employee made a *mandatory* contribution to a qualified retirement account, such as a 403(b), box 1 will be different from boxes 3 and 5 but there won't be a related entry in box 12.
  - o **If box 1 shows zero wages**, the Form W-2 may be to report employer-paid sick pay or disability payments (all nontaxable), or IHSS payments which the state knows are nontaxable (see pp. 27-8). (Look at box 12 for code J.) **Do <u>not</u> enter** this W-2 in TaxSlayer! It causes an **e-file reject**.
    - ▪ *If* there was any federal withholding (box 2), go to the **Other Federal Withholdings** page [Federal Section > Payments & Estimates], enter the amount, and click "Continue."
    - ▪ *If* there was any state tax withholding, enter it as described in the section State Tax Withheld, page **116** [and ignore the restriction that the process is not supposed to be used for wages reported on W-2 forms, because this Form W-2 *isn't being entered in TaxSlayer*].
- <u>Box 7:</u> Social Security Tips are reported here.
  - o **If there is an amount in box 7**, the amounts calculated by TaxSlayer for boxes 3, 4, 5, and 6 *may not match the amounts on the paper Form W-2*. If so, **change them** so they match**.**
- <u>Box 8</u>, Allocated Tips: When an amount is entered here, TaxSlayer automatically adds Form 4137 to the return, and computes the Social Security and Medicare tax due (Schedule 2 Line 5).
- <u>Box 10:</u> Dependent Care Benefits from the employer are reported here. It is VERY important that any number here be entered accurately, because it directly affects other benefit calculations.
  - o If you enter an amount in box 10, then after clicking "Continue", TaxSlayer displays: "In Box 10 you entered an amount for Dependent Care Benefits. Please be sure to complete a Form 2441 for this return."
  - o If employer-paid dependent care benefits are <u>not</u> fully offset by expenses entered on **F<u>2441</u> - Child Care Credit - Page 1**, the difference is included as income on Form 1040 Line 1e; see the section Schedule 3, Line 2 - Credit for Child and Dependent Care Expenses, page **89**.
  - o Taxpayers won't get a Child and Dependent Care credit for expenses paid via employer deduction, because the box 10 amount already has tax benefits – it reduces box 1 taxable income.
- <u>Unreported tips</u>: If the W-2 is for a job that is likely to have tip income as part of employee compensation, see W-2 Form - Tip Income, page **29**.
- <u>Box 12:</u> If a code in box 12 is ***out-of-scope***, the entire return is ***out-of-scope***. See **Pub 4012** page D-11 for common codes. Some **additional** information on a few codes:

Box 12 Code	Description
A, B, M, N	Uncollected amounts, including Social Security or Medicare taxes, which TaxSlayer correctly carries to Schedule 2 Line 5 or 6.
D, E, F, G, H, S	Elective deferrals that can make the return eligible for Retirement Savings Contribution Credit (Schedule 3 Line 4, page **94**). *If code G is in box 12, then box 13, Retirement plan, **must** be checked on the **W-2** page, even if unchecked on the paper W-2.*
J	Nontaxable employer-paid sick pay: see page **25** above for a zero-dollar entry in box 1.
K	20% Excise tax on excess golden parachute payments
L	Substantiated employee business expense reimbursements
P	Limited to taxpayers who are military personnel
Q	Nontaxable combat pay. Optionally used to calculate Earned Income Tax Credit - TaxSlayer picks the correct option. ***Out-of-scope*** except with Military certification.
V	Income from exercising non-statutory stock options (informational – income is included in box 1)
W	Employer contributions to employee's Health Savings Account (HSA). TaxSlayer automatically adds this to line 9 of Form 8889. A***lso requires CA adjustment*** (page **70**).
Y	An elective deferral that is NOT eligible for Retirement Savings Credit
AA, BB, EE	Designated Roth contributions under a section 401(k), 403(b), or 457(b) plan. *If code EE, then box 13, "Retirement Plan", must be checked on the **W-2** page, even if unchecked on the paper W-2.*
DD	***Note for CA returns:*** Cost of employer-sponsored health coverage. (Any employer coverage is Minimal Essential Coverage (MEC) for the California Individual Healthcare Mandate, but you still must determine which individuals were covered as well as the months of coverage). ***CA policy:*** The California return is ***out-of-scope*** if the taxpayer or spouse had premium tax credits (Form 1095-A) for the same period that the individual had employer-subsidized coverage.
FF	Amount of permitted benefits under a qualified small employer health reimbursement arrangement (QSEHRA) - ***out-of-scope*** if taxpayer has Form 1095-A and income is low enough for PTC
GG	Amount includible in gross income from qualified equity grants under section 83(i)(1)(A)
HH	Aggregate amount of income deferred under section 83(i) elections
II	Medicaid Waiver Payments already excluded from box 1 (see page **27, use last year's method)**
All others	See **Pub 4012** page D-11

- If there are **more than four box 12 entries**, the **workaround** is:
  - Enter just the first four entries on a TaxSlayer **W-2** page, along with all other information on the paper Form W-2.
  - Reduce box 1, "Wages, Tips", by $1. [This won't affect other amounts of the TaxSlayer page.]
  - Click "Save & Enter Another" to save information entered in the **W-2** page.
  - On the second **W-2** page:
    - Enter the same employee and employer information as on the first **W-2** page.
    - In box 1, "Wages, Tips", enter $1. Then delete that amount from boxes 3 and 5. (If it appears in box 16, delete it there also.)
    - In box 12, enter the information you did not have space to enter on the first **W-2** page.
  - Click "Continue" to save information entered in the second **W-2** page.
    - As a precaution, the program asks if you're sure you want to create a **W-2** page with the same EIN as an existing **W-2**. Check the box "Yes, I want to save this W-2 form", and again click "Continue."
  - When the return is e-filed, TaxSlayer adds together the information on the two **W-2** pages.
- Returns with Code W, Health Savings Account (HSA) Employer Contribution.
  - Employer contributions to an HSA are not federally taxable. They are reported on Form 8889, which requires additional information. After completing the Form W-2 entry and clicking "Continue", go to the **Form 8889 - Health Savings Account** page [Deductions > Adjustments > Health Savings Account].
    - Specify whether coverage is self-only or family, and the number of months that the taxpayer was an eligible individual (eligibility requires being covered by a high-deductible health plan (HDHP)).
    - If the taxpayer's documents don't include a **Form 5498-SA**, ask if they made any *contributions* themselves during the tax year, other than through employer-related deductions that show on the W-2. If yes, the amount is separately entered, as discussed on page **70** below.
    - If the taxpayer's documents don't include a Form 1099-SA, ask the taxpayer if they received any *distributions* from the HSA trustee. If so, see the section HSA Distribution, page **68**.

  - ***Note for CA returns:*** CA does not recognize HSAs – TaxSlayer makes the adjustment, increasing state income. See Health Savings Accounts in CA, page **111**, for details and other required entries.
- Box 13: Check the applicable boxes to match what is on the paper Form W-2.
  - The "Retirement Plan" box determines IRA eligibility rules.
    - **Warning:** Some employers fail to check this box when they should. If you see "G" or "EE" in box 12 of the Form W-2, then click the "Retirement Plan" box on the TaxSlayer **W-2** page.
  - If the Statutory Employee box is checked, then, after "Continue" is clicked, TaxSlayer requires that the income be moved to a Schedule C. If a Schedule C hasn't yet been set up, it can be (with basic information, only) at this point, by clicking on "Create a Schedule C". Alternatively, "Continue with Return" can be selected, and the Schedule C can be completed later.
    - The employee can report expenses on that Schedule C, offsetting the reported income.
    - The income entered on the **W-2** page *won't* be included on Form 1040 Line 1.
- Box 14: Enter the code(s) and dollar amount(s) from the paper Form W-2.
  - If there is an entry for a retirement contribution in this box (such as "RET TS" or "401K"), this might be an elective contribution. Ask the taxpayer if this is the case. If so, select "Retirement (Not in Box 12) – Carry to Form 8880." (See the section Schedule 3, Line 4 - Retirement Savings Contribution Credit, page **94**.) But if the retirement contribution is *required* by the employer, then select "Retirement (Not in Box 12) – Do not carry to Form 8880."
  - ***Note for CA returns:*** Union dues are potentially a CA itemized deduction, subject to the 2%-of-AGI reduction. TaxSlayer does *not* automatically handle this. On the **Schedule A - Miscellaneous Deductions** page, use the "ADD ADDITIONAL" box, IF it looks like CA itemizing would benefit the taxpayer.
  - ***CA process note:*** Enter **CA SDI** (which can appear as just "SDI" on the paper Form W-2) in box 14 in TaxSlayer, *even if it's in boxes 19 and 20 on the paper form.* For prior tax years, also see *Note for CA returns* below.
    - TaxSlayer carries the amount to Schedule A line 5 as a potential state-income-tax deduction.
  - ***CA process note:*** California Voluntary Plan deductions (shown as VD, VPDI, or VI on the paper Form W-2) are also entered in box 14, but aren't carried to Schedule A because they are not taxes. But see *Note for CA returns* below.
  - ***CA process note:*** If there are other unknown or unusual codes, add all amounts that don't begin with a state designation, and enter as "Other".
  - ***Note for CA returns:*** In 2024 SB 951 eliminated the cap on SDI for 2024 and beyond.
    - The maximum amount subject to CASDI for 2023 was $153,164, for a maximum of $1,378 of SDI withholding.
    - If the maximum for a prior year return is exceeded, TaxSlayer properly computes the allowable credit, which goes on the CA return (CA Form 540, page 3, line 74).
    - ***Note:*** TaxSlayer doesn't consider VD/VPDI/VI deductions when calculating the maximum. *As a workaround, if TaxSlayer calculates the incorrect amount on CA 540 line 74*:
      (a) on the W-2 page, change VD/VPDI/VI to "SDI";
      (b) if itemizing on the federal return, and Schedule A box 5 uses state taxes paid rather than general sales tax, and the $10,000 limit on state and local taxes (SALT) hasn't been reached, then reduce the amount of a different type of tax paid – such as property taxes – to compensate for the extra added in box 5a, and
      (c) if another type of tax was reduced on Schedule A, make a positive adjustment to the CA itemized deduction amount – see the section Itemized Deductions Treated Differently by CA, page **110**.
- Boxes 15 and beyond: See the section W-2 Form - State Information, page **30**.

W-2 Form – Excludable Medicaid Waiver Payments

- ***CA process note:*** CA's In-Home Supportive Services (IHSS, EIN 94-2629822) pays for the in-home care of certain needy individuals and reports the payments on **Form W-2**. The payer name is the person being cared for (the care recipient); the payer's address is always that of IHSS, in West Sacramento. IHSS payments are considered "Medicaid Waiver Payments" (MWP).
- Starting with **Notice 2014-7**, the IRS issued a set of decisions that some IHSS payments ("difficulty of care") **may be excludable from taxable income.**
  - The definition of difficulty of care payments is that the *main home* of the care provider and the home of the care recipient **are the same**.

  - In this manual, a difficulty-of-care payment is referred to as "**excludable Medicaid Waiver Payments**", or as "excludable MWP". (Pub 4012 refers to such payments as "**qualified** Medicaid waiver payments".)
- Taxpayers *have the option* of treating excludable MWP as (1) **neither taxable nor earned income**, (2) **not taxable income, but still earned income**, or (3) **regular income** (both taxable and earned). [In theory, a fourth option exists – taxable but not earned income, but this is never beneficial to the taxpayer and can be ignored.]
  - If a taxpayer has multiple excludable MWP (that is, the taxpayer provided care in the taxpayer's main home for two or more people), the taxpayer must select the **same option** for **all** excludable MWP. [rare]
    - However, for a MFJ return where both taxpayer and spouse have excludable MWP [also rare], different options may be chosen for the taxpayer's and the spouse's excludable MWP.
- *Note:* **Some excludable MWP are *not* reported on a W-2** (because no tax of any type was withheld), yet may still qualify the taxpayer for EIC and contributing to an IRA. The IRS has instructed such taxpayers to treat the income as if on a W-2 (using their last pay stub) even if they didn't receive a W-2. See instructions in section Substitute W-2, page 23, then follow the process below.
- *Note:* Excludable MWP, *whether on a W-2 or not, is* considered compensation for the purpose of making a nondeductible IRA contribution.
- *New starting with TY2024:* W-2 **Box 12 may have Code II** (two capital letter "I"s) to indicate MWP already excluded from Box 1.
- The process for reporting excludable MWP payments is discussed on **Pub 4012** pages D-12 and D-13, and in an NTTC document, "Medical Waiver Payments Guide", at https://ta-nttc.tiny.us/Medicaid-Waiver-Payments-Guide. (The 5-test "MWP Worksheet" is in the shared CA-wide REFERENCES folder, **tiny.cc/ca-ref**, under Additional Reference Documents.)
  - ***CA process note***: Section C of that document doesn't apply to California; IHSS doesn't issue 1099-MISCs or 1099-NECs to care providers.
- Key concepts:
  - (1) If the W-2 box 1 is zero, and the taxpayer wants to treat the MWP payment as earned income, then make box 1 in TaxSlayer equal to box 3; otherwise *do not enter the W-2* (it causes an **e-file reject**).
  - (2) Use the Medicaid Waiver Payment (MWP) box at the bottom of the W-2 screen to remove box 1 income from being taxable on the federal return.
    - The amount in this box **must** equal the amount in box 1, unless [rare] the taxpayer and care recipient lived in the same household for only part of the year.
  - (3) If the amount in the MWP payment box is to be treated as earned income on the federal return, check the box near the payment box.
  - (4) **If the care provider was not issued a W-2, you should construct one in TaxSlayer if the taxpayer has brought pay stub (time report) information for the year.**
- ***Note for CA returns:*** If excludable MWP income is treated as **nontaxable on the federal return,** then California allows that income to be **treated as either earned income, or excluded from earned income calculations on the CA return.**
  - This 2021 change is retroactive to all open-year CA returns (4 prior-year tax returns).
  - If the excludable MWP is treated as **taxable** on the federal return, it must be treated as earned income on the CA return.
  - The amount in box 16 of a W-2 (except wages in another state) is *primarily* what the CA return uses to calculate CA earned income. This amount in TaxSlayer flows to line 13 of FTB Form 3514.
- The critical issue for excludable MWP payments on the federal return is to **test all three options to determine which benefits the taxpayer the most.** (Remember that EIC rises as earned income increases, then plateaus, then decreases, ending at zero.) *Don't test until, at minimum, all other income and income adjustments have been entered in TaxSlayer.*
  - ***CA process note:*** You must test **five options, not three**, to determine what's best for the taxpayer **overall.** Those five are (numbering follows the NTTC document cited above):
    - (1a) **Not** taxable on the federal return, **not** earned income on the federal return, **not** earned income on the CA return
    - (1b) **Not** taxable on the federal return, **not** earned income on the federal return, earned income on the CA return
    - (2a) **Not** taxable on the federal return, earned income on the federal return, **not** earned income on the CA return

    - (2b) **Not** taxable on the federal return, earned income on the federal return, earned income on the CA return
    - (3) Taxable on the federal return, earned income on the federal return, earned income on the CA return
  - ***CA process note:*** **For testing purposes**, use box 16 on the W-2. If you set the amount to equal box 1, TaxSlayer then puts the amount on line 13 of FTB Form 3514, making it earned income on the CA return. If you set it to zero, then the amount paid to the taxpayer is not treated as earned income on the CA return.
  - ***CA process note:*** **Once you find the best option**, **<u>you must set box 16 to equal box 1</u>. Then you <u>may</u> need to go to the CA return to enter information on Form 3514.**
    - You don't need to do this if you've chosen option (1b), (2b) or (3), where wages are treated as earned income on Form 3514.
    - Otherwise – option (1a) or (2a), where wages are **not** included as earned income on Form 3514, go to the state section, select "Credits", then "CA Earned Income Credit and Foster Youth Credit (Form 3514)", and enter the amount of the MWP payment(s) in the **second** dollar amount field.
- [Workaround] If after completing the return, either (1) the AGI amount, on Form 1040 Line 11, is zero (the taxpayer had no income other than excludable MWP), or (2) there's a positive amount on Line 11 but line 25d (taxes withheld) is greater than Line 11, another adjustment is required in order to e-file:
  - Go to the **Interest Income (Form 1099-INT)** page [Income > Form 1099-INT / 1099-DIV > Interest or Dividend Income > …]; enter "IN ORDER TO E-FILE" as the Payer's Name, and enter $1 on the line for "Interest Income" (box 1).
- [Workaround] One final adjustment may be needed on the federal return. If the taxpayer has qualifying expenses that can be used for the Child and Dependent Care (CDC) credit [Schedule 3 Line 2], then the expense amounts listed on the **F2441 - Child Care Credit - Page 1** may need to be reduced. The **total** of those expenses <u>cannot exceed</u> the **total** of (a) income on *other* W-2s (those which are *not* excludable MWP) plus net business income reported on Schedule 1 Line 3, plus any taxable income on W-2s for excludable MWP.
  - ***Note for CA returns:*** The nonrefundable dependent-care credit on CA Form 3506 will automatically be correct if any needed adjustment is made to the expense amounts on the federal Form 2441.
- **<u>Final steps for current-year returns:</u> Make a note(s) in TaxSlayer, <u>and</u> on page 2 of the Intake Booklet, that (1) the taxpayer had excludable Medicaid Waiver Payment; (2) whether it was treated as earned income or not on either the federal or state return, or both; and (3) any workarounds you did.**
  - It is also highly recommended that each site have a "Medicaid Waiver" (or similar) return tag that can be assigned to returns involving *potentially* excludable MWP, in addition to the regular tag(s). That makes it easy to find all taxpayers with this type of income, as well as identify taxpayers for whom a prior year amendment might be desirable.
- <u>Amending 2021 through 2023 federal returns</u>
  - Note that the statute of limitations for amending (most) federal 2021 returns to claim a refund is April 18, 2025. Try to accommodate affected taxpayers as much as possible.

W-2 Form - Indian Tribal Income

- Tribe members often work on tribal land (such as at a casino) and receive a Form W-2 for that work.
- Tribal income is always taxable on the federal return.
- ***Note for CA returns:*** Indian tribal **W-2** income is exempt from CA taxes ONLY WHEN the recipient is (a) an enrolled member of a federally-recognized Indian tribe; (b) living on **any** tribal land in California; and (c) the income was earned or derived from **any** California tribe's land.
  - For income meeting all three criteria, which is thus exempt from CA taxes, <u>reduce</u> CA income as described in the section Manually Entering Income Differences on CA Schedule CA, page **106**.
- ***Note:*** If there is any question to the definition of "living on" tribal land, see **FTB Legal Ruling 2015-01**.

W-2 Form - Tip Income

- Employers can report tips on Form W2 in one of three ways:
  1. Include tips reported by employees ("reported tips") in the taxable wages amount, in box 1 of Form W-2
  2. Put tips reported by employees into box 7 ("Social Security tips"), which, when added to box 3, should equal box 1, Wages
  3. Report "allocated tips" in box 8. This amount is calculated by the employer, based on sales or pooled tips or information other than the tips reported as received by the employee.

        - If the taxpayer has maintained a tip log and advises that the total tips are less than the allocated tip amount, the taxpayer's tip amount should be used in box 8; if the actual tips are greater than the allocated tips, use the unreported tips field described in the following paragraph to increase the allocated amount to the taxpayer's actual amount.

- **There may be unreported tips.**
    - Unreported tips can occur because:
        - The employer did not report any tips in boxes 1, 7, or 8.
        - The tip amount reported by the employer on the W-2 understated the amount actually received by the taxpayer.
    - There is a box on TaxSlayer's **W-2** page for unreported tips - below box 10.
        - When an amount is entered in this box, TaxSlayer automatically adds Form 4137 to the tax return, and computes the Social Security and Medicare tax due (Schedule 2 Line 5).
        - *If* the taxpayer has detailed records of tips received, *and* there are one or more months when the tips received (including those paid to the employee by the employer, either directly or as part of the employee's paycheck), were less than $20 for that month, then total the amounts for such months, and enter the amount in the first box of the **Form 4137 Social Security and Medicare Tax on Unreported Tip Income** page [Federal Section > Other Taxes > Tax on Unreported Tip Income].
        - Unreported tip income from Form 4137 flows to Form 1040 Line 1c.

W-2 Form - State Information

- ***Note for CA returns:*** **WARNING –** If you're entering information from an **IRS transcript**, there will be no state information. *You **must** set the state to "CA" (assuming that income was earned in California) if you want the California state tax return to be correct, particularly the California EITC amount.*
- Box 15: Enter the State ID number without dashes or spaces.
    - The State ID number is NOT the same as the federal ID number; CA IDs are almost always eight digits.
    - The State ID number is required, whether or not state tax was withheld.
        - ***Note for CA returns:*** If the State ID number is blank on the paper W-2, or an IRS transcript is being used for W-2 information, enter six nines (999999) in TaxSlayer. . Similarly, if the State ID number on a paper W-2 is **incorrect** (either fewer or more than eight digits, ignoring leading and trailing zeros), enter "999999."
    - ***Note for CA returns:*** Form W-2s issued by California In-Home Supportive Services (IHSS) in West Sacramento (EIN 94-2629822) show the name of the person being cared for (often a relative) as the employer. A **unique** CA tax ID is assigned to that person, as the employer; for such W-2s; if the State ID number is automatically filled by TaxSlayer, it is almost certainly **wrong** and must be manually changed.
- Box 16: As entered in TaxSlayer, this must equal the amount of wages that ends up being taxable by CA, whether via the Federal AGI (through the amount in box 1 of the W-2) or indirectly (through a CA Schedule CA adjustment related to that W-2). The only exception is discussed in the section W-2 Form – Excludable Medicaid Waiver Payments on page **27**.
    - Normally box 16 equals box 1, and that's the default – TaxSlayer fills in box 16 with the amount in box 1. **But that can be wrong.** The most common exception is HSA contributions (Box 12, code W), which *are* taxable by CA (TaxSlayer handles the taxability automatically). For a W-2 with employer HSA contributions, box 16 should equal box 1 plus the amount for code W in box 12. (The paper W-2 may already reflect this, but if it doesn't, ignore what's on the paper W-2.)
- ***CA process note:*** Box 19 (Local Tax Paid)/box 20 (Local Name): If the paper Form W-2 has entries for CASDI, SDI, VPDI, VP, or VI in these boxes, **enter them in box 14 in TaxSlayer, not boxes 19 and 20** (see above).

W-2 Form for a Student

- If a Form W-2 was received for a student (usually for pay as a Teaching Assistant), the entire amount is taxable and cannot be reduced by student-related expenses.

LINE 1B THROUGH LINE 1I - INCOME ON LINE 1 NOT FROM A W-2

Line 1b: Household Employee Income not on a W-2

- Income for doing **household work** is reported on Schedule C ONLY WHEN the taxpayer has an independent business doing that type of work.

- Income for **household employees** (defined in **Pub 926**) must be reported on a Form W-2 by any employer who paid $2,700 or more in 2024 (threshold amount); this is entered as a regular W-2.
  - If an employer paying more than the above amount doesn't provide a Form W-2 or provides the wrong form (a 1099-NEC or 1099-MISC), the taxpayer must ask the employer for the correct form. If the taxpayer is unable to obtain a W-2, the return **cannot be prepared by Tax-Aide.**
- Income for household employees receiving less than the above threshold amount from a specific employer for the tax year, where no W-2 was issued, appears on Form 1040 Line 1b (starting in 2022).
  - Enter the amount on the **Enter Household Employee Income** page [Income > Other Income > Other Compensation > …].
  - The total reported can be from multiple employers, as long as each paid less than the threshold amount.
  - If the employer issued an incorrect form (a 1099-NEC or a 1099-MISC), that form should be ignored (again, assuming the amount is under the threshold requiring a W-2).

Poll Worker Pay not on a W-2

- *Don't* report election work as Other Income or on Schedule C (it isn't a regular means of livelihood). It *is* considered earned income for purposes of EIC.
- If no W-2 was received, enter the pay on the **Enter Household Employee Income** page [Income > Other Income > Other Compensation > …]. This results in the compensation being reported as wages (earned income) on Form 1040 Line 1b.
- **Only if reported on Form 1099-MISC or 1099-NEC, then also report a 1099-MISC and offset it**:
  - Enter the 1099-MISC (box 3 amount goes to Sch 1, Line 8z), and
  - Enter the same amount in [Deductions > Adjustments > Other Adjustments > Adjustments Not Listed Above] as "1099 RPTD AS WAGES" to offset this 1099 entry (adjustment on Sch 1, Line 24z).
- Create a TaxSlayer note (page **8**) explaining "Due to TS limitations, report pollworker pay as household employee income for EIC".

Work Release or Penal Income

- Income earned while an inmate (incarcerated), even if on work release with a private employer, is *<u>not</u>* considered earned income for purposes of EIC, Additional Child Tax Credit, or Dependent Care Credit.
- Such income will have been reported on a W-2 and entered as such. To **exclude** this income from being considered for those credits, enter the wage amount on the **Prisoner Earned Income** page [Income > Other Income > Other Compensation > …].
  - This is not entering the same income twice – think of it as an overlay of what was entered on the W-2.

Scholarships, Fellowships and Grants – Form 1098-T

- See **Pub 4012** tab J regarding the tax treatment of scholarships and fellowships.
- To the extent that there is reportable income [some or all of any taxable income from scholarships, fellowships, and grants can be offset by qualified expenses], the income is reportable on the <u>tax return of the person receiving the scholarship</u>, even if that person is the dependent of another taxpayer.
  - See **Pub 4012** page A-4 for filing requirements for dependents.
  - If a dependent under the age of 19, or under the age of 24 and a full-time student, has more than $2,600 of unearned income in 2024, *including taxable scholarship and fellowship amounts not reported on a W-2,* the dependent's return is subject to the "Kiddie Tax".
    - ***Note:*** Scholarships are ignored when **determining dependency** – they are treated as funds provided by a third party, not by the child or the parents.
    - Scholarships are treated as earned income in determining if a full-time student dependent under age 24 has a filing requirement, for both the federal and CA return. A dependent must file a return if any of the following apply (double amounts if MFJ):
      1. unearned income over $1,300
      2. earned income over $5,540
      3. gross income more than the larger of —
         a. $1,300 or
         b. earned income (up to $5,090) plus $450.

      CA policy: If the CA return is out-of-scope due to Kiddie Tax, then the federal return is also out-of-scope. We don't do a federal-only return if a CA return is also required.
- If box 6, "Adjustments to scholarships or grants for a prior year, has an amount, see NTTC 4012 page J-10 to determine if the return is ***out-of-scope,*** and if in scope, how to proceed.

- If the tuition on a 1098-T was paid by the Veterans Administration (VA; under the GI Bill), do **not** report it. See **Pub 970, Tax Benefits for Education**, for details.
- For any scholarship, the taxpayer must determine if the scholarship/grant amount on the 1098-T was **greater than** qualified educational expenses that can be used to reduce the taxable amount of the scholarship.
  - The taxable scholarship amount MUST be reduced for tuition, fees, books, and/or equipment **to the extent** that the scholarship is awarded to cover specific expenses (the scholarship is "restricted").
  - The taxable scholarship amount MAY be reduced for qualified educational expenses **if** the scholarship is not specific ("unrestricted"); the exact amount is a taxpayer decision, based on what is the best tax result.
    - Form 1098-T shows "qualified tuition and related fees" **paid** to the school during the tax year, not the amount billed. The amount spent for books and equipment must be determined by the taxpayer.
- **Important:** The (net) taxable scholarship amount is reported on the return of the person **receiving** the scholarship, even though educational expenses (if not used to offset to the scholarship amount) are reported on the return of the person claiming the student. So if the scholarship is for a dependent, any (net) scholarship is reported on the **dependent's return**, not the taxpayer's return.
- To determine the taxable portion of a scholarship; you must ask the taxpayer questions to decide how that money was used. Bogart's Education Benefits Calculator (**cotaxaide.org/tools/**) is **recommended**, as it optimizes what's reported as scholarship income (better than **Pub 4012** page J-4 Worksheet 1-1).
- To enter any scholarship amount that is *not* offset by qualified expenses, go to the **Scholarships and Grants** page [Income > Other Income > Other Compensation > ...]
  - ***Note:*** There is a single entry for the taxpayer (and, if MFJ, one for the spouse). If there are multiple scholarships reported as income for one person, total the scholarships, enter the total in TaxSlayer, and add a note (per page **8**) documenting your calculations.
  - The amount entered on this TaxSlayer page appears on Schedule 1 Line 8r.
    - Scholarship income does *not* count as earned income for EIC calculations.
- ***Note:*** Student **loans** are never income. Expenses paid with borrowed funds, such as student loans, **are** eligible for credit or deduction if the regular requirements are met.
  - Also note that ***borrowed money, when spent, is a type of support***, and affects the determination of whether a person can be claimed as a dependent. The person liable for repaying a loan is considered to be the person providing the support from that loan.

LINE 2 - TAXABLE AND TAX-EXEMPT INTEREST

Foreign Accounts or Assets

- If, looking at a 1099-INT or similar form, the taxpayer appears to have foreign accounts or financial assets:
  - Discuss with the taxpayer whether the accounts are outside the U.S. (look at payer information).
  - If there were one or more foreign accounts, ask the taxpayer what was the highest (approximate) value during the year for all accounts combined.
    - If the total account value was more than $10,000 at any time during the year, that requires FBAR filing of a FinCEN 114 form, which is ***out-of-scope***, making the return ***out-of-scope.***
    - Otherwise, go to the **Did you have interest from a bank in a foreign country?** page [Income > Form 1099-INT / 1099-DIV > ...] and check *only* the first box.
  - If there were one or more foreign accounts, ask if the taxpayer received a distribution from, or was the grantor of, or transferor to, a foreign trust. If yes:
    - The return is *out-of-scope.*
    - Inform the taxpayer of the requirement to file, *separately from the tax return*, **Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts**.
    - Create a note (page **8**) that you informed the taxpayer of the requirement to file Form 3520.
      - Form 3520 itself is ***out-of-scope*** – do not assist the taxpayer in completing this form.

Interest Income on Form 1099-INT

- ***Note:*** Mutual funds report their distributions as dividends, on Form 1099-DIV, even if they originate from interest earned on a fund's portfolio.

Note: Form 1099-INT includes a "FATCA filing requirement" checkbox to the left of box 12. If there is an entry in that box, then the return is ***out-of-scope.***

- Go to the **Interest Income** page [Income > Form 1099-INT / 1099-DIV > Interest or Dividend Income > Interest Income, Form 1099-INT (including interest income < 1,500)]. Each 1099-INT is entered separately.
  - ***Note:*** Institutions that have paid less than $10 in interest during the tax year are not required to issue a 1099-INT. If the taxpayer reports receiving interest of between $0.50 and $9.99, use the **Interest Income** page to record this income, even though there is no 1099-INT.
    - Credit unions refer to payouts on depositor accounts as "dividends," because such payments are not *legally* required, even when rates are publicized in advance. However, for tax purposes, these "dividends" should be treated as interest. If $10 or more, such payments are reported on a Form 1099-INT.
- Enter information from the form as described on **Pub 4012** pages D-14 through D-16. Additional notes:
  - *If the taxpayer has children, make sure the SSN on the 1099-INT is not that of a child.*
  - The Payer's Name is required but can be abbreviated.
  - ***CA process note:*** **Don't enter the Payer's TIN or Payer's Address.** Neither the IRS nor CA use them.
  - ***CA process note:*** For MFJ returns, because CA is a community property state, you can leave the default of "Taxpayer" on the line "Taxpayer, Spouse, or Joint?"
  - Box 1 amount *may* include non-Treasury federal-gov't interest not shown in Box 3; the only way to know is to examine the broker statement details. If so, the federal interest should be excluded on the state return: **see instructions for Box 3 "CA legal note"** below.
  - The amount entered in box 2, "Early Withdrawal Penalty", is carried to Schedule 1 Line 18.
  - Box 3, "Interest on U.S. Savings Bonds and Treasury obligations": Part of the amount entered in Box 3 is *potentially* excludable from **federal** income if the taxpayer had qualified educational expenses: see **Form 8815, Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989**. However, Form 8815 is ***out-of-scope*** for Tax-Aide; we are unable to help them. The return *is* in-scope if the taxpayer is willing to *not* claim any such exclusion.
    - A taxpayer who inherits EE or I savings bonds is treated as the original purchaser for purposes of taxing interest from the bonds. (The executor of the estate could have declared as income the interest up to the death of the original purchaser, with the estate paying taxes. This is unlikely.)
    - ***CA legal note:*** States don't tax interest income from U.S. savings bonds, Treasury bonds and other federal gov't sources, including federal Land Banks and Federal Home Loan Banks (state-tax-exempt by federal statute). This does **not** include interest from Fannie Mae or Freddie Mac. ***Any box 3 amount, and any box 1 amount that is state-tax exempt, should also be entered in the box labeled "Amount of interest on U.S. Savings Bonds and Treasury Obligations that you want subtracted from your state return."***
  - Box 5, "Investment Expenses", was part of the category of deductions that were subject to a 2%-of-AGI reduction; that category was eliminated from the federal Schedule A for tax years 2018 through 2025.
    - ***Note for CA returns:*** California conforms to federal Schedule A deductions *as of 2015*, so this expense *is* allowable as a CA itemized deduction, subject to a 2%-of-AGI reduction.
      - **TaxSlayer handles this expense automatically**; the amount entered in Box 5 flows to CA Schedule CA Part II line 21. No entry is needed in Schedule A.
  - Box 6, "Foreign Tax Withheld": An amount entered here goes to Schedule 3 Line 1, Foreign Tax Credit.
    - If foreign taxes paid total more than $300 ($600 for a joint return), there are potential complications. See page **89**.
  - Box 8, "Tax Exempt Interest". TaxSlayer starts with the assumption that **all** federally tax-exempt interest (the amount entered in box 8) is *also exempt* from state tax. If that is not true, then the amount that *is* taxable by a state must be entered in TaxSlayer – click "ADD INTEREST ITEMS."
    - ***Note for CA returns:*** Interest and dividends from state and municipal bonds of states other than CA *are* taxable on the CA return. But interest and dividends from U.S. territories such as Puerto Rico, Guam, and the U.S. Virgin Islands is treated the same as tax-exempt obligations issued by California.
      - If the interest is from individual bonds, examine the details for each bond to determine if it's tax-exempt for CA.
  - Box 9: The private activity bond (PAB) amount entered here flows to Form 6251.

        - Large amounts of PAB income can trigger the Alternative Minimum Tax (AMT), which would make the return ***out-of*-scope,** but this is quite unlikely. The total of PAB income, plus various other (unusual, and mostly out-of-scope) items, would have to exceed the AMT exemption amount.
            - The amount exempt from regular tax varies by filing status. For 2024: $133,300 if MFJ, $85,700 if Single or HoH, and $66,650 if MFS (half the MFJ amount).
    - Boxes 10 through 13 ***are*** (generally) in-scope for Tax-Aide.
        - There are three ***out-of-scope*** situations: (1) the amount in box 11 is greater than the amount in box 1; (2) the amount in box 12 is greater than the amount in box 3, and (3) the amount in box 13 is greater than the amount in box 8.
        - If there is an amount in box 13, **don't** enter that amount; instead, **adjust the amount entered in box 8 –** the amount to be entered in TaxSlayer is the amount in box 8 on the paper 1099-INT, *minus* the amount in box 13 on the paper 1099-INT.

Original Issue Discount (OID) Interest

- On Form 1099-OID, any amounts in box 6 (Acquisition premium), as well as a checkmark in FATCA filing requirement box (to the left of box 9), are ***out-of-scope***, and make the entire return ***out-of-scope***. Similarly a return is ***out-of-scope*** if any adjustment is needed based on **Pub 1212, Guide to Original Issue Discount (OID) Instruments**, or if a Form 1099-OID should have been received by the taxpayer but was not.
- OID interest is entered on its own TaxSlayer page. Go to the **Form 1099-OID** page [Income > Form 1099-INT / 1099-DIV > Interest or Dividend Income > Original Issue Discount, Form 1099-OID].
    - ***CA process note:*** **Don't enter Payer's TIN or Payer's Address.** Neither the IRS nor CA use them.
    - Box 8: Treated the same way as box 3 of Form 1099-INT – see the previous section.
        - ***Note:*** If box 8 is negative, this is a deflation adjustment; both the form and the return are ***out-of-scope***.
    - ***Note for CA returns:*** Box 9, Investment Expenses, automatically flows to CA Schedule CA, as discussed in the section above (see box 5 there).
    - Box 11: Treated the same way as box 8 of a Form 1099-INT – see the previous section.

HSA Interest

- CA does not recognize HSA trusts. Interest income earned in such a trust is taxable for CA – see the section Health Savings Accounts in CA, page **111**.

Seller-Financed Mortgages (Schedule B, Line 1a)

- Seller-financed mortgages occur when the taxpayer sells a property and helps the buyer finance the purchase by providing a loan for some or all of the sale price. In most cases, the payments that the taxpayer (seller) receives consist of both interest and principal. Only interest income should be reported in TaxSlayer.
    - Detailed information about such situations can be found in **Pub 537, Installment Sales.**
    - ***Note:*** If the person making the loan (such as a parent) never owned the property being purchased (in this example, by a son or daughter), then that loan is *not* a seller-financed mortgage, it's just a regular loan, with part of payments being interest and part being to reduce the principal amount of the loan. Only the interest part is reportable, in the same way that other forms of interest are reported, even if there is no Form 1099-INT. (See above for how to report such interest in TaxSlayer.)
- In the year that the sale of the property occurred, *if* the taxpayer had a gain, then the taxpayer (seller) had two choices: (1) report capital gains over the period of the loan, or (2) report all capital gains in the year of the sale, by including the entire sales price when calculating the capital gain or loss on the sale. If the seller chose the first of these – reporting capital gains over a period of time - then the return is ***out-of-scope***.
- *If* the return is in-scope, go to **Schedule B Seller Financed Interest** [Income > Form 1099-INT / 1099-DIV > Interest and Dividend Income >Seller Financed Interest Income].
    - Enter the requested information.
        - If the Payer's (borrower's) SSN is unknown, the return **must be paper-filed**; create a note (page **8**) saying that.
    - Click "Continue."

LINE 3 - DIVIDENDS

- Enter information from a Form 1099-DIV as described on **Pub 4012** pages D-18 and D-19.
    - ***Warning:*** Form 1099-DIV, and the entire tax return, is ***out-of-scope*** if there are any entries in boxes 2c, 2d, 9, or 10, or if the "FATCA Filing Requirement" box has been checked.

  - ***Note for CA returns:*** CA doesn't recognize HSA trusts. Dividend income earned in such a trust isn't federally taxed but is taxable for CA – see the section Health Savings Accounts in CA, page **111**.
- Go to the **Dividend Income (Form 1099-DIV)** page [Income > Form 1099-INT / 1099-DIV > Interest or Dividend Income > Dividend Income, Form 1099-DIV].
- The Payer's Name is required but can be abbreviated.
- ***CA process note:*** The Payer's TIN and Payer's Address **do not need to be entered**.
- ***CA process note:*** For MFJ returns, because CA is a community property state there is no need to change the default of "Taxpayer", on the line "Taxpayer, Spouse, or Joint."
- Enter amounts from boxes 1a, 1b, 2a ("Total capital gain distr."), 2b, 3, and 4 in TaxSlayer.
  - ***Note:*** Box 2b, "Unrecaptured Section 1250 Gain", **is** in-scope; ignore any statement to the contrary in Pub 4491.
  - ***Note:*** If there's an amount in box 3, advise the taxpayer that nondividend distributions are a return of investment (principal) and reduce the cost basis of their investments. Such distributions are nontaxable.
- Other *in-scope* information that appears on the Form 1099-DIV is entered as follows:
  - Box 5, "Section 199A dividends"
    - Of the amount entered in this box, 20% flows to the Qualified Business Income (QBI) deduction.
  - Box 6, "Investment Expenses", was part of the category of deductions that were subject to a 2%-of-AGI reduction; that category was eliminated from the federal Schedule A for tax years 2018 through 2025.
    - ***Note for CA returns:*** California conforms to federal Schedule A deductions *as of 2015*, so this expense *is* allowable as a CA itemized deduction, subject to a 2%-of-AGI reduction.
      - **TaxSlayer handles this expense automatically**; the amount entered in Box 6 flows to CA Schedule CA Part II line 21. No entry is needed in Schedule A.
  - Box 7, "Foreign Tax Paid": An amount entered here will be included on Schedule 3 Line 1, Foreign Tax Credit. If this total is greater than $300 ($600 for a MFJ return), there are potential complications. See discussion in the section Foreign Tax Credit, page **89**.
  - Box 12, "Exempt Interest Dividends". TaxSlayer starts with the assumption that **all** dividends that are tax exempt on the federal return are *also exempt* from state tax. If that is not true, then the amount that *is* taxable by a state must be entered in TaxSlayer – click "ADD INTEREST ITEMS."
    - Generally the payer reports the percentages of the exempt income that is from various states; those figures are used to determine how much of the exempt-interest dividend income is taxable by a state.
    - ***Note for CA returns:*** Interest and dividends from state and municipal bonds of states other than CA *is* taxable for the CA return. But interest and dividends from U.S. territories such as Puerto Rico, Guam, and the U.S. Virgin Islands are treated the same as tax-exempt obligations issued by Calif.
      - The general rule is that if 50% or more of the assetswere invested in CA-exempt obligations, only the income that is *not* from those obligations is subject to CA tax; if less than 50% were invested in CA, then all of the interest reported in box 11 **is taxable** by CA.
      - Determining the amount requires a detailed review of the broker's statement or other documentation for the Form 1099-DIV.
  - Box 13: To understand the context of any private activity bond (PAB) amount, see the discussion above regarding Box 9 of Interest Income on Form 1099-INT, that begins on page **32**,.
  - Box 16: If there's an amount in this box, see the section State Tax Withheld, page **116**.

Foreign Account or Assets

- If the 1099-DIV appears to be from a foreign source, see the section Foreign Accounts or Assets, page **32**.

LINES 4 AND 5 - RETIREMENT INCOME (FORM 1099-R)

1099-R Forms

- Pensions and annuity income and IRA distributions are reported on three different versions of Form 1099-R:
  - The standard version, entered in TaxSlayer on the **Form 1099-R** page [Income > Form 1099-R / RRB, SSA > Add or Edit a 1099-R]
  - Form CSA 1099-R (issued by the U.S. government), a close variant of the standard form, entered on the same TaxSlayer page as the regular 1099-R. The differences are discussed in the section Office of Personnel Management (OPM) CSA 1099-R form, page **44.**

- Form RRB-1099-R, for railroad retirement pensions. Follow the instructions in the section which discusses that form, on page **45**; the form is entered on a different TaxSlayer page from the regular 1099-R.

- Box 7 of the paper Form 1099-R is critical, as some codes are ***out-of-scope***: code **5**, code **8**, code **9**, code **A**, code **D** (*if* box 2a is blank and the taxpayer is unable to obtain the taxable amount from the issuer), code **E**, code **J** (*if* any part of the distribution is taxable, which needs to be determined), code **K**, code **N**, code **P**, code **R**, and code **T** (same caveat as code J).
  - Sometimes box 7 has two characters, not one; if *either* character is ***out-of-scope***, the return is ***out-of-scope***.

1099-R Form – Recipient Name and SSN/ITIN

- For a MFJ return, select the recipient (taxpayer or spouse).
- If the SSN on the paper Form 1099-R is incorrect, the taxpayer needs to get a corrected form.
- If the SSN on the paper Form 1099-R is blank, it's not a valid Form 1099-R.
  - ***Warning:*** If the taxpayer has an ITIN and presents a paper Form 1099-R with an SSN, you **must either paper-file or create a substitute 1099-R**. Create a note (page **8**) saying that. (***Note:*** If the paper form has the taxpayer's ITIN, that's fine – the return can be e-filed.)

1099-R Form – Payer Information

- Payer's ID – enter the EIN.
  - If employer information has been entered in another return **at the same site** during the **current** or **prior** year, TaxSlayer fills in employer name and address after the EIN is entered.
    - Make any changes necessary so the information on the **W-2** page matches the paper copy. (Some employers use the <u>same</u> EIN for W-2s with <u>different</u> employer addresses. Also, companies move.)
  - Ampersands (&**)**, hyphens (–**)**, and slashes (/**)** <u>are</u> allowed in the employer's name field.

1099-R Form – Recipient Address

- TaxSlayer automatically uses taxpayer information from the Basic Information section to fill in the Recipient Information.
- If the TaxSlayer-provided address doesn't match the paper Form 1099-R, change the address on the TaxSlayer **1099-R** page to match the paper Form 1099-R, and advise the taxpayer to update their address with the issuer.
  - If there's no address on the Form 1099-R, leave the TaxSlayer-provided address as is.

<u>LINE 4 - IRA DISTRIBUTIONS</u>

1099-R Form – Distributions from Retirement Accounts

- Form 1099-R is used for two somewhat similar things: <u>distributions</u> from retirement accounts, and <u>pension and annuity payments</u>. Distributions are covered in *this section*; pensions and annuities (Line 5) are covered in a later section, page **40**.
  - Generally, if a Form 1099-R is a distribution from a retirement account, rather than a pension or annuity payment, then the checkbox "IRA/SEP/SIMPLE" (on the paper form, the checkbox is close to box 7), **will** be checked. This box also **will** be checked for Roth IRA distributions.
    - TaxSlayer only puts income from the form onto Form 1040 Line 4 **if the checkbox is checked in TaxSlayer.**
  - Annuities and pensions (discussed later) have one of the following codes in box 7: code **3**, code **4** (also used for distributions), code **6**, code **7** (also used for distributions), code **D**, or code **F**. All other codes are for distributions.
- <u>Box 2a</u>:
  - When an amount is entered in box 1, TaxSlayer automatically uses that to fill box 2a, with a note that the amount in box 2a can be changed.
    - If the amount that TaxSlayer automatically enters in box 2a **does match** the amount in box 2a on the paper Form 1099-R, then continue down the form, dealing with other entries in TaxSlayer.
  - If the amount that TaxSlayer automatically enters in box 2a **does not match** box 2a on the Form 1099-R:
    - If the paper Form 1099-R has a <u>*non-zero* amount</u> in box 2a, enter that amount in TaxSlayer in box 2a.

  - If box 2a is a zero (not just blank), and in box 2b there is **no** checkmark for "Taxable amount not determined", then the starting presumption should be that none of the distribution is taxable. This needs to be confirmed. Look at box 5, employee contributions. If the box 5 amount is the same as box 1, then none of the distribution is taxable, so box 2a in TaxSlayer should be changed to zero. Otherwise, discuss this with the taxpayer.
  - If 2a is blank (*this is **rare** for distributions from retirement accounts*), box 2b normally has a checkmark for "Taxable amount not determined". To determine taxability, look at prior year returns and discuss the matter with the taxpayer.
  - If there is not already a TaxSlayer note regarding distributions of this type for the taxpayer, add one to help counselors doing returns in future years (see page **8**).
- Checkbox below box 2a
  - **Some** distributions do not affect the calculations for the Retirement Savings Contribution Credit (page **94**) – distributions that are rollovers, or are related to Roth IRAs, or otherwise should not be included – see the list on **Pub 4012** page G-19.2.
    - For such distributions, *check the "Does not qualify for Form 8880" box* to keep these distributions from affecting Form 8880 calculations.
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- Box 7 code: Take care in entering the code on the Form 1099-R.
  - The IRS **Instructions for Form 1099-R** has a "Guide to Distribution Codes" which is more detailed than the table on **Pub 4012** pages D-51 to D-52.
  - If multiple codes are shown (such as "G4"), enter both codes in TaxSlayer.
    - For issues of *scope*, check each code separately.
  - Code **6** (tax-free Section 1035 exchange), code **Q** (Roth IRA qualified distribution), and code **W** (payment for a LTC contract) are not taxable; **do not report on the return**.
    - For forms with code **W**, do not claim the amount in box 1 as a medical expense on Schedule A, or as medical insurance costs for SEHI deduction, because the distribution is tax-free (box 2a is zero).
  - Code **D** (annuity payments from nonqualified annuities) – only the gain is taxable. If box 2a on Form 1099-R is blank, call the issuer (payer) to get the taxable amount, if any.
  - Code **G** and code **H** are direct rollovers – see the section 1099-R Form – Transfer or Rollover, page **39**.
  - Code **J** (early distribution from a Roth IRA) – follow the instructions in NTTC version of **Pub 4012** page D-51 to determine whether the Form 1099-R is in scope, and if so, how to enter in TaxSlayer.
  - Code **T** is for a distribution from a Roth IRA if the participant has reached age 59½ but the 5-year holding period may not have been met. Use the flow chart on **Pub 4012** page D-51 to determine taxability (if any of the distribution is taxable, the return is ***out-of-scope***).
    - ***Note:*** If, after completing the TaxSlayer page for a 1099-R with code T, TaxSlayer displays the **Form 8606 – Nondeductible IRAs** page, the return is ***out-of-scope***, because Part III needs to be completed, which is ***out-of-scope***.
  - Code **1** or Code **S**: after all information is entered in TaxSlayer, and "Continue" or "Save & Enter Another" is clicked, the **Form 1099-R Distribution Penalty** page appears.
    - For the question "What type of plan did you receive this distribution from", check "Retirement Plan."
    - For the second question, **determine if there is an exception to the additional tax for early distribution (before age 59 ½)**.
      - See the section 1099-R Form – Exceptions to the Additional Tax on Early Distributions, page **38**, for details on how to determine if the taxpayer can claim an exception to the penalty.
      - **If there is an exception, check the box.** [Ignore the sentence "Not sure if your withdrawal qualifies to be exempt from the penalty?"]
      - Entering the exception code, and the exception amount, must be done *separately*, on the **Form 5329** page, as discussed in the next section. It is best to do that *immediately* after finishing the **Form 1099-R Distribution Penalty** page.
    - Click "Continue" to finish the penalty page.
- Box 7 checkbox: If the "IRA/SEP/SIMPLE" box is checked:
  - Confirm with the taxpayer the type of IRA (traditional or Roth) and whether it is a Roth conversion.

  - A conversion from a traditional IRA to a Roth IRA requires completing Part II of Form 8606**.**
  - Distribution from a converted Roth IRA makes the return ***out-of-scope*** if any portion of the distribution is or could be taxable.
    - Note that the 5-year rule (penalty for withdrawal from a Roth IRA within five years of opening that account) applies to each conversion.
- Box 9b
  - If the taxpayer cashed in an annuity, they'll have a Form 1099-R with the amount they received.
  - If the investment (in box 9b; may also be in box 5) is greater than the amount shown in box 1, the net loss can be claimed as a miscellaneous itemized deduction – see Schedule A – Other Itemized Deductions (Line 16), page **86**.

Distributions from an IRA Where Over-Age-70½ Contributions Have Been Made

- On the federal return, a distribution from an IRA where over-age-70½ deductible contributions have been made is treated no differently from a distribution from an account with no such contributions.
- ***CA policy:*** CA does not conform to federal rules with regard to such contributions (they are not a reduction of income, as discussed on page **73**), and accordingly should not treat the related distributions as income, unlike on the federal return.
  - However, it's difficult-to-impossible to determine the portion of the withdrawal involving money that California previously did not allow as a reduction of CA income. Even if adequate taxpayer or IRA custodial records are available, the allocation of the distribution almost certainly involves assumptions, complicated by trying to account for *earnings or losses inside the IRA.*
  - Accordingly, **it is CA policy** that when IRA *distributions* are made from an account where contributions were made after age 70 ½, there is *no* CA adjustment *(no reduction of income*). 100% of such distributions will be treated as taxable on the CA return.
    - If the taxpayer wants to reduce the CA taxability of such an IRA distribution, the return is *out-of-scope*.

Required Minimum Distributions (RMDs)

- If the taxpayer (or, if a MFJ return, the spouse) with a traditional IRA was at least age 73 by December 31, 2023, then they were normally required to begin taking distributions from that IRA.
  - If the taxpayer or spouse reached that age, and there are no Form 1099-Rs in the documents provided by the taxpayer that involve *distributions*, discuss whether the taxpayer or spouse has any traditional IRAs, and if so, their RMD options.

    For tax year 2024, there's an exception for **certain inherited IRAs** where the original owner died in 2023; if the owner reached their required start date (April 1 after age 73), **no RMD is required** for 2024.
  - If there is any question as to whether the taxpayer did in fact take their RMD, see section 5329 Part IX – RMD Not Taken, page **99**, which includes a discussion of how to determine RMD.

1099-R Form – Exceptions to the Additional Tax on Early Distributions

- TaxSlayer automatically assesses an additional tax of 10% for an early distribution (prior to age 59½) from an IRA; early distributions are those on Form 1099-Rs with code **1** or code **S** in Box 7.
  - Don't use the taxpayer's age as of December 31 of the tax year to determine whether a penalty applies; use the taxpayer's actual date of birth, and the actual date of withdrawal to find the age at withdrawal.
  - ***Note for CA returns:*** CA also assesses a 2.5% tax for early withdrawals; this shows on CA Form 3805P and on line 63 of Form 540. (California *conforms* to all federal exceptions to the penalty.)
- Exceptions to the additional tax are listed in **Pub 4012** page H-7.
  - For additional exceptions that apply to annuities, see **Pub 575, Pension and Annuity Income**.
  - Note that exceptions 07 through 09 are only for IRA distributions, not distributions from other types of qualified retirement plans.
  - For exception 08, qualified higher education expenses can include room and board. See **Pub 590-B, Distributions from Individual Retirement Arrangements**, for details on that and other exceptions.
  - Beginning in 2020, an IRA owner or a participant in a workplace defined-contribution plan, such as a 401(k) or 403(b), can withdraw up to $5,000 for the birth or adoption of a child without the usual 10% additional tax on early distributions. See **Pub 4012** page H-7.
  - Effective for distributions *after* 12/29/2022, there are exceptions for distributions due to terminal illness, and for private-sector firefighters, public-safety officers (PSO) with 25 years of service, and state and local gov't corrections officers. *Note:* This definition of PSO is *broader* than the one for 1099-R Form

– Public Safety Officer (PSO) Exceptions on page **43.** See **Pub 4012** page H-7 and **Retirement Topic - Exceptions to Tax on Early Distributions** at irs.gov.
  - Funds from a distribution do not have to be explicitly spent on the expenses for which an exception is being claimed, but the distribution and the expenses must be in the same tax year.
    - **Do not** ask the taxpayer on what they spent the distribution. Rather, say "If you had certain types of expenses during the year, we could reduce or eliminate the early withdrawal penalty. Let's review your expenses."
- If there is an exception to the additional tax:
  - As discussed in the section immediately above, you should have already viewed the **Form 1099-R. Distribution Penalty** page, and the second box should have been checked.
  - Go to Part I of the **Form 5329** page [Federal Section > Other Taxes > Tax on Early Distribution].
  - If a MFJ return, select whether you are completing this page for the taxpayer or the spouse.
  - Enter the amount that is NOT subject to that penalty in the correct box, either SIMPLE [if code S in box 7 of the Form 1099-R] or non-SIMPLE [if code 1].
    - ***Warning:*** *TaxSlayer does no error checking on the amount entered.* Make sure the amount entered is correct.
  - Select the reason for exemption in the drop-down box.
  - Click "Continue".
  - On the "Other Taxes" menu page, click "Print" to create a PDF of the Form 5329, to confirm that line 4 of Part I is the expected amount (zero if all distributions subject to penalty have an exception).
  - ***Note for CA returns:*** Exception information entered in Part I of Form 5329 automatically carries to CA Form 5805P.

1099-R Form – Transfer or Rollover

- A "transfer" is a DIRECT transfer of funds or securities from one qualified account to another. No money passes through the taxpayer's hands. (This is also called a "direct rollover".) Box 7 has code **G** or code **H**.
  - Taxpayers can do this as often as they wish, without penalty.
  - For code **G**, if there is an amount in box 2a of the paper Form 1099-R, this may be a wholly or partially taxable rollover from a qualified plan to a Roth account. If the taxpayer confirms that the destination for the transfer was a Roth, enter the taxable amount shown in box 2a of the paper form. If the taxpayer is certain that the destination was a traditional IRA or a non-Roth account in another qualified retirement plan, then box 2a in TaxSlayer should be changed to **zero.**
  - Otherwise, for a code **G** or code **H transfer**, box 2a on the paper Form 1099-R should be blank (or zero); in this case, enter zero in box 2a in TaxSlayer.
  - Then in the "Rollover or Disability" section of the **Form 1099-R** page, check the box "Check here if all/part of the distribution was rolled over, and enter the rollover amount". Then, in the dollar amount box immediately below, enter the box 1 amount as the "rollover amount" (this step shouldn't really be required, but TaxSlayer adjusts sales tax MAGI by this amount, for example).
- A "rollover" is a distribution from a qualified account **to the taxpayer**, followed by a deposit of some or all of the distribution in the same or a different qualified account.
  - The deposit must occur WITHIN 60 DAYS of the distribution.
  - Because rollovers have the same code in box 7 as regular distributions – specifically, code **1** or code **7** – the only way to know about a rollover is when the taxpayer identifies one.
  - A taxpayer is normally limited to one rollover from an IRA in any 12-month period, regardless of how many accounts there are.
  - Rollovers are handled as follows:
    - Box 2a should be changed to the amount that was retained by the taxpayer, if any.
      - "Retained" includes money withheld as taxes. For example, if the taxpayer withdrew $5,000, had $1,000 withheld in taxes, and deposited $4,000 in a different qualified retirement account (*not* a Roth account), then box 2a should be $1,000.
      - If a taxpayer received a qualified retirement distribution with income tax withheld and then decided to roll over the entire distribution (getting money from another source), then box 2a would be zero.
    - In the "Rollover or Disability" section of **Form 1099-R**, check the box "Check here if all/part of the distribution was rolled over, and enter the rollover amount". Then in the dollar amount line

immediately below, enter the amount that the taxpayer deposited in a retirement account. (This amount plus the amount in box 2a *must* equal the box 1 amount.)

- A taxpayer is not allowed to rollover an inherited IRA unless the IRA was inherited from a spouse.

- **Revenue Procedure 2016-47** explains a self-certification procedure to help recipients of retirement plan distributions who inadvertently miss the 60-day window for properly rolling these amounts into another retirement account. Eligible taxpayers who meet one or more of 11 circumstances can qualify for a waiver of the 60-day time limit to avoid possible taxes and penalties on early distributions (listed in section 3.02 of the IRS procedure). The IRS document "**Retirement Plans FAQs relating to Waivers of the 60-Day Rollover Requirement**" has details.

1099-R Form – Qualified Charitable Distribution

- The taxpayer may have made one or more Qualified Charitable Distributions (QCD).
  - This involves the taxpayer directing a payment to go **directly** to a charity. Such a payment (distribution) is nontaxable, but the taxpayer doesn't get a charitable deduction.
    - The taxpayer should have written documentation, should the IRS request more information.
  - The taxpayer must have been at least 70½ when the donation was made; the maximum 2024 donation is $105,000. The maximum in any previous year was $100,000.
- In box 2a, enter the total amount that the taxpayer received from the retirement account – the amount that was **not** charitable gifts. (This amount is normally zero if all the distribution went to charities.)
  - However, QCD distributions *are* taxable to the extent that the taxpayer made deductible contributions to a traditional IRA after age 70½. For example, if payments to charities totaled $10,000 (box 1), but the taxpayer, age 71, had earned income and contributed $2,000 to a traditional IRA as a deduction (reduction of income), then box 2a in TaxSlayer should be $2,000. (The taxpayer can use the $2,000 on Schedule A if itemizing.)
    - ***Warning:*** The taxable amount in box 2a can be affected by deductible IRA contributions made in a prior tax year – see the warning on **Pub 4012** page D-54 (NTTC-modified version only).
- Enter the rest of the 1099-R information as normal; click "Continue". At the warning screen, click "Continue". Click "Continue" once or twice more to get back to the **IRA/Pension Distributions** menu page. Select "Nontaxable Distributions". Select the first checkbox, the QCD exception. Click "Continue."
  - ***Note:*** **The 1099-R Nontaxable Income** page does not code or mark any specific 1099-R as being a QCD distribution; rather, it sends information to the IRS that *one or more* 1099-Rs involved a QCD.

LINE 5 - PENSIONS AND ANNUITY INCOME

1099-R Form – Pensions and Annuities

- As mentioned above, Form 1099-R is used for two somewhat similar things: distributions from qualified retirement accounts, and pensions and annuities. Distributions are covered earlier, on page **36**.
  - Generally, if a Form 1099-R is for a pension or annuity, then the checkbox "IRA/SEP/SIMPLE" (near the box 7 code) **won't** be checked. This box is also not checked for Roth IRA distributions.
    - If this box is checked, TaxSlayer puts the income on Form 1040 Line 4, not Line 5.
  - Annuities and pensions will have, in box 7, one of the following codes: code **3**, code **4** (also used for distributions), code **6**, code **7** (also used for distributions), code **D**, or code **F**.
    - For code **F,** see the information for Box 3, below.
  - The U.S. government issues Form CSA 1099-R for federal pensions. This is a close variant of the standard Form 1099-R; the differences are noted in the section Office of Personnel Management (OPM) CSA 1099-R form, page **44**.
  - Form RRB-1099-R is for railroad retirement pensions; follow the instructions in the section which discusses that form, page **45**.
- Box 2a: With pensions and annuities, the main issue is determining the correct amount to enter in box 2a. TaxSlayer defaults box 2a to the same amount as box 1, but that is often incorrect.
  - If box 2a in TaxSlayer matches box 2a on the paper Form 1099-R, then continue by entering other information from the paper Form 1099-R.
  - The most common reason to adjust the box 2a amount is because the taxpayer has contributed to a pension plan or annuity with after-tax dollars. If so, when receiving payments, the portion that represents the taxpayer's contribution is *not* taxable. That portion is often, but not always, in box 5; treat box 5 as a *clue* that the amount entered in box 2a might not be the same as the amount in box 1.

- The total amount of after-tax dollars that the taxpayer contributed is shown in box 9b of the paper Form 1099-R.
  - If the paper Form 1099-R has a non-zero amount in box 2a, enter that amount in box 2a in TaxSlayer.
  - If box 2a is blank on the paper form, then box 2b normally has a checkmark for "Taxable amount not determined". Use the information below to determine what is taxable; normally this involves using the Simplified Method, as discussed in the next section. (Sometimes box 2a has "Unknown".)
    1. Check box 2b regardless.
  - If box 2a is zero, this may be survivor benefits for a public service officer – see the section 1099-R Form – Public Safety Officer (PSO) Exceptions, page **43**.

- Checkbox below box 2a: **Some** pensions or annuities do not affect the calculations for the Retirement Savings Contribution Credit, discussed on page **94**. Specifically, the box should be checked for *pensions and annuities* where the taxpayer (or spouse, as relevant) *could not have made a voluntary contribution*. Military pensions are one example.
- Box 3: This box is for reporting a capital gain related to a Charitable Gift Annuity (code **F** in box 7).
  - An amount in box 3 affects the amount that should be entered in box 2a in TaxSlayer.
    - For 1099-Rs that are code F, the amount entered in box 2a in TaxSlayer should be box 1 (total income) minus box 3 (capital gain) minus box 5 (tax-free portion). *Ignore any amount shown in box 2a of the paper Form 1099-R.*
    - Boxes 3 and 5 of the paper Form 1099-R should be entered in TaxSlayer as they appear on the paper form. *The box 3 amount must be entered again, elsewhere – see the next item.*
  - Manually enter the capital gain portion (the amount in box 3) – go to the **Capital Gains Transaction** page [Income > Schedule D (Form 1040) > Capital Gains and Loss Items].
    - The description is **FROM 1099-R**.
    - For the date acquired, use the Alternate Option, and select "Various – Long Term".
    - For the date sold, enter a date for the current tax year.
    - Sales price is the amount in box 3 of the Form 1099-R.
    - The cost basis is "Did not receive Form 1099-B."
    - The cost is zero.
    - Click "Continue."
  - ***Note:*** This capital-gains amount shows on a Form 8949 (in the print packet) as code is **F** (long-term, not reported on a Form 1099-B).
- Box 5: If the paper Form 1099-R has an amount in box 5, enter that amount in TaxSlayer.
  - If the payer has calculated, in box 2a, a taxable amount of the pension or annuity, then generally the difference between boxes 1 and 2a will appear in box 5 of the paper form. (If there's an amount in box 3, see the box 3 instructions above.)
  - For Form CSA 1099-R from the Office of Personnel Management (OPM), see page **44**.
  - If box 2a is blank, and there is an amount in Box 5, and box 7 is ***not*** Code F, and "Taxable amount not determined" has been checked on the Form 1099-R, then the Simplified Worksheet section must be completed – see the next section.
    - If the Form 1099-R is from OPM, and box 5 is *blank*, as so is box 2a, then box 7 is probably code 4 (survivor benefits). If the box 5 amount cannot be determined by looking at a prior year tax return or prior year 1099-R, and is needed the taxpayer can call OPM, at 1-888-767-6738.
  - If box 5 is greater than box 1, the distribution may be from an annuity, and the loss (the difference between box 1 and box 5) may be deducted if itemizing – see section Schedule A – Other Itemized Deductions (Line 16), page **86**.
- Box 7:
  - If multiple codes are shown (such as "4G"), enter both codes.
  - If box 7 has **code 3**, determine if the taxpayer is (still) less than the minimum retirement age for the company paying the pension or annuity. [**Pub 907, Tax Highlights for Persons With Disabilities**]
    - If so, then in the "Rollover or Disability" section of the page, check the box "Check here to report on Form 1040, Line 1". That places the pension on Form 1040 as wages, eligible for EIC and other credits, because the IRS considers such payments to be *earned income*.
      - If the box is checked, *do not* use the Simplified Method to determine the taxable portion of the pension. The entire pension is taxable, except for a possible Public Safety Officer (PSO) exception, discussed on page **43**.

    - Minimum retirement ages for federal employees are in **Pub 721, Tax Guide to U.S. Civil Service Retirement Benefits**.
    - ***CA process note:*** Minimum retirement ages for **CALSTRS** and **CALPERS** annuitants are on their respective websites.
    - For other employers, if the taxpayer doesn't know the minimum retirement age, *we generally can't complete the return*. Ask the taxpayer to find out this information, then return.
    - ***Note for CA returns:*** *If the taxpayer is below retirement age, disability income paid on a 1099-R* ***is*** *California earned income*. Currently **TaxSlayer does not handle this correctly.**
      - Go to the CA state section, select "Credits", then "CA Earned Income Credit (Form 3514)", and enter the amount of the taxable disability income (box 2a of the 1099-R) into the first dollar amount field on this page. That flows the income to line 13 of CA Form 3514.
    - ***Note:*** A taxpayer who retired on **permanent and total disability**, had taxable disability income, AND was under the minimum retirement age as of December 31 of the tax year, may be eligible for the Credit for the Elderly and Disabled, discussed on page **95**.
- Box 9b is the total employee contributions to the plan; enter the amount, if any, in TaxSlayer.

1099-R Form – Simplified Method

- ***Note:*** The Simplified Method cannot be used for code D or other Non-Qualified Plan distributions.
- If the employee made after-tax contributions toward a retirement plan, a portion of pension payments from that retirement payment probably is not taxable.
  - If a taxpayer is receiving a disability pension (Box 7 has **code 3**, disability), and is below the minimum retirement age, then the entire amount of the pension is taxable.
  - Determining minimum retirement age is discussed in the "Box 7" paragraph of the section directly above.
  - If the starting date of the payments was **prior to July 1, 1986,** and there is no entry in Form 1099-R box 2a, then it's difficult to **calculate** the amount that can be excluded. All of the taxpayer's contribution could have been recovered under the "Three Year Rule" that was in effect prior to July 1, 1986 – or:
    - The taxpayer should have established, beginning in 1987, a monthly amount that was to be excluded from taxation. That amount – which could have been zero – *continues* indefinitely as long as the pension is being paid.
      - This information must come from the taxpayer. If the taxpayer doesn't know the monthly amount, then the entire amount in box 1 should be treated as taxable.In rare cases (such as San Diego City pension), the taxpayer may be able to retrieve missing numbers from the pension provider.
- To calculate the amount of the pension payment that can be excluded, six things are needed:
  1. The gross amount for the year (box 1 of the paper Form 1099-R, box 7 of the RRB-1099-R)
  2. Total employee contributions [TaxSlayer calls this "Plan cost at annuity start date"]
  3. The annuity start date
     - This is the date the first payment was received. The payment may have been to a deceased spouse if that spouse was the annuitant.
  4. The birthdate of the annuitant (the person to whom the pension was first paid)
     - Again, this might be the birthdate of the deceased spouse.
  5. *If* this is a joint or survivor annuity, the birthdate of the spouse
     - If the annuitant died before receiving the first payment, do *not* treat as a joint or survivor annuity.
  6. The number of months of payments in the current tax year [normally 12]
- If the annuity start date is after June 30, 1986, and Form 1099-R box 2a is blank, and there is a total employee contribution amount in box 9b, then use the Annuity/Pension Exclusion Calculator, **cotaxaide.org/tools/**, to calculate the amount to enter in box 2a.
  - Enter the taxpayer's name at the top of this calculator, because **the page should be printed for the taxpayer's records.**
  - The spouse's birthday is entered only if this is a joint or survivor annuity.
  - After clicking "Clicking here to Calculate", the Annuity Calculator displays two boxes immediately below the section where information was entered. At this point, there is a choice:
    - Take the amount in the left box and enter it directly into box 2a of the **1099-R** page (recommended).

    - Use the information in the right box to enter information in the **Simplified General Rule Worksheet**, which is reached by clicking the link just below box 2a on the **1099-R** page, then clicking continue.
  - Click "Print the table" to document the calculations and give the printed copy to the taxpayer to put in their records for the tax year. Create a TaxSlayer note (per page **8**) documenting results for future years. For example, a note named "OPM Pension" might say "TP retired 1990, all taxable now", or "TP retired 11/2006; $1236 exclusion thru 2030, $135 exclusion in 2031".
- TaxSlayer's **Simplified General Rule Worksheet** is an alternative for calculating the amount for box 2a, or you can use it only to record results from the Annuity Calculator, as discussed in the previous paragraph.
  - The TaxSlayer worksheet is more difficult to understand than the Annuity Calculator, and more likely to give an incorrect answer. It also doesn't provide the additional information the Annuity Calculator does for less common situations (such as that the simplified method for a pension beginning prior to 1998 does *not* use combined ages to calculate the tax-exempt amount).
  - ***Note:*** Most, but not all, of the Simplified Method Worksheet is a Carryforward item; unfortunately the remaining exclusion (or cumulative exclusion amount already used) is not carried forward.
- ***Note for CA returns:*** If the annuity started after 7/1/1986 but before 1/1/1987, the 3-year rule could have been used for CA – even though it was not allowed for federal.
  - If so, make an adjustment in the State Section. Enter, as described in the section Manually Entering Income Differences on CA Schedule CA on page **106**, an increase in taxable income of an amount equal to the federal Simplified Method basis recovered.

1099-R Form – Public Safety Officer (PSO) Exceptions

- The PSO category includes a law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew. *Note:* This definition of PSO is *narrower* than the one for 1099-R Form – Public Safety Officer (PSO) Exceptions on page **38**.
- Health insurance or LTC premiums exception
  - Confirm that the taxpayer was a PSO **before** retirement. If this condition is met, then the amount in box 2a can be reduced by up to $3,000, based on the health and/or LTC insurance paid.
    - *This insurance no longer needs to be paid directly from by the employer or retirement plan. Medicare premiums also count.* (Any Medicare premiums used here should be subtracted from Schedule C SEHI, if applicable, or TaxSlayer's Social Security page.)
    - *Schedule A LTC-premium limits don't apply* to the exclusion of PSO LTC premiums paid.
  - The health/LTC amount may be in box 5 of the Form 1099-R [for a CSA 1099-R, this is always the case], or in a letter from the plan, or in another document showing pension information.
    - Don't include this amount on Schedule A as a medical deduction.
    - But: if the amount on the Form 1099-R exceeds $3,000, the excess may be included on Schedule A.
  - How the reduction in the box 2a amount is made depends:
    - If the paper Form 1099-R has a dollar amount in box 2a, then subtract the health/LTC amount (again, to a maximum of $3,000), and enter the adjusted amount in box 2a on the TaxSlayer page.
    - If the amount in box 2a is being calculated using the simplified method, as discussed on page **42**, then, in the Annuity/Pension Exclusion Calculator, **cotaxaide.org/tools/**, check the box at the top, just below the taxpayer name, and enter the health/LTC amount on the line "Cost of insurance to exclude."
  - Enter the rest of the 1099-R information as usual; click "Continue". At the warning screen, click "Continue". Click "Continue" again to go to the **IRA/Pension Distributions** menu page. Select "Nontaxable Distributions". Select the third checkbox, the PSO exception. Click "Continue".
    - ***Note:*** **The 1099-R Nontaxable Income** page does not code or mark any specific 1099-R as involving the PSO exception; it just sends information to the IRS that *one or more* 1099-Rs had this exclusion.
  - Create a note (per page **8**) named "PSO" that "Pension has Public Safety Officer exclusion for health care."
  - ***Note:*** The insurance costs used to determine the PSO exclusion *cannot be used* for the SEHI adjustment; that would be double counting.
- Survivor Benefits Exclusion
  - Survivor benefits attributable to service by a public safety officer who was killed in the line of duty before January 1, 1997, are excludable from federal income tax.

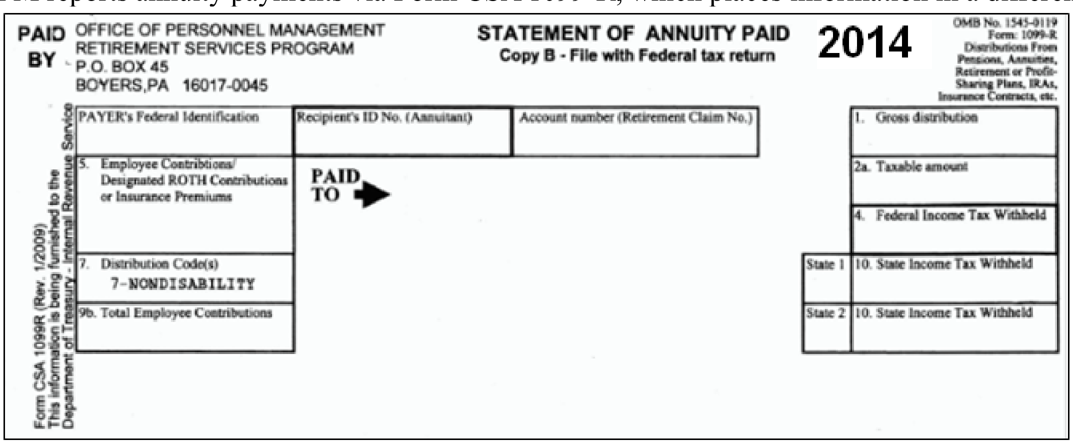
    - The taxpayer may receive a Form 1099-R with -0- taxable in box 2a.
  - ***Note for CA returns:*** CA does not conform to this provision and all benefits received are taxable.
    - Manually enter the adjustment amount as described in the section Manually Entering Income Differences on CA Schedule CA, page **106**.

1099-R Form – State Section

- Don't enter state information if there's no CA tax withholding in box 14.
  - If there is CA tax withholding, enter the state ("CA"), state ID, and state distribution amount (see next paragraph).
    - Don't enter any dashes or blanks.
    - The state ID, usually eight digits, is NOT the same as the federal I. If the State ID is blank on the paper Form 1099-R, enter six nines (999999) in TaxSlayer.
- For the state distribution amount (box 16):
  - If this is blank on the paper Form 1099-R, it's presumed to be the same as the federal taxable amount (box 2a).
    - ***Warning:*** If CA withholding, box 14, is greater than box 2a, taxable amount, **and box 16 is blank** on the paper form, *enter in box 16 the CA tax withholding amount, because TaxSlayer won't let the amount in box 14 exceed the amount in box 16.* (Entering the CA withholding amount in box 14 **won't** affect the taxable income amount on CA Form 540.)
  - If there's a dollar amount in box 14 of the paper Form 1099-R that's **different** from the federal amount in box 2a, enter the state distribution amount from the paper Form 1099-R in box 16.
    - ***Note for CA returns:*** TaxSlayer doesn't automatically carry the difference in the distribution amount to CA Schedule CA Part I, Section A line 4 or 5. **Manually** enter the adjustment amount as described in the section Manually Entering Income Differences on CA Schedule CA on page **106**.
- ***Note for CA returns:*** CA follows the federal rules for taxability for all CA residents for employer plan distributions.
  - If the taxpayer made nondeductible contributions, see the section IRA Basis Difference, page **109**.

Office of Personnel Management (OPM) CSA 1099-R form

- The OPM reports annuity payments via Form CSA 1099-R, which places information in a different layout.



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

STATEMENT OF ANNUITY PAID
Copy B - File with Federal tax return

2014

OMB No. 1545-0119
Form: 1099-R
Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

PAYER's Federal Identification | Recipient's ID No. (Annuitant) | Account number (Retirement Claim No.) | 1. Gross distribution

5. Employee Contributions/ Designated ROTH Contributions or Insurance Premiums

PAID TO

2a. Taxable amount

4. Federal Income Tax Withheld

7. Distribution Code(s) 7-NONDISABILITY

State 1 | 10. State Income Tax Withheld

9b. Total Employee Contributions

State 2 | 10. State Income Tax Withheld

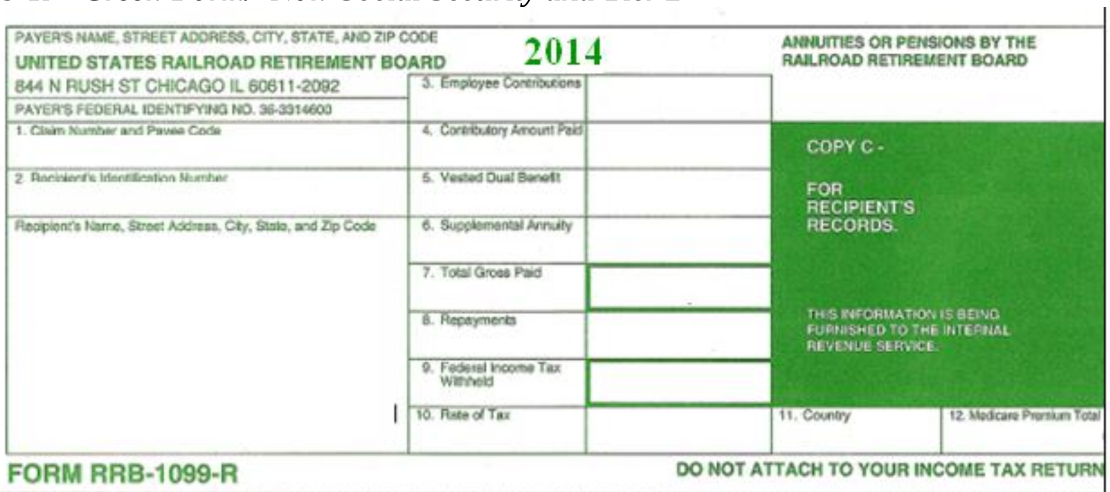
Form CSA 1099R (Rev. 1/2009)
This information is being furnished to the
Department of Treasury - Internal Revenue Service

- Box 2a – if the annuity starting date is after July 1, 1986, but before November 19, 1996, the taxable amount box may say "Unknown."
  - In this case complete the Simplified Method worksheet as detailed above, page **42**.
- Box 5 on this form is the health insurance premiums that are deductible as medical on *A Detail*; the amount includes only premiums for FEHB/FEP and Medicare Part B and/or Part D:
  - If the retiree is having dental, vision, or LTC insurance premiums deducted, **they won't be included in box 5.** The only way to see these other premiums is to see the taxpayer's Form RI 38-38, Notice of Annuity Adjustment. Codes are on the back of the form:
    - 42 is Federal Dental Insurance.
    - 43 is Federal Vision insurance.
    - 45 is a catchall that includes LTC.
- Voluntary Contributions – If the taxpayer is receiving additional payments resulting from voluntary contributions to the retirement fund, the additional portion of the annuity due to the voluntary contributions must be reported separately for tax purposes and is shown at the bottom of the paper Form 1099-R.

- o Federal employees who entered service **after 1987** were enrolled in the newer Federal Employee Retirement System (FERS), which doesn't allow voluntary retirement contributions. Federal retirees in FERS can receive the Retirement Saving Credit while drawing their civil service retirement, if they have earned income, make contributions to a qualified retirement account, and meet other requirements for this credit. **For such employees, check the "Does not qualify for Form 8880" box**, below line 2a of the 1099-R entry page, to prevent the retirement pay from negatively effecting this credit.

- If additional information is needed, see **Pub 721, Tax Guide to U.S. Civil Service Retirement Benefits**
  - o https://cotaxaide.org/docs/TO_CSA%20&%20CSF%201099R.pdf has an easy-to-follow walkthrough.

RRB-1099-R – Green Form/"Non-Social Security and Tier 2"


PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE
UNITED STATES RAILROAD RETIREMENT BOARD
844 N RUSH ST CHICAGO IL 60611-2092
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600
2014
ANNUITIES OR PENSIONS BY THE RAILROAD RETIREMENT BOARD
1. Claim Number and Payee Code
2. Recipient's Identification Number
Recipient's Name, Street Address, City, State, and Zip Code
3. Employee Contributions
4. Contributory Amount Paid
5. Vested Dual Benefit
6. Supplemental Annuity
7. Total Gross Paid
8. Repayments
9. Federal Income Tax Withheld
10. Rate of Tax
11. Country
12. Medicare Premium Total
COPY C - FOR RECIPIENT'S RECORDS.
THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.
FORM RRB-1099-R
DO NOT ATTACH TO YOUR INCOME TAX RETURN

- Railroad retirement pay is treated as a pension or annuity on the federal tax return, per **Pub 575, Pension and Annuity Income**.
  - o ***Note for CA returns:*** This income is not taxed by California. TaxSlayer automatically makes the adjustment on CA Schedule CA Part I, Section A line 5.
- TaxSlayer has a separate page, **RRB-1099-R**, to enter railroad retirement pay. [Income > Form 1099-R / RRB, SSA > RRB-1099-R]. Boxes 3, 7, and 9 are self-explanatory. For the rest of the page:
  - o The Payer's ID should be 36-3314600, on the paper Form RRB-1099-R.
  - o For MFJ returns, specify whether the taxpayer or spouse is the recipient.
  - o If the recipient address in TaxSlayer doesn't match the address on the paper Form RRB-1099-R, change the TaxSlayer information to match, and advise the taxpayer to inform the issuer of the correct address.
  - o For box 7a, Taxable Amount, the simplified method must be used when box 3 has an amount in it. How to do so is discussed in section 1099-R Form – Simplified Method, page **42**.
  - o For box 12, if there is an amount on the paper Form RRB-1099-R, this can be used as a medical deduction if the taxpayer is itemizing – see the section Schedule A - Medical and Dental Expenses (Line 1), page **76**.
  - o On the bottom right of the TaxSlayer page is a checkbox, "Check here to report on Form 1040, Line 1." Check that box **only** if the recipient is disabled and below the minimum retirement age as of December 31 of the tax year.

Foreign Government Pensions

- Foreign government pensions, except for Canadian and German Social Security (see the section Canadian or German Social Security, page **48**), make the return ***out-of-scope***.
- A Canadian Registered Retirement Savings Plan (RRSP), which is similar to an IRA, makes the return ***out-of-scope***.

LINE 6 - SOCIAL SECURITY AND RAILROAD RETIREMENT BENEFITS

- Up to 85% of Social Security benefits may be taxed on the federal return.
  - o Computationally, if AGI plus any tax-exempt income plus one-half of Social Security benefits is less than $25,000 ($32,000 for MFJ), **none** of the Social Security benefits will be subject to tax. Nevertheless, all *potentially* taxable Social Security benefits must be entered in TaxSlayer.

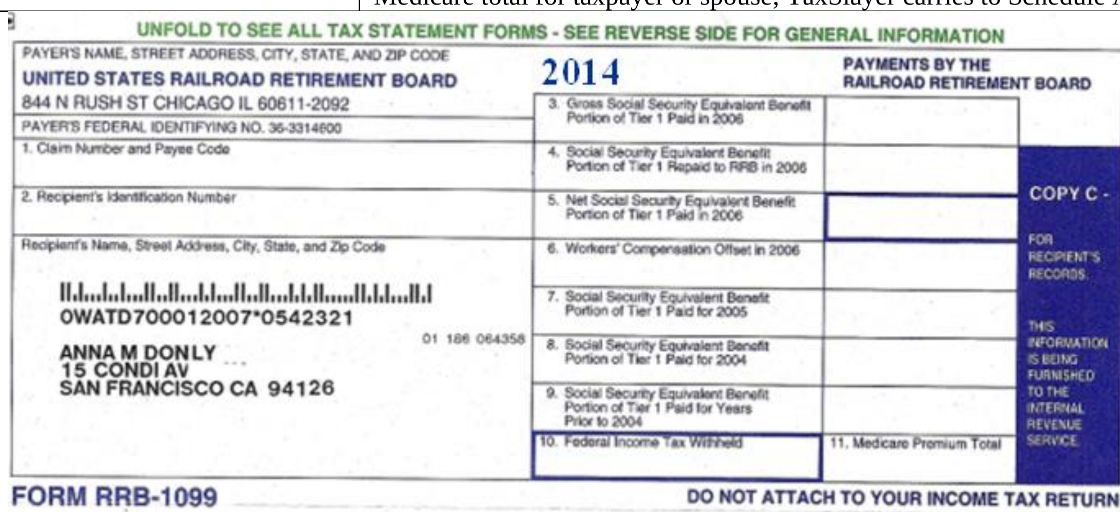
- Social Security benefits (on Form SSA-1099), and Railroad tier 1 benefits (on Form RRB-1099; see "blue form" below), are treated similarly on the federal return. Unless otherwise specified, the term "Social Security benefits" in this section refers to *both*.
  - Social Security Disability Insurance (SSDI) benefits are treated, for tax purposes, as regular Social Security benefits. A Form SSA-1099 is issued for SSDI.
  - Taxpayers can get a copy of a missing SSA-1099 from their local Social Security office or by calling 800-772-1213.
- Other benefits paid by the Social Security Administration are treated differently:
  - Benefits received by a child of a deceased taxpayer are NOT taxable on a parent's or guardian's return, but must be entered on the child's return if the child has a filing requirement.
  - Social Security death benefits (maximum $255) paid to the deceased's spouse or children are NOT taxable.
  - **Supplemental Security Income (SSI) benefits are NOT taxable**; no SSA-1099 should be issued.
- Social Security benefits received by the taxpayer during the tax year are entered on the **Social Security <u>SSA</u>-1099/RRB-1099 Tier I** page [Income > Form 1099-R / RRB, SSA > Social Security Benefits/RRB-1099].
  - Information for both taxpayer and spouse are entered on the same page.
  - Enter the amount in box 5 of SSA-1099 and box 5 of RRB-1099 (blue form) on the line "Taxpayer's Social Security Benefit."
    - If there is more than one paper form for a person for the same year, combine amounts on all paper forms to see if the amount is positive or negative. If **positive** (which is normal), enter the *total*; if negative, see below.
      - A typical situation where a taxpayer has **two** SSA-1099s is when the taxpayer got Social Security benefits based on his or her own earnings for part of the year, and got benefits based on spousal or survivor earnings for the other part of the year. In such case, box 8 **won't** be the same on the two forms.
  - TaxSlayer automatically calculates any taxable amount, on Form 1040 Line 6b.
- <u>No form provided by the taxpayer</u>: The Social Security Administration does not issue an SSA-1099 form for a taxpayer whose SS benefits are less than the Medicare premiums (typically just Part B) that are being paid from SS benefits. More commonly, a taxpayer has misplaced or perhaps not received the form in the mail. There are alternatives to asking the taxpayer to go to the nearest SSA office to get a copy:
  - Taxpayers sometimes bring a letter from the SSA that states what they'll receive in the upcoming year.
  - Use the amount on last year's tax return (or last year's SSA-1099) together with the standard cost-of-living increase.
    - For calendar year 2024, SSA benefits increased by 3.2% compared to 2023; for 2023, the increase was 8.7%; for 2022, the increase was 5.9%; for 2021, the increase was 1.3% compared to 2020.
- <u>Negative amount</u>: If the amount in box 5 of a paper form is **negative**, it can be offset by a positive amount on another SSA-1099 received by the taxpayer – enter the net amount. On a MFJ return, if the total amount for one person is negative, enter a zero for that person and reduce the amount of the other person appropriately. *If the 1099-SSA cannot be fully offset*, the next step depends on the amount:
  - If the amount <u>is $3,000 or less,</u> do nothing. It would've been subject to the obsolete federal 2%-of-AGI threshold (deductions eliminated in 2018). And since Social Security benefits are never taxed by California, the amount isn't relevant to the CA return. Such a negative amount has no benefit to the taxpayer.
  - If the amount is <u>over $3,000</u>, the amount is <u>not</u> subject to the 2%-of-AGI threshold and can be entered in the federal return in one of two ways.
    - As an <u>itemized deduction</u>. On the **Schedule A - Miscellaneous Deductions** page, enter the amount in the "Repayment under claim of right" box.
      - ***Note for CA returns:*** Repayments of any SS benefits are **not** deductible as a CA itemized deduction because the original payment was not taxed by CA. **An adjustment (reduction of itemized deductions)** is needed on CA Schedule CA Part II line 21. On the "Itemized Deductions" page of the CA State Section, enter the amount in the "Subtractions - Other Miscellaneous Itemized Deductions" box.
    - As a <u>credit</u>. The credit amount is entered on the **IRC 1341 Repayment Amount** page [Federal > Payments & Estimates], and appears on Schedule 3 Line 13z, with the notation "IRC 1341". **This is *out-of-scope*.**

    - Calculating the amount of this credit may be difficult or impossible if it spans multiple years. If it involves only one year, the credit is essentially the taxable amount times the marginal tax rate.
    - If it seems that the taxpayer would benefit significantly from taking this credit, rather than an itemized deduction, they should see a full-time paid preparer.

- Enter any federal tax withheld (box 6 of SSA-1099, box 10 of RRB-1099) on the appropriate line.
  - Take care not to enter Medicare payments on the line for federal tax withheld. (Few taxpayers have taxes withheld from Social Security benefits, so this line is normally left blank.)
- Medicare premiums listed on the SSA-1099 or Form RRB-1099 should be entered in one of two places:
  - Enter Medicare premiums on the **Social Security SSA-1099/RRB-1099 Tier I** page if **(a)** the return doesn't have any self-employment income (Schedule Cs), or **(b)** the taxpayer's total medical expenses exceed the 7.5%-of-AGI threshold, and the taxpayer is itemizing.
    - Medicare premium costs entered on **Social Security SSA-1099/RRB-1099 Tier I** page automatically flow to Schedule A medical costs. *Do not* reenter on Schedule A.
    - If a paper form lists more than one Medicare premium, and premiums are *not* being entered in Schedule C, then total all premiums and enter the total in TaxSlayer.
      - When there are multiple premiums on a paper Form SSA-1099, it's helpful to mark what dollar amounts were totaled, and write the total on the paper Form SSA-1099 for the quality reviewer.
    - Also enter on the **Social Security SSA-1099/RRB-1099 Tier I** page, as discussed above, any amount for a third situation, **(c)** any Medicare premiums paid during a month where the taxpayer could participate in an employer-subsidized health plan, whether or not the taxpayer did participate.
  - If neither (a) nor (b) is true, and to the extent that (c) is not true, Medicare premiums paid should be entered in TaxSlayer on **Schedule C**, as discussed on page **71**, because some or all of those costs might be used for the SEHI adjustment on Schedule 1 Line 16.
- Attorney fees listed on a Form SSA-1099 don't affect Line 6a or 6b.
  - Attorney fees are no longer deductible on the federal Schedule A; all deductions subject to the 2%-of-AGI reduction were eliminated.
    - ***Note for CA returns:*** A portion of attorney fees **is allowed** as a CA itemized deduction, subject to the 2%-of-AGI reduction. The portion is based on what percentage of the amount in box 5 of Form SSA-1099 is taxable – for example, if 70% of the amount is federally taxable, then 70% of attorney fees can be put on CA Schedule A. TaxSlayer handles such "no longer valid for federal, but possibly valid for states" expenses by continuing to have them **manually** entered in the federal Schedule A section. For details, see page **86**.
- ***Note for CA returns:*** Neither Social Security benefits nor Railroad tier 1 benefits are taxed by California. TaxSlayer makes the adjustment automatically on CA Schedule CA Part I, Section A line 6.

RRB-1099 – Blue Form/"Tier 1 Social Security equivalent"

Amounts on the RRB-1099	Enter in TaxSlayer on Social Security SSA-1099 page
Box 5	Equivalent to Social Security payments, for taxpayer or spouse
Box 10	Federal tax withheld for taxpayer or spouse
Box 11	Medicare total for taxpayer or spouse; TaxSlayer carries to Schedule A


UNFOLD TO SEE ALL TAX STATEMENT FORMS - SEE REVERSE SIDE FOR GENERAL INFORMATION

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE
UNITED STATES RAILROAD RETIREMENT BOARD
844 N RUSH ST CHICAGO IL 60611-2092

2014

PAYMENTS BY THE RAILROAD RETIREMENT BOARD

PAYER'S FEDERAL IDENTIFYING NO. 36-3314600

1. Claim Number and Payee Code

2. Recipient's Identification Number

Recipient's Name, Street Address, City, State, and Zip Code

0WATD700012007*0542321

01 186 064358

ANNA M DONLY
15 CONDI AV
SAN FRANCISCO CA 94126

3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006

4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 2006

5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006

6. Workers' Compensation Offset in 2006

7. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2005

8. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2004

9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 2004

10. Federal Income Tax Withheld

11. Medicare Premium Total

COPY C - FOR RECIPIENT'S RECORDS. THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.

FORM RRB-1099

DO NOT ATTACH TO YOUR INCOME TAX RETURN

Lump Sum Payments of Social Security

- When some of the Social Security payments received in the current year are attributable to one or more prior year, that information is stated in the section "DESCRIPTION OF AMOUNT IN BOX 3" on Form SSA-1099. In this situation, TaxSlayer can do an alternate calculation of the amount that is taxable on the federal return, potentially benefiting the taxpayer.
  - Total Social Security payments received (box 5 of the SSA-1099) is entered **as usual**; do *not* change the entry in TaxSlayer because of lump sum payments.
  - **If, after all income in the Federal Section has been entered, Line 6b on Form 1040 is zero, STOP** – it is not necessary to complete the lump-sum payment worksheet in TaxSlayer.
  - **If the taxpayer does not have <u>any</u> of the tax returns for the prior year(s)** for which the retroactive Social Security benefits were received, it's not possible to complete the lump-sum payment worksheet in TaxSlayer, which is required for the alternative calculation.
    - The taxpayer's options are (1) request a [free] transcript from IRS for the missing year(s) (Form 4506-T] , or (2) treat the retroactive benefits for the missing year(s) as received in the current tax year (don't do the alternate calculation). *Note:* There is a fee to get a photocopy of a filed return.
  - **If the taxpayer has only <u>some</u> of the tax returns for the prior year(s)** for which retroactive Social Security benefits were received, then complete the lump-sum payment worksheet in TaxSlayer for those year(s). Even one year can help.
- If Line 6b on Form 1040 is **not** zero, AND information from any of the prior year return(s) **is/are** available:
  - On the **Social Security SSA-1099** page, click "Begin Worksheet."
  - On the **Social Security Lump-Sum Payment** page:
    - Select the year for which retroactive payments were received (separate worksheets are done if there is more than one prior year for which retroactive benefits were received).
    - "SSA Payments received in Earlier Year" is the amount in Form 1040 Line 5a.
    - "Portion of this year's SSA for Earlier year" is the amount on this year's SSA-1099 form that is stated as being retroactive benefits for the prior year being entered in TaxSlayer.
    - Calculate the "Modified Adjusted Gross Income for Earlier Year". This is the AGI amount on Form 1040 Line 11, plus any amount on that same form for tax-exempt interest (Line 2a), plus any amounts in Schedule 1 Line 21 (student loan interest deduction).
    - Enter "Taxable Benefits Reported in Earlier Year". This is the amount in Form 1040 Line 6b.
    - Click "Continue to finish". Then, if there is another prior year for which retroactive benefits were paid on the 1099-SSA form, and the taxpayer has that tax return, click the "Add" button to complete another **Social Security Lump-Sum Payment** page.
  - The TaxSlayer print package contains the worksheets for all years.
- If the taxpayer is eligible for Premium Tax Credits (page 94), *the entire lump sum* is part of the taxpayer's MAGI, regardless of whether the lump sum method is used to determine the tax to be paid.

Canadian or German Social Security

- For U.S. taxpayers, Canadian or German Social Security income is treated the same as U.S. Social Security.
  - Canada's versions are the Canada Pension Plan (CPP), Quebec Pension Plan (QPP), and Old Age Security (OAS).
    - To convert Canadian dollars or (German) euros to U.S. dollars, see the section Foreign Income, page **69**.
  - Enter the converted dollar amount on the **Social Security SSA-1099** page as "Taxpayer's Social Security Benefit."
- ***Note for CA returns:*** Canadian and German social security payments **<u>are taxable</u>** for California.
  - TaxSlayer does **<u>not</u>** make the correct adjustment for CA – it treats Canadian and German social security payments as if they were U.S. Social Security payments.
    - Enter the adjustment amount – the entire amount of the Canadian and German social security payments - as an addition to CA income, as described in the section Manually Entering Income Differences on CA Schedule CA, page **106**.

<u>LINE 7 - CAPITAL GAIN OR LOSS</u>

Only sales of stocks, mutual funds, certain bonds, and personal residences are in-scope.
Worthless debts or the sale of other types of securities or assets make the return *out-of-scope.*

- Capital gains and losses are generally reported on a Form 1099-B, often part of a broker's statement that may include a Form 1099-INT and a Form 1099-DIV. Those two other forms are handled as discussed above – see the respective sections Line 2 - Taxable and Tax-Exempt Interest, page **32**, and Line 3 - Dividends, page **34**.
  - o Capital gains are also reported in box 2a of Form 1099-DIV, as discussed above, page **34**.
- When Form 1040 is printed, capital gains and losses are summarized on Schedule D, with supporting details on one or more Form 8949s, Sales and Other Dispositions of Capital Assets.
- Broker fees can no longer be deducted on the federal Schedule A. They are in the eliminated category of deductible expenses that were subject to a 2%-of-AGI reduction.
  - o ***Note for CA returns:*** California conforms to federal Schedule A deductions *as of 2015*, so this expense *is* deductible for CA, subject to a 2%-of-AGI reduction.
    - ▪ TaxSlayer handles such "no longer valid for federal, but possibly valid for states" expenses by having them **manually** entered in the federal Schedule A section. For details, see page **86**.
- ***Note for CA returns:*** CA doesn't recognize HSA trusts – gains and losses incurred in the trust are reportable for CA - see Health Savings Accounts in CA, page **111**.

Out-of-scope

- The following are ***out-of-scope*** and make the return ***out-of-scope***:
  - o Taxpayers who day trade or trade in futures and options
  - o The sale of bonds acquired by other than purchase (such as inheritance or gift)
  - o A tax return for a dependent with unearned income (including investment income) that exceeds the threshold for the "kiddie tax"
  - o Receipt of a Form 2439 (notice to shareholder)
  - o A return requiring completing Form 4797 (Sales of Business Property), 6252 (Installment Sale Income), 6781 (Gains and Losses from Section 1256 Contracts and Straddles), and/or 8824 (Like-Kind Exchanges)
  - o A taxpayer who has margin interest (borrowing money from the broker to purchase securities) and itemizes
  - o Sales paid for with virtual currencies (cryptocurrencies) such as bitcoin; this includes redemptions
  - o Sales of digital assets (cryptocurrencies, NFTs)
- Also, **Pub 4012** page D-39 lists ***out-of-scope*** adjustments to basis [codes D, N, X, R, and S], any of which make the entire return ***out-of-scope***.

Summarizing

- Transactions on a Form 1099-B are typically entered in TaxSlayer as *summaries*. Each Form 1099-B creates no more than four entries in TaxSlayer: short-term "covered" (box "A", basis reported to the IRS); short-term "uncovered" (box "B", basis **not** reported to the IRS; long-term "covered" (box "D", basis reported to IRS); and long-term "uncovered" (box E, basis **not** reported to IRS).
  - o If entering a summary transaction, also check the "Reporting Multiple Transactions on a Single Row" box near the bottom of the Adjustments section of the TaxSlayer page.
- ***Tax-Aide policy:*** Brokers' statements entered as summaries in TaxSlayer will **not** be scanned and attached to an electronically-filed return, nor photocopied and mailed to the IRS; Form 8453 will **not** be prepared.

Entering Capital Gains and Losses

- From the **Income** menu page in the Federal Section, select "Capital Gains and Losses"; then, on the **Schedule D Capital Gains** menu page, select either "Capital Gains and Loss Items" or "1099-B Transactions with No Adjustments", as applicable.
  - o *Note:* The option "1099-B Transactions with No Adjustments" should be used only for covered sales, where the cost basis has been reported to the IRS (type A and D on Form 8949). You may **total** all covered transactions on **multiple 1099-Bs,** then enter totals on this screen (but see *CA legal note* below).
  - o On the relevant **Capital Gains Transaction** page, complete the needed information.
  - o ***Note:*** If entering each 1099-B separately, and at least one item already exists, click "Add new" on the Capital Gain/Loss entry grid to get to the **Capital Gains Transaction** page.
- ***CA legal note:*** Because CA is a community-property state, it doesn't matter, on a MFJ return, whether you select that the capital gains transaction belongs to the taxpayer, spouse, or both.

- <u>Description of Property</u> (**30** characters or less; previously was **15**):
  - If multiple transactions are being summarized (you're using a summary line from the broker's statement), enter the broker's name (say, "TIAA" or "Scottrade"), then remember to check the "M" box near the bottom of the Adjustments section of the TaxSlayer page.
  - For a single transaction, enter the number of shares and the ticker symbol (say, "100 USCBX").
- <u>Date Acquired</u>:
  - If multiple transactions are being summarized, then check "Alternate Option" and from the " – Select if Applicable - " box, select the appropriate option. (Groups "A" and "B", if one of those labels appear on the broker's statement, are short-term, groups "D" and "E" are long-term.)
    - **All sales of inherited assets are long-term.** If a mix of inherited and non-inherited long-term sales, select "Various – Long Term".
  - For a single transaction, and when the purchase date on the Form 1099-B is blank, make a "best guess" using what the taxpayer knows about the approximate purchase date.
- <u>Date Sold</u>:
  - If multiple transactions are being summarized, then *pick one of the sales dates* to enter in TaxSlayer.
- <u>Sales Price</u>: enter the total proceeds from selling the stock(s), bond(s), and/or mutual fund(s) in the group.
  - The total is almost always on the broker's statement; it's rarely necessary to manually total the transactions.
- The <u>cost basis type</u> (oddly enough, in the "Sales Price" section) should be stated on the broker's statement (groups A and D are basis reported to the IRS; groups B and E are basis **not** reported).
- For <u>Cost</u> [the legal term is "basis" or "cost basis"]:
  - For group A and D transactions, the cost (basis) will *always* be on the broker's statement.
  - For group E transactions, the cost *may* be on the broker's statement; if it is, the taxpayer may use that basis, or may (rarely) have their own documentation showing a different methodology for determining their cost (first-in, first-out; first in, last-out; average cost).
  - **<u>WARNING</u>:** When a spouse dies, 100% of assets that are community property **change basis** (not just the deceased spouse's half)**.** Specifically, the basis is changed to market value at the time of death. This applies not only to a home, but also to stocks and bonds. *Broker statements may not reflect this change in basis*. **If a taxpayer is a widow/widower**, it is critical to determine if the stated basis on the broker statement is correct, by comparing the date acquired to the death date.
    - Stocks and bonds are community property in California *if they were acquired during the marriage*, regardless of whether were in a joint account. Assets acquired <u>prior</u> to a marriage are also community property if they were *combined* with community property (such as moved from an individual account to a joint account any time during the marriage).
  - If the cost (basis) is not on the Form 1099-B, and a gain/loss statement or original purchase confirmation is not available, there are several options:
    - The taxpayer can ask their broker to research and (we hope) provide the cost basis, but this may be unsuccessful if the security involved was transferred in from another broker.
    - If the taxpayer knows approximately when the security or mutual fund was purchased, they can use the *lowest* value during the period that the purchase occurred. To look up historical prices, use the Tax-Aide links in your Chromebook: in the Miscellaneous section, select "NTTC Useful Tax Prep Links", which has two links to historic stock prices. If those searches fail, then you can try other websites.
    - If all else fails, enter zero as the basis and advise the taxpayer that **the return can be amended when a basis is determined, within the next three years.** (If the taxpayer is in the 10% or 12% tax bracket, an <u>amendment may not be necessary</u> because their long-term capital gains have a federal tax rate of zero.)
      - ***Note***: If the taxpayer has Social Security income, then capital gains *can* increase taxable income *even though the taxpayer is in the* 10 or 12% tax bracket. That's because capital gains, on Form 1040 page 1, can increase the <u>taxable portion</u> of Social Security income.
  - If a non-statutory qualified stock option is exercised and sold on the same day, the taxpayer's Form W-2 shows code V and the compensation amount is included in box 1, "Wages, tips, other compensation".
    - The disposition of the stock acquired through the option is reported on a Form 1099-B.
    - Often there is a small loss reflecting the commissions.
  - <u>Inherited property</u>

  - The basis for inherited property is normally the FMV at the death of the original owner; this dollar amount must come from the taxpayer.
  - However, estates of decedents dying in 2010 could have made an election for a carryover basis that would be shown on Form 8939, Allocation of Increase in Basis for Property Acquired From a Decedent, provided by the estate. If so, use the basis provided and the original purchase date. (Form 8939 isn't required if the taxpayer has the necessary information.)
    - ***Note for CA returns:*** In all cases, the basis for CA returns is FMV at the date of death. If a Form 8939 issued in 2010 did not use FMV, an adjustment would be needed on CA 540 Schedule D, adjusting the gain or loss; that return would be ***out-of-scope***.
- Adjustments to gains or losses are entered near the bottom of the TaxSlayer page. (If entering a broker summary that requires another adjustment, remember to check "Reporting Multiple Transactions on a Single Row", code M.) Page D-36 of **Pub 4012** describes how to handle specific adjustments.
  - Entering a negative adjustment amount *reduces the gain* on what has been entered, or, if what was entered was a loss, entering a negative amount *increases the loss*.
    - **For "Nondeductible Loss from a Wash Sale",** code W, **enter the amount as a *positive* number.**
  - ***Note:*** Also note any adjustments recorded in TaxSlayer on the paper Form 1099-B, so the two match.
- When done with the transaction, click "Save & Enter Another" if there are more transactions to enter from a Form 1099-B. Otherwise, click "Continue."

Verification

- After doing all entries, it's a good idea to review Schedule D, to make sure that amounts are on the proper lines and add up to the same total as on the taxpayer's pages or brokers' statements. The easiest way to do so is "print" the Schedule D from the Federal **Income** menu page.

Taxes Withheld

- If federal tax has been withheld on a Form 1099-B or broker's statement, go to the **Other Federal Withholdings** page [Federal Section > Payments & Estimates > ...], enter the amount, check the box, and click "Continue."
  - Because there is one field to enter the *total* of all entries, one or more notes (see page **8**) is recommended to explain *each* entry on this page.
- If there is any state tax withholding, see the section State Tax Withheld, page **116**.

If there is a capital loss carryover for the next tax year, TaxSlayer adds a **Capital Loss Carryforward Worksheet – Lines 6 and 14** to the printed tax return.

Capital Loss Carryover from a Prior Year's Schedule D

- The capital loss carryover amount is one of the items included in TaxSlayer Carryforward.
  - If the taxpayer doesn't have prior-year Carryforward (say, a paid preparer did the prior return), then you need the prior return or a copy of the appropriate worksheet to correctly report any loss carryover.
- Enter in TaxSlayer (or verify, if carried forward) the amounts from the prior capital loss carryover, on the **Other Capital Gains Data** page [Income > Schedule D (Form 1040) > Other Capital Gains Data (Including Capital Loss Carryover)].
  - Enter the number(s) as positive (don't use a negative sign).
  - TaxSlayer creates a new carryover worksheet for any balance over the maximum allowable loss of $3,000 ($1,500 if MFS).
- ***WARNING***: Do not omit entering a capital loss carryover *even if it does not help the taxpayer for the tax year*. Failure to enter a capital loss carryover into a tax return means that any remaining capital loss carryover is **forfeited** for future years. Create a note (page **8**) documenting the carryover(s).
- ***Note for CA returns:*** The federal and CA capital loss carryover amounts can be different, due to HSA or other rules.
  - If the two amounts aren't the same, go to the State Section: click "Miscellaneous Forms", then go to the **California Schedule D Capital Gain or Loss Adjustment** page, and enter the CA carryover amount.
    - If an amount is entered, California Schedule D is included in the PDF for the return.
    - The *difference* between the federal and CA amounts appears on CA Schedule CA Part I, Section A line 7, in either column B or C.

Sale of Home

Note: Enter the sale information only if the taxpayer has received a **Form 1099-S, Proceeds From Real Estate Transactions**, or if there is a gain on the sale of the home that is taxable in part or in full**. If neither is true, do not enter any information in TaxSlayer.**

Note: Schedule D instructions say that if the taxpayer received a Form 1099-S, the taxpayer **must report the sale**, meaning the taxpayer **must file a tax return** even if the taxpayer otherwise has no filing requirement.

- **Pub 523, Selling Your Home**, has general information about determining if there is a taxable gain.
  - A home can be a houseboat, mobile home, condo, or ownership of a cooperative (co-op).
  - Sale of a second home (such as one that has been inherited) *can* be in-scope if, while owned by the taxpayer, it was always a residence, not a rental nor used for business.
- Special circumstances:
  - If any portion of the home was ever rented out or used for business (home office) such that depreciation would have been allowable (whether it was actually claimed or not), the return is ***out-of-scope.***
  - If the home was purchased in 2008 and the First-Time Homebuyer Credit was claimed, the main calculations for the sale of the home are not affected, but additional information probably needs to be entered in TaxSlayer: see the section Schedule 2, Line 10 - Repayment of First-Time Homebuyer Credit, page **100**.
  - Sale of the home within two years of the death of a spouse affects both the exclusion amount and the ownership and use tests for claiming an exclusion – see **Pub 523, Selling Your Home**.
  - The sale of a home received as a gift is ***out-of-scope*** unless it has been used as a personal residence by the taxpayer or spouse. The taxpayer's cost basis on a gift is complicated to determine, involving the (adjusted) cost basis of the donor, the fair market value (FMV) of the house at the time of the gift, and whether the house was sold at a loss (compared to the FMV) by the taxpayer.
- In general, a single person can exclude of up to $250,000 of gain on the sale of a main home; a married couple can exclude $500,000. However, to claim the exclusion, the taxpayer must meet the ownership and use tests:
  - The taxpayer must have owned the property for a total of 24 of the previous 60 months.
    - The ownership requirement can be satisfied by one of the two spouses filing a joint return.
  - The taxpayer must have used it as their **principal** residence for a total of 24 of the previous 60 months.
    - If only one spouse satisfies the use test, the exclusion is limited to $250,000.
  - The ownership and the residence 24-month test periods don't have to be continuous or overlapping.
  - To claim an exclusion, the taxpayer can't have used the exclusion on a home sale within the two years prior to the sale.
  - *Partial* exclusion, ***out-of-scope***, is possible under some circumstances, such as a change of employment. Details are in **Pub 523, Selling Your Home**. Because the potential tax savings are likely to be large if the taxpayer can claim they moved because of "unforeseen circumstances", they should be referred to a full-time paid preparer who is better qualified to find a reason to make such a claim.
  - The **Home Sale Worksheet** (**cotaxaide.org/tools/**) has four worksheets for determining taxable gain on a home, included worksheets to hand the taxpayer to determine cost basis. *You don't need these worksheets if it's obvious there's no taxable gain on the sale.*
  - ***Note for CA returns:*** CA conforms to federal rules for a home sale, including the potential exclusion of $500,000 gain when the house is sold by a widow/er within two years of a spouse's death.
- When determining the proceeds from a home sale, you normally subtract the sales commission paid by the seller, as well as other *transactional* costs of the sale that were paid by the seller. However, if a 1099-S was issued, make the adjustment(s) to the cost basis, rather than sale proceeds.
  - ***Note:*** Taxpayers often want to reduce their reported proceeds by the amount of a mortgage or mortgages they paid off at the time of the sale. *Do not make that adjustment*. The presence of a mortgage [or a lien on the home] does not affect determination of the gain on the sale.
- Computing the (cost) basis of a home, to determine the exact amount of gain, is complicated; it may require a complete review of the transactions regarding home purchases and sales since the acquisition of the taxpayer's first home, if the current home was purchased before May 8, 1997 (because profits on the gain from the sale of a home, prior to that date, could be postponed if a new home, of at least the same price, was purchased).
  - The taxpayer needs to provide the basis; calculation of the basis by a counselor is ***out-of-scope.***

    - *Note*: The cost basis is irrelevant if the selling price is less than the $250,000 or $500,000 exclusion.
  - If a married couple owned the home together (both names were on the title), and one of the two has died, then, by law, the basis of the home is adjusted at the time of death.
    - ***CA legal note:*** Because CA is a community-property state, the cost basis of the entire home changes to the FMV the date of death, for both federal and state, if both spouses owned the home.
- If, after using the basis provided by the taxpayer and determining the exclusion, *there is still taxable gain on the sale*, the taxpayer may be better off using a paid preparer who can help determine the basis.
  - For example, if the cost basis is understated by only $10,000, the taxpayer could end up paying several thousand dollars more tax than was in fact owed, **if** in the 22% or higher marginal tax bracket.
- To enter information in TaxSlayer for a home sale, *it's easier to use* the **Capital Gains Transaction** page [Income > Schedule D (Form 1040) > Capital Gains and Loss Items], as described in the section above, rather than the **Sale of Home** page. When using the **Capital Gains Transaction** page:
  - If a Form 1099-S was issued for the sale, use the Gross proceeds amount (box 2) on that form, rather than *net* proceeds after selling costs, as the Sales Price, and increase the Cost (basis) to account for selling expenses on the closing form.
  - If an exclusion can be claimed, as discussed above, then select "Exclude Some/All of the Gain from the Sale of Your Main Home" (code H), and enter the exclusion amount as a negative number.
  - The exclusion amount is normally -250,000 or -500,000 **if,** after the exclusion, there is still a profit on the sale. Otherwise, the amount is a negative number equal to the net proceeds from the sale.
  - ***Note:*** The (very rare) exception is if the taxpayer has a Form 1099-S *and* a **loss** on the sale. In that case, use adjustment code L to erase the loss.
- ***Note for CA returns:*** If the taxpayer had CA tax withheld from the sale, they'll receive CA Form 593.
  - In the State Section, go the Payments menu, then **CA Real Estate Withholding (from Form 593)** page, and enter information on that page and the four associated pages, using the paper CA Form 593.
    - Information entered in TaxSlayer shows on CA Form 540, page 3, line 73.
  - **If (and only if) the taxpayer is itemizing on the federal return**, and **if** the $10,000 cap for state and local taxes has **not** been reached, then another adjustment is needed [because the entry in the State Section is not carried to Schedule A Line 5a (Income Taxes)].
    - Go to the **Payments - Other State Withholdings** page [Federal > Payments & Estimates > Other State Withholdings], enter the amount of CA tax withheld, then pick any state **other than CA** (say, Alabama). [This gets the amount onto Schedule A while avoiding carrying it *twice* to CA Form 540.]
      - ***Note:*** When starting the E-file section, TaxSlayer may offer a reminder that there is state withholding without a matching state return. Ignore the reminder.

SCHEDULE 1, LINE 1 - TAXABLE STATE INCOME TAX REFUND

- A state income tax refund resulting from a prior year tax return is reported on Form 1099-G. Part or all of this amount **may** be taxable in the year received; for example, a state income tax refund for the previous return **may** be taxable on the current federal return.
  - The refund amount is NOT taxable if there was no benefit to the taxpayer, in the prior year, from the overpayment of state taxes that resulted in a refund.
  - To accurately calculate the taxable amount, **the taxpayer's prior year federal tax return, or an IRS transcript of the return, MUST be available**.
    - If the tax return or a transcript is *not* available, then the refund can be assumed to be not taxable only if it's obvious the taxpayer took the standard deduction in the prior year. If it isn't obvious, then either the entire amount of the refund must be treated as taxable or the return is ***out-of-scope***.
- ***CA process note:*** CA uses an abbreviated version of the normal Form 1099-G, with only boxes 1 through 3.
- ***Note: If box 3 is not the preceding year*** (rare), the taxpayer received a state tax refund during the tax year for a return prior to the previous year. In that case, the current return is ***out-of-scope*** unless the refund is either **wholly nontaxable** or is treated as **wholly taxable.** Use the five criteria in the next bullet to determine if the refund is nontaxable. If it meets none of those criteria, then the taxpayer can either agree to treat it as fully taxable or will have to use something other than Tax-Aide to do the return.
- *Don't enter the refund amount* if **any** of the following are true (no action is required for Schedule 1 Line 1):
  1. The taxpayer did not get a Form 1099-G, and (if available) the CA return for the prior year shows no state tax refund (CA Form 540, page 4, line 97).
  2. The taxpayer did **not** itemize in the prior year (there was no Schedule A for the federal return).

3. The taxpayer did itemize in the prior year (there was a Schedule A), but used general sales tax (the box for line 5a is checked) rather than state and local income taxes.
4. The taxpayer did itemize in the prior year, but real estate taxes paid plus personal property taxes paid totaled $10,000 or more, the maximum allowed for state and local taxes of all types.
5. The taxpayer did itemize in the prior year, and did deduct state and local income taxes, but this had **no** benefit because the following is true:
    - Line 11b, "Taxable income", on the prior Form 1040 is zero, and still would be zero if either is true:
        - Sales tax had been deducted instead of state income tax.
        - The standard deduction had been taken on line 12 **and the taxpayer had no unused QBI** (line 13) **or nonrefundable credits** (lines 19 and 20)**. If it is not immediately clear whether there was unused QBI or nonrefundable credits in the prior year, it is best to follow the instructions below** to determine the taxable amount. (For 2023, the standard deduction was $13,850 for single and MFS filers, $20,800 for HoH, and $27,700 for MFJ/QSS. Those 65 and older, and/or blind, got an additional $1,850 if not filing MFJ; for those filing MFJ, the potential increase was $1,500 per taxpayer/spouse.)

- If the taxpayer has a Form 1099-G, and/or the prior state tax return shows a refund, **and** *none of the conditions listed in the above paragraph are met*, then determine how much of the refund *is* taxable.
    - If the return isn't available, the taxpayer has the choice of assuming that *all* of the refund is taxable, or of getting a copy of the tax return (such as finding it at home) or a return transcript (check box 6a on **Form 4506-T, Request for Transcript of Tax Return**).
    - *New:* TaxSlayer now includes any state refund in carryforward if used for itemizing on the prior return.
    - Part of the calculation involves the amount of general sales tax that *could* have been claimed on Schedule A. If the electronic version of the prior tax return is available, it may include this number on the page [Deductions > Itemized Deductions > Taxes You Paid > Add Sales Tax Worksheet] or the PDF of the full printed return. Otherwise **the sales tax must be looked up online, then entered in TaxSlayer.** This IRS calculator is at **apps.irs.gov/app/stdc/** .
    - Go to the **State Refund Worksheet** page [Income > Form 1099-G Box 2]; see **Pub 4012** page D-20.
- To calculate the taxable amount, use the Taxable Refund and Recovery Calculator at **cotaxaide.org/tools/** (**recommended**) and enter the result in the "Bypass State Refund Worksheet" box.
    - It's **not recommended** to use the TaxSlayer worksheet; it's **far too simplistic**, and likely to determine too high a taxable amount.
- ***Note for CA returns:*** If the taxpayer's Final Settlement Statement from **escrow shows CA income tax withheld from the sale**, then the taxpayer must provide a completed CA Form 593. If they don't have one, they must get a copy from their escrow agent before their CA return can be completed.
    - The taxpayer may receive a CA Form 593 even if there was no withholding (such as for the sale of a primary residence held in a trust). If Form 593 line 37 has no withholding, then don't fill out this section in TaxSlayer.
    - In TaxSlayer, go to State Section > Payments > **CA Real Estate Withholding (from Form 593)**.
    - Complete these sections using information from the paper form:
        - Remitter Information from Part I
        - Seller/Transferor Information from Part II
        - Escrow or Exchange Information from Parts II and VII
        - Preparer Information from the last line of the signature section.
    - The amount withheld appears on CA Form 540 line 73. The other data entered in the Form 593 screens doesn't appear anywhere on the printed return; the Quality Reviewer must retrace the Counselor's steps to look at each screen in this section, to verify the data was entered accurately.
    - **If the taxpayer is itemizing on the federal return**, and **if** the $10,000 cap for state and local taxes has **not** been reached, then another adjustment is needed [because the entry in the State Section is not carried to Schedule A Line 5a (Income Taxes)].
        - Go to the **Payments - Other State Withholdings** page [Federal > Payments & Estimates > Other State Withholdings], enter the amount of CA tax withheld, then pick any state **other than CA** (e.g. Alabama). This gets the amount to Schedule A without carrying it *twice* to CA Form 540.
        - ***Note:*** When starting the E-file section, TaxSlayer may offer a reminder that there is state withholding without a matching state return. Ignore the reminder.
    - If the CA return will be paper filed for any reason, attach a copy of Form 593 along with any other documents that show

withholding.

SCHEDULE 1, LINE 2 - ALIMONY RECEIVED

Note for CA returns: CA does **not conform** with the federal change for divorces finalized after December 31, 2018, as well as separations signed after that date. Thus **all alimony received must be entered in TaxSlayer** regardless of the date of the divorce decree or subsequent amendments.

- ***Note:*** If the divorce agreement that provides for alimony was executed **prior to 1985** and hasn't been modified, *the return is **out-of-scope***.
- See page E-14 of **Pub 4012** for the tests to determine if payments to a former spouse are alimony.
  - In particular, child/family support received is NOT alimony and is NOT taxable income.
- On the **Alimony Received** page [Federal Section > Income > …]:
  - Enter the alimony amount received. Don't include any fees.
  - Enter the date of the divorce, or separation agreement.
    - If the alimony agreement was revised after 2018, **and** the revised agreement says that alimony received is longer treated as income (nor as reduction in income by the paying taxpayer), **do not enter the date of the original agreement**. Instead, enter the revised date.
    - ***Note for CA returns:*** TaxSlayer uses the entered date to determine if the income is taxable on the federal return. If it isn't federally taxable, TaxSlayer then correctly adjusts (increases) income on CA Schedule CA Part I, Section B line 2a.
- **When alimony (pre-2019) is income on the federal return**, TaxSlayer correctly handles these aspects:
  - Alimony is not considered earned income for EIC.
  - Alimony *is* considered compensation for the purpose of making an IRA contribution.

FORM 1099-MISC, MISCELLANEOUS INCOME

- Information on Form 1099-MISC paper documents is entered on the **Form 1099-MISC** page, reached from the main **Income** page in the Federal Section. However:
  - Any amount in boxes 5, 6 (except for caregiver payments), and/or boxes 7 through 14, and/or the "FATCA" box near the bottom, make the return ***out-of-scope***.
  - Activities that generate income and offsetting expenses but don't meet the criteria of being for income or profit (such as coin collecting) are classified by the IRS as a **hobby** and make the return ***out-of-scope***.
- Amounts paid on a Form 1099-MISC **must be entered so that TaxSlayer puts the income in the correct place on the tax return.**
- Income in box 3, "Other income", is carried by TaxSlayer to Schedule 1 Line 8z, "Other income".
  - If income reported in box 3 of the paper Form 1099-MISC *does* belong on Schedule 1 Line 8z, then the form can be entered normally on the **Form 1099-MISC** page in TaxSlayer.
  - [Workaround] If income reported in box 3 *does not* belong on Schedule 1 Line 8, but in fact is business-related and **belongs on Schedule C**, then enter the amount in TaxSlayer **as if the amount had been in box 1 of a 1099-NEC**, on the TaxSlayer page for 1099-NECs.
- Income in box 2, "Royalties", is normally carried by TaxSlayer to a Schedule E.
  - [Workaround] If income reported in box 2 is due to the taxpayer's **own personal services**, such as being an author or entertainer, then it belongs on a Schedule C. Enter the amount in TaxSlayer **as if the amount had been in box 1 of a 1099-NEC** (yes, use a different form in TaxSlayer).
    - ***Tip:*** Business code 711510 is for "Independent artists, writers, & performers".
- Strike benefits are reported on a 1099-MISC, using box 3. They are taxable income, not subject to self-employment taxes, but *do* count as earned income for the federal EIC.
  - To enter strike benefits income in TaxSlayer requires a workaround. See the document "Strike Benefits" at **https://ta-nttc.tiny.us/Strike-Benefits**.
- ***Note:*** Form 1099-MISCs (and 1099- NECs) are required to be issued only when payments are made in the course of trade or business, and total at least $600 for the year for a specific person. So, for example, a couple who are getting married and pay $1,000 to a wedding planner has no requirement to issue a 1099-NEC to the wedding planner. Nor does a restaurant, say, if it hires a musician on a single occasion during the year, for a fee of $400, even though the restaurant frequently hires musicians.
- ***Note for CA returns:*** If Box 15 has an amount in it, enter that in TaxSlayer, along with the State (California) and the CA EIN. Otherwise, no state information needs to be entered.

Indian Tribal Income

- ***Note for CA returns:*** **Indian tribal income**, paid on a Form 1099-MISC, may require special treatment on the CA return.
  - An amount in box 3 of Form 1099-MISC can represent a portion of the profit from a casino or other business on tribal lands. This is always taxable on the federal return.
  - Indian Tribal Income reported on Form 1099-MISC is exempt from CA tax **ONLY IF** the recipient is (a) an enrolled member of the Indian tribe that issued the 1099-MISC (presumably yes); and (b) lived on **that tribe's** land.
    - If exempt for CA, a manual adjustment is required in the State Section, described in under Manually Entering Income Differences on CA Schedule CA, page **106**.
    - ***Note:*** Requirements for excluding **W-2** tribal income (earned wages) are less stringent as of 2018.

California Middle Class Tax Refund (MCTR) (2022 only)

- California Middle Class Tax Refund (MCTR) payments, made between October 2022 and January 2023, are **nontaxable** on the federal tax return, and **nontaxable** on the California return.
- **The IRS confirmed that these payments should not be reported on the tax return.**

FORM 1099-NEC, NON-EMPLOYEE COMPENSATION

- Form 1099-NEC is reports payments that previously would have gone into box 3 of Form 1099-MISC.
- Activities that generate income and offsetting expenses but do not meet the criteria of being for income or profit (say, coin collecting) are classified by the IRS as a **hobby.** Any hobby income reported on Form 1099-NEC makes the return ***out-of-scope***.
- A 1099-NEC issued to an athlete receiving Name, Image and Likeness (NIL) income is ***out-of-scope.***
- Income in box 1, "Nonemployee compensation," must be carried by TaxSlayer to a Schedule C.
  - [Workaround] **If** this income is **not** earned income **and** is **not** business related, and therefore , but **belongs on Schedule 1 Line 8, "Other income",** then:
  - **Enter the amount in Box 3 of a 1099-MISC** page, in TaxSlayer, rather than using the 1099-NEC input form, so that it correctly flows to Schedule 1 Line 8z.
    - The section Schedule 1, Line 3 - Business Income, page **56**, discusses when to use Schedule C.
    - ***Note:*** *In theory*, the employer should correct such an error by issuing a 1099-MISC. *In practice*, it is not worth asking the taxpayer to go back to the employer to get a new tax form.
- *New in 2025:* TaxSlayer now validates the entered EIN by comparing it with its EIN database.
- ***Note for CA returns:*** If Box 5 has an amount in it, enter that in TaxSlayer, along with the State (California) and the CA EIN ("Payer's State No."). Otherwise, no state information needs to be entered

SCHEDULE 1, LINE 3 - BUSINESS INCOME

- The Tax-Aide program does NOT prepare tax returns for business entities, such as partnerships, corporations, or LLCs. The program prepares only personal tax returns (Form 1040), including Schedule C, Profit or Loss from Business.
  - There is no limit for business income (overall limits relating to total AGI still apply), and **all** actual income must be reported.
    - It is a violation of U.S. tax law to include *nonexistent* income on a tax return, for example to increase the amount of the taxpayer's Earned Income Credit.
  - Total **expenses** on any single Schedule C cannot exceed **$50,000**.
    - Any business expense that is ***out-of-scope*** makes the entire tax return ***out-of-scope***.
    - It is a violation of U.S. tax law to under-report business expenses for the benefit of the taxpayer, for example to increase the amount of the taxpayer's Earned Income Credit.
  - Multiple Schedule Cs are allowed - use one for each type of self-employment; do **not** combine different types of work.
- For an activity of a taxpayer to qualify as a business, and be reported on Schedule C, the taxpayer's primary purpose for engaging in the activity **must be** for income or profit, and s/he must be involved in the activity with continuity and regularity. For example, being a poll worker is not continuous or regular activity; such income does not go on Schedule C.
  - Activities that generate income and offsetting expenses but don't meet the criteria of being for income or profit (say, coin collecting) are classified by the IRS as a **hobby**. Both hobby income, reported on Schedule 1 Line 8j, and any offsetting expenses (not allowed on Schedule A) are ***out-of-scope.***

  - Taxpayers who receive small amounts of compensation for holding an appointed public office are not considered to be engaged in a "trade or business". Similarly, someone receiving a one-time payment for being an executor or administrator of a will is not engaged in that trade or business, and should not report this income on Schedule C. Instead, such income should be reported on Schedule 1 Line 8z, as described in the section Other Income Without a Supporting IRS Form, page **69**.
  - ***Note:*** Rental income, if in-scope, is reported on Schedule 1, Line 5 - Rental Real Estate and Royalties (see below, page **62**), not on Schedule C.
- The following make the return ***out-of-scope***: a net loss on a Schedule C, or where office-in-the-home expenses are claimed (not even the simplified method is in-scope), or with accrual accounting, or with employees, or with contract labor, or which made payments that required the business to file any type of Form 1099, or where there were contributions to a SEP/SIMPLE retirement plan, or which was involved in the manufacture, distribution, and/or sale of controlled substances such as marijuana, or where the business was professional gambling, or involved bartering or cryptocurrency (virtual currency) transactions.
  - If the taxpayer has a **net loss**, it is not sufficient to simply exclude some expenses so that Schedule C shows zero income, or a small profit. You must determine whether what is being reported is a **hobby**, rather than a business; if so, that income, and the return, is ***out-of-scope***.
    - The factors used to determine whether a business activity is "not-for-profit" (which makes it ***out-of-scope***) are listed in the "Not-for-Profit Activities" section of Chapter 1 of **Pub 535, Business Expenses**.
- NTTC's "2022 Guidelines for Schedule C", available at **https://ta-nttc.tiny.us/Sch-C-Guidelines**, includes detailed guidance on what is in-scope for Schedule C, and how to handle a wide variety of expenses; examples are provided. A review of this document is highly recommended if you are preparing a Schedule C.

Business Information for Schedule C

- Go to the **Schedule C** page [Income > …]; after information is entered, this page is reached via Federal Section > Income > Schedule C > Profit or Loss From A Business > Edit > Basic Information About Your Business].
  - If a MFJ return, identify whether the business is for the taxpayer or the spouse.
    - If the taxpayer and spouse own the business **50/50**, all information is entered on a single Schedule C.
      - Select either spouse as the person who the business belongs to.
      - On the **Questions About Your Business** page, check the box for Qualified Joint Venture. Then TaxSlayer splits Schedule C amounts between the two spouses, and the tax return contains two separate Schedule Cs when printed.
    - If ownership is something **other than 50/50**, income and expenses must be split and entered in *two* Schedule Cs, one for each spouse.
  - **Don't enter** Name and Address information unless it is different from the **Personal Information** page.
  - Complete the Business Type information.
    - TaxSlayer has a nice search function for business codes – click "Click here for a list of Business Codes".
    - ***Note:*** If you can't find an appropriate code, use **812990**. [The business code for drivers who worked for Uber, Lyft, and similar, is 485999; for those driving for Grubhub, DoorDash, and similar, the code is 492000.]
- From the **Schedule C** *menu* page, for most returns, ***don't*** go to the **Schedule C - Questions About Your Business** page! Leave the defaults as they are.
  - Certain combinations of answers on this page have caused an e-file reject in the past.
  - Changing any of the default answers on this page make the return ***out-of-scope***.

Schedule C Income Not on a 1099-NEC

- For business income (incorrectly) reported on a 1099-MISC, enter the amount in TaxSlayer **as if the amount had been in box 1 of a 1099-NEC**, on the TaxSlayer page for 1099-NECs.
- Business income not reported on a 1099-MISC or on a 1099-NEC form is added to a Schedule C by going to the **Schedule C - Income** page [Income > Schedule C > Income].
  - On the first line, enter the total amount of all income not on a Form 1099-NEC or 1099-MISC. If taxpayer records don't include any income from cash or check payments, **ask** if there was any such income.

  - *Note:* Don't enter anything in the fourth line, "Other income". It's specifically for rare out-of-scope types of income which few of us have ever heard of.
- If taxpayer receives a Form 1099-K, Payment Card and Third Party Network Transactions, for self-employment income (which if for rental income of 15 days or more is ***out-of-scope***), the gross amount in Box 1a of the 1099-K should be included as income on Schedule C. Commissions and fees that affect the net amount paid to the taxpayer should be reported on the **Schedule C – Expenses** page (from the **Schedule C** page, select "General Expenses).
  - Don't enter an amount from box 1b of a Form 1099-K; that amount is included in box 1a of that form.
  - ***Note: Starting with tax year 2025, Form 1099-K is required to be issued when total gross payments exceed $2,500****; for 2024, the threshold is $5,000; for 2023 it remained $20,000 and at least 200 transactions*. Discuss with the taxpayer whether all or part of the reported income is business related and needs to go on Schedule C; or if all or part is a capital gain (Schedule D); or if it was all personal (like your roommate sending their share of rent to you electronically)—this isn't income and shouldn't be reported.
- **According to the IRS**, someone who "regularly uses online applications to transfer money to other individuals … for splitting the costs of meals, gifts, allowances, etc." should **not** receive a Form 1099-K. If they do, the IRS recommends they try to get the form corrected, and if that isn't possible, to attach an explanation to the tax return [Miscellaneous Forms > Explanations > Preparer Notes] as to why the amount on Form 1099-K is not being reported as income.
  - If a person uses a bank service such as Zelle to pay friends, for example, a 1099-K **won't** be issued; they are only issued through processors that are *not* banks.
- For more details on Form 1099-K, see these resources:
  - **Pub 4012**, page D-24 (includes Frequently Asked Questions).
  - "Form 1099-K Payments" at **https://ta-nttc.tiny.us/Form-1099-K-Payments**.
  - IRS topic "Understanding Your Form 1099-K".
  - IRS topic "**Form 1099-K Frequently Asked Questions"**.

Schedule C – Out-of-Scope Expenses

- On the **Schedule C** menu page, the following types of expenses are ***out-of-scope*****:**
  - Depreciation
  - Expenses for Business Use of Your Home

Schedule C – Cost of Goods Sold

- Cash-basis taxpayers who purchase items for resale, and/or materials and supplies that go into items that are sold, ***are in-scope*** as long as they expense 100% of their purchases of goods at the time that they pay for them.
  - If the taxpayer filed a Schedule C last year that included an ending inventory dollar amount, *the current tax return is* ***out-of-scope*** if there was any activity in that business in the current tax year.
- Do not use the **Schedule C - Cost of Goods Sold** page.
  - The cost of items purchased for resale, and raw materials, should be entered as Other Expenses.

Schedule C – General Expenses

- Part II of Schedule C is a list of specific expense categories that the IRS wants information on. These may or may not cover the majority of expenses of a typical business, but expenses in these categories should be entered on the **Schedule C – Expenses** page [Income > Schedule C > General Expenses].
  - Of these, the following are ***out-of-scope****:*
    - Contract labor
    - Depletion
    - Employee benefit programs
    - Mortgage interest
    - Pension and profit-sharing
    - Utilities
  - The following expenses have limitations:
    - Rent or lease of equipment – this can include a car rental or lease, but only if for 30 days or less; **longer**-term car rentals are ***out-of-scope***.
  - Health Insurance: see the sections Health Insurance Costs as a Business Expense, page **61**, and Schedule 1, Line 17 - Self-Employed Health Insurance (SEHI), page **71**.

- o Long-Term Care Insurance to be Carried to Adjustment: If taxpayer *and* spouse have LTC premiums but only one Schedule C, put the LTC premiums for the person w/o Sched C on the Health Insurance line.
- o Travel and meal expenses –see Chapters 1 and 2 of **Pub 463, Travel, Entertainment, Gift, and Car Expenses** for what is allowed. Special documentation rules apply for the cost of meals if over $75. The taxpayer must have receipt(s) showing where, when, and how much, and must document the business nature of the meal. 50% of meals may be claimed.
  - ▪ For tax years 2021 and 2022, business meals may be claimed at 100% of cost *if it is food or beverage from a restaurant.* By contrast, the food or beverage is from a grocery or convenience store, the deduction was still limited to 50%.
  - ▪ Entertainment expenses are no longer deductible on the federal Schedule C.
    - ▫ ***Note for CA returns:*** California does not conform to the elimination of entertainment as a business expense. As of the publication date of this manual, TaxSlayer does not separate meal expenses from entertainment expenses, on the **Schedule C – Expenses** page, you must adjust manually – see the section Additional Business Expenses, page **108**.
- Expenses that don't fit into one of these categories, are not specifically ***out-of-scope*** (see the list in the section immediately above), and are not car and truck expenses (see the next section), are entered in TaxSlayer as "other expenses" – see the section Schedule C – Other Expenses, page **60**.

Schedule C – Car and Truck Expenses

- In the Tax-Aide program, only **mileage, personal property taxes, and vehicle loan interest** can be claimed as vehicle-related expenses, except for rideshare drivers, as discussed below. *Actual operating expenses*, such as fuel, maintenance and repairs, and depreciation are ***out-of-scope.***
  - o For 2024, the rate is $0.67 per mile.
  - o For 2023, the rate was $0.655 per mile.
  - o For 2022, the rate was $0.585 per mile from 1/1/2022 through 6/30/2022, and $0.625 per mile from 7/1/2022 through 12/31/2022.
  - o It's critical that you and the taxpayer understand which work-related mileage is not deductible (commute miles) and which is (business miles). Within the taxpayer's metropolitan area, miles driven between home and a regular or main job site are *commute miles*; miles driven between home and a second job location are similarly *commute* miles; and miles driven to a temporary work location when the taxpayer doesn't have a regular or main job at another location are also *commute miles*. That means that business miles are the following, as described in **Pub 463, Travel, Entertainment, Gift, and Car Expenses** Chapter 4:
    - ▪ If the taxpayer had one or more **regular places of work**, then any travel between home and a temporary workplace is considered business miles, whether that temporary location was local or not.
    - ▪ Travel from **one place of work to another place of work** is always business miles.
    - ▪ If the taxpayer had **no regular place of work** but ordinarily worked in the metropolitan area where they lived, they can deduct daily transportation costs (miles, tolls, etc.) between home and a temporary work site *outside* that metropolitan area. [A temporary work location is one where work is expected to last less than one year.]
  - o If a **taxpayer's home** is their principal place of business, then all mileage driven to work locations is business mileage; *however,* to establish the home as the principal place of business, the taxpayer should claim a *home office*, which is ***out-of-scope****.*
    - ▪ In such case, the taxpayer should be told of the option of using a paid preparer who can claim the home office deduction and all mileage.
  - o In addition to claiming mileage, all drivers may claim the following expenses, as applicable:
    - ▪ A **prorated** portion of the CA Personal Property Tax (VLF). For example, if the VLF is $200 and business miles are 40% of total miles, then $80 could be claimed.
      - ▫ Enter under **Schedule C Expenses** (select "General Expenses" on the Schedule C menu page) on the "Taxes and licenses" line.
      - ▫ The Schedule A deduction for VLF must be reduced by the amount claimed on Schedule C.
    - ▪ A **prorated** portion of interest expense for a loan used to purchase the vehicle.
      - ▫ Enter under **Schedule C Expenses** (select "General Expenses" on the Schedule C menu page) on the "Other Interest" line.
      - ▫ Note that monthly payments consist of principal plus interest; only the interest is deductible.
      - ▫ Interest on a *leased* vehicle is ***out-of-scope.***

- For drivers of **rideshare services** such as Uber and Lyft, special rules apply.
  - All miles driven with a customer, or while available and waiting to be assigned a customer, or while driving to meet an assigned customer, are business miles (the mileage total given by the rideshare company usually *doesn't include the latter amount*, so the taxpayer must keep track).
  - The following may be claimed in addition to standard mileage, prorated VLF, and prorated interest expense; enter these as "Other Expenses":
    - If the taxpayer pays for rideshare coverage through a rider [special provision] on their vehicle insurance, that is fully deductible.
    - If the taxpayer pays specifically for a roadside assistance plan, a **prorated** portion of that expense can be claimed.
    - A **prorated** portion of car washes and car detailing is deductible.
    - The cost of snacks and water offered to passengers is fully deductible.

- Information about vehicle expenses is entered on the **Schedule C Car and Truck Expenses** page [Income > Schedule C > Car and Truck Expenses]; see Page D-30 of **Pub 4012**.

Schedule C – Other Expenses

- Other Expenses are entered individually on the **Schedule C Other Expenses** page [Income > Schedule C > Other Expenses]. Some relevant rules:
  - Landline telephone service: How landline costs are handled depends on what type of service is offered:
    - If the service offered is a basic (local) package plus additional charges for long-distance phone calls, then the cost of the basic telephone service, including taxes, is considered 100% personal, so no portion can be deducted on *Schedule C*. The cost of itemized long distance phone calls that are business-related, however, can be deducted.
    - If the service offered includes **unlimited** long-distance phone calls, then *the taxpayer may deduct the prorated portion of the* ***total phone cost*** *that is business-related.*
      - The taxpayer must be prepared to provide written supporting information to the IRS, if challenged. That could be a log of business or personal phone calls made, say. Without such documentation, the IRS will disallow all costs.
    - The cost for an additional phone line used only for business purposes is fully deductible.
  - Mobile (cell) phone: Expenses allowed (deductible) depend on the type of mobile phone service:
    - For mobile phones that are *not* "smartphones" (that is, they don't have Internet capabilities, and so don't include a data package):
      - If the taxpayer has no landline, then mobile phone costs are treated just as if the mobile phone was a landline, with allowed (deductible) costs depending on whether the phone service includes unlimited phone calls – see above for specifics.
      - If the taxpayer has a landline, then all the costs of the mobile phone are potentially deductible – subtract allocated and/or itemized amounts that are used for personal purposes.
    - For mobile phones that *are* "smartphones" (that is, they do have Internet capabilities, and so do include a data package), all costs should be pro-rated (personal versus business-related) to determine what amount can be claimed as a business expense on Schedule C.
  - Internet and computer expenses: A percentage of Internet and recurring computer-related expenses, such as subscription software, can be deducted, based on business use versus personal use.
  - Equipment: The purchase of equipment, such as a computer, printer, or video camera, is ***out-of-scope*** if the cost of the item **exceeds $2,500** (as is the return itself).
    - If the cost of a capital item was under $2,501, including sales tax and shipping costs, taxpayers using the Tax-Aide program may **expense** this capital item **provided that** a statement is included with the return that the taxpayer has elected to do so.
      - Enter the statement on an **Election Explanation** page [Miscellaneous Forms > Explanations > Elections Explanations] with the title "Section 1.263(a)-1(f) de minimis safe harbor"; the note itself should state (on the first line) the taxpayer's name, address, and SSN or ITIN, plus (starting on the second line) "I'm making a de minimis safe harbor election under §1.263(a)-1(f) for equipment purchase of $[amount]."
    - If the equipment was for both business and personal use, the taxpayer must estimate the percentage of each, on average, over the depreciable life of the equipment (five years), and use that estimate to reduce the amount claimed as a business expense.

- Education expenses: Any educational expense related to a legal requirement to keep the taxpayer's present job, salary, or status, or to maintain or improve job skills for an *existing* business, is allowable. Transportation, travel, and other necessary expenses, including books, are allowable.
- Business use of the home: No expenses (or allocation of expenses) are allowed for business use of the home: rent, utilities, homeowner or renter insurance, etc.
- Fines and penalties cannot be expensed.
- Casualty losses are ***out-of-scope****;* see the section Schedule A - Casualty and Theft Losses – out-of-scope (Line 15) on page **86** for details, including screening to determine if there is any benefit to a taxpayer if they use a paid preparer.

- Resources: See **Pub 535, Business Expenses** Chapter 11 for more information on allowable expenses.

Schedule C – Final Step

- After all income and expenses have been entered for all Schedule Cs, then from the Income menu, create a PDF ("print") to check that the net profit(s) are what was expected. (Normally the taxpayer will have calculated the net profit, or at least totaled income and expenses.)

Health Insurance Costs as a Business Expense

- Health insurance premiums paid by the taxpayer covering the taxpayer, spouse, and/or a child under the age of 27, including LTC premiums, **are allowable** as an expense for the self-employed. While such expenses are usually entered on the **Schedule C – Expenses** page (click "General Expenses" from the Schedule C menu), these costs *won't* show on the printed Schedule C. Instead, such expenses go on Schedule 1 Line 17 (limited by the Schedule C profit) and Form 7206; any excess automatically flows to Schedule A medical expenses.
    - Prior year returns (3 years for federal, 4 for CA) can be amended to take this often-overlooked deduction.
    - Further information on entering health insurance premium costs is covered in the section Schedule 1, Line 17 - Self-Employed Health Insurance (SEHI), page **71**.

Notary Fees

- Income from notary fees, and related expenses, are reported on Schedule C in the normal manner.
- Notary fees are exempt from self-employment tax:
    - Go to the **Schedule SE Self-Employment Tax** page [Federal Section > Other Taxes > Self-Employment Tax; not available via the search box] and select the correct taxpayer, if a MFJ return.
    - Enter the net profit in the box "Enter Exempt Notary Income" (the second box on the page where a dollar figure can be entered).
    - Click "Continue".

Taxable Distribution Received from Cooperatives

- Form 1099-PATR, "Taxable Distribution Received from Cooperatives", isn't entered in TaxSlayer if the distribution is a rebate/refund based on **purchases made for personal use** made by the taxpayer.
- If Form 1099-PATR was issued as a rebate/refund of **purchases made for a business** (such as food that was resold) which affects Schedule C net income, then the entire return is ***out-of-scope***.

SIMPLE SCHEDULE K-1 FORMS, INCLUDING PREPAID FUNERAL PLANS

- ***Note:*** Some brokers now issue a Schedule K-1 for IRAs (Form 1065 Box 12 is checked). Such **IRA K-1 forms can be ignored** like any IRA statement (and thus any unusual items don't make the return out-of-scope). You should see that the Partnership's TIN in Box E is *not* the taxpayer's SSN, but the partnership's EIN, and the Box F name usually includes "IRA" or "CUSTODIAN".
- If a Schedule K-1 includes anything *other than* interest, dividends, royalties, capital gains/losses (incl. Section 1250 gains), estate tax deduction, taxes paid, and associated foreign tax credits, then the return may be ***out-of-scope***. However, *a few other items may be disregarded*.
        - ***Note:*** See **Pub 4012** pages D-60 to 62 **online** for specifics **contrary to the IRS print version**.
    - Pre-paid funeral/burial plans that report using a Schedule K-1 *are* in-scope, because of their limited income and expense categories.
    - **If box 14 has code "E", the amount is *for information purposes only*: ignore it.** (If it were relevant, the return would already be ***out-of-scope*** because the taxpayer's income was too high.)
    - Box 19, Distributions, is information-only: ignore it.

- More mutual funds are being reported on a Schedule K-1 instead of a 1099-B. Many of these have business income/loss or other out-of-scope items. Advise the taxpayer that we can't file their return in any year that they hold such funds in a *taxable* account. Many taxpayers are unaware they own mutual funds that are reported on a K-1, and unaware that they could sell that fund to invest in a different, similar fund that isn't reported on a K-1. They should consult their broker.

- Income reported on a Schedule K-1 is done on three different pages, all accessed from the **Schedule K-1** page [Income > Other Income > K-1 Earnings]. The three pages (in order) are:
  - Partnerships (Form 1065) (by far the most common form)
    - ***Note:*** If the end-of-year capital account on the form is **negative**, then the return is ***out-of-scope***
  - S-corporations (Form 1120S)
  - Trusts and estates (Form 1041) (only some parts are ***out-of-scope***)
  - ***CA Process Note:*** If there's a CA K-1 (541, 565, or 100S) attached to the federal K-1, any adjustments in column (c) must be made manually on the state return. These numbers may be positive (Additions to Income) or negative (Subtractions from Income): see instructions in the section Manually Entering Income Differences on CA Schedule CA, page **106**.
    - ***Note:*** Don't enter adjustments box 14 of a 541, as they don't affect tax calculations.
- For partnerships and S-corporations, when completing Part 1 – Information in TaxSlayer, check the "All Investment is At-Risk" box.
- The fiscal year of a partnership or S-corporation stated on a K-1 may not be the calendar year. For example, a partnership's tax year might end on February 28, 2024. In that example, report all K-1 amounts on the 2024 tax return, even though most of the tax year was in calendar year 2023.
- If the K-1 lists royalties, then after completing the TaxSlayer page for entering K-1 income, TaxSlayer asks which Schedule E to associate with the royalty income.
  - If no Schedule E exists, TaxSlayer offers to create one: see section Schedule 1, Line 5 - Rental Real Estate and Royalties, page **62**.
    - If no Schedule E is created before starting the E-file section, TaxSlayer shows an error that a Schedule E is missing.
- If the K-1 lists foreign tax paid, enter that amount on the **Form 1116 - Foreign Tax Credit** page [Deductions > Credits Menu > Foreign Tax Credit].
  - If there is more than one K-1 showing foreign tax paid, enter only the *total amount*.
  - An amount entered on the **Form 1116 - Foreign Tax Credit** page goes to Schedule 3 Line 1, Foreign Tax Credit, on Form 1040, as discussed on page **89**. If the total of all forms seems likely to exceed $300 ($600 if MFJ), please see that discussion.
    - If foreign tax was included on one or more Form 1099-INTs or 1099-DIVs and entered in TaxSlayer along with other information on those forms, do *not* enter the same amounts again on Form 1116 – TaxSlayer automatically adds those amounts to come up with the full total for Schedule 3 Line 1.
  - ***Note:*** Form 1116 is one of ten for which a PDF can be created from a menu page within the return.

SCHEDULE 1, LINE 4 - OTHER GAINS OR LOSSES (*out-of-scope*)

SCHEDULE 1, LINE 5 - RENTAL REAL ESTATE AND ROYALTIES

- Rents and royalties are reported on a tax return using a Schedule E. The total of all Schedule Es goes to Schedule 1 Line 5. An in-scope Schedule E has only income.
  - If the taxpayer wants to claim associated expenses on Schedule E, the return is ***out-of-scope***.
- If rent or royalty income was reported on a Schedule K-1:
  - If the K-1 has rental income or loss (box 13), the return is ***out-of-scope.***
  - For royalty income, enter the information from the K-1 as discussed in the section Simple Schedule K-1 Forms, Including Prepaid Funeral Plans, page **61**; do **not** enter it directly on Schedule E.
- If rent or royalty income is reported on a Form 1099-MISC, that income is **not** entered directly on Schedule E. Instead, enter on **Form 1099-MISC**, reached from the main **Income** page in the Federal Section.
  - If income reported in box 2, "Royalties", is due to the taxpayer's own personal services, such as being an author or entertainer, then the income belongs on a Schedule C, not a Schedule E. Enter the amount in TaxSlayer **as if the amount had been in box 1 of a 1099-NEC** (yes, use a different form in TaxSlayer).
    - ***Note:*** On Schedule C**,** business code 711510 is for "Independent artists, writers, & performers"

- If there are dollar amounts in any boxes other than box 1, "Rents", and box 2, "Royalties", then see the section Form 1099-MISC on page **55** for how to handle those amounts.
- ***Note:*** In the unlikely event that a Form 1099-MISC is received when the taxpayer has rented for less than 15 days during the year, see "Reversing a Form 1099-MISC", below.

- Cash payments for rent ("cash" includes checks and credit cards) for which there is no Form 1099-MISC may be in-scope; there can't be any associated expenses.
  - Rental of land (for farming, camping, a pipeline, etc.) is in-scope.
    - The IRS allows related property taxes to go onto Schedule E, but doing so would make the return ***out-of-scope*** for the Tax-Aide program. Such property taxes *are* in-scope if claimed on Schedule A.
    - ***Note:*** Farm rental income which is based on crops or livestock produced by the tenant (share-rent) requires either Form 4835, Farm Rental Income and Expenses, or Schedule F; using either form means that the return is ***out-of-scope***.
  - Rental income involving buildings, even for an apartment over a garage or a room in a home, makes the return ***out-of-scope*** (but see notes 1 and 2, below) because such income always involves the associated expense of depreciation, even if not claimed. (When depreciation is involved, the taxpayer is almost always better off using a paid preparer or tax software to claim depreciation.)
    - ***Note 1:*** As described in Chapter 5 of **Pub 527, Residential Rental Property**, if a taxpayer's home is rented for less than 15 days during the tax year, such rental income can be *excluded* from their return.
    - ***Note 2:*** Rental income from sources such as a home is **in-scope only for military returns, with Military certification.**
    - ***Note 3:*** Income from sharing one's house through Airbnb and similar companies may or may not be rental income (in some cases it is business income, reported on Schedule C). This is not a determination to be made by a preparer. Unless the total days involved is less than 15, the return is ***out-of-scope***.
  - Income from renting things that one owns, other than a home, should be reported on Schedule C, not Schedule E.
  - A cost-sharing agreement, where a roommate pays the taxpayer, who in turn pays a landlord; or where a member of the taxpayer's household contributes money toward the cost of maintaining the home, is *not* rental income.
- If there is in-scope rental or royalty income, as discussed above, Schedule E is needed. Go to the **Income** menu page in the Federal Section, and click "Schedule E."
  - On the **Schedule E Required Information** page, if the box regarding Forms 1099, such as Form 1099-MISC, must be checked, then the return is ***out-of-scope***. (Otherwise, click "Continue".)
  - TaxSlayer then goes to the **Schedule E Rent and Royalty Information** page.
  - The "Type" field determines what information is required. If "Royalties" is the type, then address information is not required.
  - Rental or royalty income received on Form 1099-MISC is entered separately, as discussed above on page **55**, and should **not be included** in either rental or royalty income amounts which are entered directly on the Schedule E form in TaxSlayer.
    - This is true even though, for royalties, the "Royalty payments received" field does not explicitly say to exclude income reported on a Form 1099-MISC.
  - Similarly, royalty payments on a Schedule K-1 form are entered separately in TaxSlayer, as described above on page **61**, and should not be entered directly on Schedule E.
  - **Cash payments** for rent or royalties should be entered on the field "Rental payments received" (or "Royalty payments received").
  - For rents, enter the type (as discussed above, anything but "Land" is probably ***out-of-scope***), the property address (*not the taxpayer's address*), the number of days the property was rented at fair rental value, and the number of personal use days.
    - The presumption is that whatever price is normally charged is the fair rental value. But, for example, if the rental price were reduced for a friend or family member, or as a favor to someone, then that would *not* be counted as a regular rental day. (The income from *all* days is reported, whether the fair rental value is charged or not.)
    - "Personal use days" are days on which an owner resided on the property, regardless of the reason (such as for maintenance or to make improvements).
  - It isn't necessary to determine if the taxpayer "actively participated" nor to check the related box.

  - o After the **Schedule E Rent and Royalty Information** page is done, and "Continue" is clicked, TaxSlayer goes to the **Schedule E Rentals and Royalties** menu page. Click "Continue."
    - ▪ Expenses on a Schedule E are ***out-of-scope***, except for active-duty military members, so there's no reason to select "Depreciation", "Expenses", or "Car and Truck Expenses."
- Reversing a Form 1099-MISC**:** If a taxpayer's home is rented for less than 15 days during the tax year, such rental income can be totally excluded from their tax return. In the unlikely event that Form 1099-MISC is received, enter the Form 1099-MISC in TaxSlayer, to match IRS records; create a Schedule E to record the rental income; then on that Schedule E, enter a matching amount as an Additional Expense, labeled "Less than 15-day exclusion", so that net income on the schedule is zero.

SCHEDULE 1, LINE 6 - FARM INCOME (*out-of-scope*)

SCHEDULE 1, LINE 7 - UNEMPLOYMENT COMPENSATION, FAMILY LEAVE, etc.

- Unemployment compensation is fully taxable on the federal return.
- If the taxpayer has received a Form 1099-G (the generic title is "Certain Government Payments", but this varies by state), go to the **Unemployment Income** page [Income > Form 1099-G Box 1 > Add or Edit a 1099-G]. Complete the form:
  - o Check the appropriate box at the top to indicate whether the payment was made to the Taxpayer or the Spouse.
  - o Compare the recipient's address on the page to the address on the paper Form 1099-G. If they're different, change the address on the TaxSlayer page.
  - o Don't enter anything in the State Information section unless there was state tax withheld.
- ***CA process note:*** The California form has two parts: Unemployment and Family Leave.
  - o Both are reported on Schedule 1 Line 7 as unemployment compensation, EIN 94-2650401.
  - o If there are dollar amounts on both parts, add a second **Unemployment Income** page to enter the Family Leave amount.
- ***Note for CA returns:*** Unemployment and family leave payments are NOT taxable by CA.
  - o TaxSlayer makes the adjustment automatically on CA Schedule CA Part I, Section B line 7.
- If there were r**epayments of unemployment**, **do not** adjust the dollar amounts of payments to the taxpayer in TaxSlayer. Enter the dollar amounts in TaxSlayer exactly as they appear on the Form 1099-G. Amounts repaid are reported separately.
  - o Amounts repaid during the **same year** that benefits were received are entered on **Repayment of Unemployment** page [Income > Form 1099-G Box 1 > ...] and reduce the taxable income on Schedule 1 Line 7.
  - o Any amount repaid for a **prior year** is *not* entered on this page; it must be deducted on Schedule A, as a miscellaneous deduction, if over $3,000. It does not offset any amount received for the current year, which is treated as income.
    - ▪ Repayments of $3,000 or less are **not** allowed as a deduction on the federal Schedule A; this is part of the group of deductions subject to a 2%-of-AGI reduction that can no longer be claimed.
    - ▪ ***Note for CA returns:*** Repayments of any amount are **not** deductible as a CA itemized deduction because the original payment was not taxed by CA. If a repayment of over $3,000 is entered on Schedule A, **an adjustment (reduction of itemized deductions)** is needed on CA Schedule CA Part II line 21. On the "Itemized Deductions" page of the CA State Section, enter the amount in the "Subtractions - Other Miscellaneous Itemized Deductions" box.
- **Taxable grants**: Form 1099-G also has a field (box 6) for taxable gov't. grants.
  - o See the second bullet in this section, above, regarding basic information to be entered in TaxSlayer, then see **Pub 4012** page D-6 online. *Note: the **printed*** 4012 is incorrect for this.
  - o The amount in box 6 flows to Schedule 1 Line 8z, with the description "FORM 1099G TAXABLE GRANTS".

SCHEDULE 1, LINE 8 - OTHER INCOME

- Schedule 1 Line 8 is used to report any income not reported elsewhere in the return, such as gambling winnings, taxable cancellation of debt, taxable HSA distributions, prizes, awards, jury duty pay, Alaska Permanent Fund dividends, income from outside of the United States not reported on a W-2 or other U.S. tax form, and recovery (repayment/reimbursement) of expenses claimed in prior years as itemized deductions.

- o Small amounts of compensation for holding an appointed public office should be reported on Line 8, rather than Schedule C, because officeholders are not considered to be engaged in a "trade or business."
- o ***Do not*** check the "earned income" box for amounts on Line 8 where this might seem to be applicable, such as for jury duty pay. If you check that box, TaxSlayer assesses self-employment taxes.
- o ***Note:*** Activities that generate income and offsetting expenses (no longer deductible on Schedule A) but don't meet the criteria of being for income or profit (say, coin collecting) are classified by the IRS as a **hobby** and make the return ***out-of-scope***.
- o Neither **gifts** nor **inheritances** are taxable income for the recipient. For example, $200 in disaster relief from a non-profit organization is a *gift*, and so isn't taxable or reportable on the recipient's tax return.
  - ***Note:*** A foreign "bequest" (inheritance or gift) involves several federal forms, all of which are ***out-of-scope***:
    - Form 8938, which must be filed with a tax return (not required if the taxpayer has no filing requirement).
    - Form 3520, filed separately, for receipt of any amount from a foreign trust, or more than $100,000 from a bequest other than a trust.
    - FinCen Form 114, e-filed separately, if the bequest was deposited into a foreign account owned by the taxpayer.
  - ***Note for CA returns:*** A few states *do* have an inheritances tax; California isn't one of them.
- If more than one "other income" item is entered in TaxSlayer, TaxSlayer generates a supporting statement that's sent to the IRS. This statement is included in the PDF for the return when the print set specifies that the PDF includes statements and worksheets.
- ***Note:*** The procedure for entering a paper 1099-MISC document in TaxSlayer, when the income is to go on Schedule 1 Line 8z, Other income, is described in the section Form 1099-MISC, page **55**.

Gambling Winnings (Form W-2G, Form 1099-MISC, or Cash)

- Gambling winnings appear on Schedule 1 Line 8b.
- If the taxpayer has a Form W-2G, go to the **W-2G Gambling Winnings** page [Income > Other Income > Gambling Winnings].
  - o Check the box for Taxpayer or Spouse, if a MFJ return.
  - o If the Payee's Address information does not match the information on the paper Form W-2G, change the information on the TaxSlayer page.
  - o The Payer's federal ID number (EIN) is required. If, when this is entered, TaxSlayer then fills in the rest of the Payer Information section, verify that the payer's name and address match the Form W-2G exactly; if not, make changes.
  - o As stated on the TaxSlayer page, do **not** enter information on the four state-related lines in the "Winnings Information" section unless there is withholding.
    - ***Note for CA returns:*** If there is an amount for "State Tax Withheld", then the State ID number is **required** to avoid a CA e-file reject; use "999999" if there's no State ID number on the paper W-2G.
  - o Enter the amount won, date, and type of bet. Don't waste time entering other fields; they aren't required.
- If there is more than one paper Form W-2G, click "Save & Enter Another" to add another **W-2G Gambling Winnings** page, and repeat the steps above.
- Gambling proceeds are occasionally reported on a **1099-MISC**. If so, treat like any other 1099-MISC form, but report bets placed elsewhere; see the options outlined in the next section, Gambling Bets.
- New for tax season 2024*:* If the taxpayer has gambling income ***not* on a Form W-2G**, go to the page [Income > Other Income > Other Compensation > Other Gambling Income not reported on a W-2G] to enter total winnings and any cost of bets placed. This income flows to Schedule 1 Line 8b, the bets to Sch A.
- ***Note for CA returns:*** *California Lottery winnings* aren't taxed by CA (California State Lottery, EIN 68-0064952, 700 North 10th St, Sacramento 95811). Subtract the amount at State Section > **Subtractions from Income** > California Lottery Winnings"; then see Note on CA Returns under Gambling Bets (pg 66).

Gambling Bets Placed (aka "Losses")

- The amount of gambling bets placed (not truly net "losses"!) can be deducted on Schedule A (but see the third bullet, below); however, the total amount of bets deducted can't be greater than total reported winnings.

Note: Though IRS publications refer to "gambling losses", that term is defined (and always used) as including the cost of bets placed as well as net loss. Pub 529 Miscellaneous Deductions has examples of what is deductible and the records gamblers should keep.

- o Gambling bets *don't have to be from the same source (location or type of game) as winnings.*

- The taxpayer is responsible for having *written substantiation* for the amount of bets claimed—such as a personal log book.
  - o As with most things, you should take the word of the taxpayer as to the amount bet. (Customers who play at a casino using a customer card can get a printout from that casino, showing "cash in" – bets ("losses"), and "cash out" – winnings, but such a statement is not required.)
- Gambling bets usually appear on Schedule A Line 16. In that case, deducting gambling bets can only help the taxpayer **if** the taxpayer itemizes for federal or state. **However, the NTTC whitepaper "Gambling Income, Losses and Expenses"**, available on the AARP Volunteer Portal, **has examples of certain circumstances where gambling bets may be deducted directly as negative income on Form 1040** without itemizing.
  - o ***Note:*** It is typical that bets placed exceed gambling winnings, and so equal amounts can be reported on Form 1040. This *doesn't* necessarily mean no effect on the taxpayer. Specifically:
    - ▪ The increase in AGI can reduce or eliminate credits (EIC, say) or reduce ACA subsidies.
    - ▪ Social Security income can become (more) taxable, up to 85%.
    - ▪ If the taxpayer would otherwise have used the standard deduction, and would have owed taxes, then taxable income increases by some amount (potentially almost as much as the standard deduction), and taxes owed increase accordingly.
- To enter gambling bets placed, there are usually **two options (but see the white paper mentioned in the previous paragraph for a possible *third* option in a few cases** for "Cost of Winning Ticket"**):**
  1. Bets can be directly entered on a **W-2G Gambling Winning** page.
     - ▪ On this page, bets placed <u>cannot</u> be entered in excess of winnings entered on the page. That tends to make option (2) better *if* there are a lot of W-2Gs – just leave all bets off the W-2G entries.
  2. Go to **Schedule A - Miscellaneous Deductions** page [Deductions > Itemized Deductions > Miscellaneous Deductions] and enter the amount on the line "Gambling losses" (sic).
     - ▪ ***Warning:*** TaxSlayer does *not* reduce the bets reported on this page to equal, and not exceed, total winnings. If you enter *excess* bets on this page, TaxSlayer issues a warning when you go to the E-file section, but won't block e-filing. A return that's e-filed with bets exceeding winnings <u>will reject</u>. So if you pick this option, make sure you enter only the amount of bets that equal winnings.
- ***Note for CA returns:*** If gambling bets include an amount to **offset** California Lottery winnings, manually remove such bets from the CA return, since California doesn't tax its lottery winnings.
  - o In the State Section, on the "Itemized Deductions" page, enter the amount of offsetting bets in the "Subtractions - Other Miscellaneous Itemized Deductions" box
  - o However, if the cost of winning lottery ticket(s) was deducted directly from income, as described in the whitepaper in the two preceding paragraphs, then:
    - ▪ In the State Section go to the **Subtractions from Income** page, select "California Lottery Winnings", and enter the *net* amount of those winnings (minus the cost of winning ticket(s)).

Cancellation of Debt

- Cancelled debts that are treated as income flow to Schedule 1 Line 8c.
- *Non-business credit card*s:1099-Cs for Cancellation of Debt (COD) from non-business credit card is in-scope*,* including an amount in box 3 (interest). See the screening sheet on **Pub 4012** page D-72.
  - o To enter the amount of credit card debt that was cancelled, as taxable income, go to the **Form 1099-C** page [Income > Other Income > Cancellation of Debt > Cancellation of Debt (Form 1099-C)], described on **Pub 4012** page D-71.
    - ▪ C*onfirm with the taxpayer(s)* that they agree with reporting this amount as income *before beginning the tax return in TaxSlayer*.
    - ▪ ***Note:*** The amount in box 1 *includes* the interest amount in box 3.
  - o ***Note:*** While any cancelled debt, whether a Form 1099-C was received or not, must be reported as income (to be in-scope), it's also true that credit card companies often **delay issuing that form**. The problem with reporting income *without* the form, should the taxpayer raise that matter, is that the credit card company might issue a Form 1099-C in a subsequent year if the amount involved is $600 or more.

        - If a Form 1099-C *is* issued in a subsequent year for an amount reported in the current year, the earlier return needs to be amended to remove the income, and that income then needs to be reported again, for the tax year which is on the Form 1099-C.
    - Cancellation of credit card debt results in taxable income unless an exception, such as insolvency, applies - **Pub 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments**, has details.
        - However, if the taxpayer elects to use an exception to make the Cancellation of Debt amount nontaxable, then the return is ***out-of-scope***.
- *Qualified principal residence indebtedness.* In-scope for the federal return.
    - ***CA policy:*** CA does not conform to federal rules with regard to excluding income that results from the cancellation of debt for a mortgage ("qualified principal residence indebtedness"). [The federal exclusion is available through tax year 2025.] Accordingly, within CA, this type of cancellation of debt is ***out-of-scope***, even though the Tax-Aide Scope manual says this type of loan forgiveness is in scope.
- *Student loan debt:* For tax years 2021 through 2025, most forgiven student loans are excluded from income on the federal return. The taxpayer should **not** receive a Form 1099-C for such debt forgiveness. For what to do if a form is received that should not have been issued, see **Pub 4012** page D-69.
    - ***Note for CA returns:*** CA doesn't conform to the federal exclusions. If a taxpayer has a 1099-C for a student loan, seek FTB assistance to determine the proper CA treatment, since CA considers student debt forgiven due to death or permanent disability of the student to be nontaxable income.
        - It isn't necessary to ask taxpayers if they had a student loan forgiven during the tax year if they have no 1099-C; if they volunteer that information, determine if the forgiven debt is income for CA.

Distributions from LTC Plans-Form 1099-LTC

- Any taxable distributions from LTC plans (this is unusual) flow to Schedule 1 Line 8e; such taxable distributions are *in-scope.*
- If the taxpayer has a Form 1099-LTC, Long-Term Care and Accelerated Death, ask the taxpayer if payments were made on a per diem basis, or on another periodic basis, such as a fixed amount each month.
    - **If NO, then no entry is required in TaxSlayer.**
- If **YES**, then go to the "Long Term Care (LTC) Insurance Contracts" section of the **Form 8853 - Medical Savings Account** page [Deductions > Adjustments > Medical Savings Account].
    - For MFJ returns, note that the **policyholder's** name on the Form 1099-LTC can be different from the **payer name** and from the **insured's name**.
    - If the first box, "Check here if anyone other than you received payments ... ", should be checked, the return is ***out-of-scope***. [The "you" in the sentence to the right of the checkbox is the *policyholder.*]
    - Enter the number of days in the LTC period.
- Check the appropriate box if the insured individual was determined to be terminally ill (defined as being certified by a physician as having an illness or condition that can reasonably be expected cause death within 24 months of certification). [***Note:*** this information may be in box 5 of Form 1099-LTC.] Then:
    - If there's an amount in box 2, "Accelerated death benefits paid", on Form 1099-LTC, then this must be split *if* any accelerated death benefits were paid *before* the insured was declared to be terminally ill.
        - If such benefits *were* paid before the declaration was made, then the dollar amount paid should be entered on the line "Accelerated death benefits received on a per diem."
        - If none of these benefits were paid before the declaration was made, and there is no amount in box 1 of the Form 1099-LTC, then no further entries are required in this TaxSlayer form; click "Continue."
- If there's no amount in box 1 of Form 1099-LTC, click "Continue"; otherwise, for the amount in the box:
    - If "Reimbursed amount" is checked in box 3, enter the amount from box 1 on the line "Total reimbursements received or that you expect to receive". No further entries are needed.
    - If "Per diem" is checked in box 3, enter the amount from box 1 on the line "Gross LTC payments received on a per diem basis", and then:
        - IF box 4 on Form 1099-LTC is checked, enter the same amount on the line "Portion of 'Gross LTC payments' above that was from qualified LTC insurance contracts."
        - Enter the number of days covered by the per diem (this number must be provided by the taxpayer).
        - IF the taxpayer's actual costs on qualified LTC services, during the period that per diem was being received, exceeded the 2023 standard tax-free threshold of $420 per day, enter the amount on the second-to-last line of the TaxSlayer page. Otherwise, leave the line blank. (If necessary, see the **Instructions for Form 8853** for the definition of qualified LTC costs.)

- ***Note:*** *Unreimbursed* medical expenses for long-term care can be deducted on the Schedule A, if the taxpayer itemizes and has sufficient medical expenses to exceed the 7.5%-of-AGI threshold.
  - If receiving per diem, the taxpayer would have had to spend more than the per diem amount paid in order to have any unreimbursed expenses.

Payments from a Qualified Education Program - Form 1099-Q

- Form 1099-Q is used to report gross distributions from a qualified tuition program (529 plan) or a Coverdell Education Savings Account (ESA)(530 plan).
- If these distributions were fully used for **adjusted** qualified expenses, they aren't taxable, and the return is in-scope. If there were not so fully used, the excess flows to Schedule 1 Line 8e, and the return is ***out-of-scope.***
  - Qualified educational expenses include the student's expenses for computer equipment, software, and Internet access, as well as tuition and fees, books, and room and board. Distributions from 529 plans can also be used for K-12 expenses. See **Pub 970** for complete details.
    - Distributions can also be used for apprenticeship costs, and for up to $10,000 of qualified student loan principal and/or interest payments.
      - ***Note:*** The $10,000 is a *lifetime* limit; if you see this type of distribution, add a TaxSlayer note stating how much of the $10,000 limit has been used, and for whom (see page **8**).
  - Expenses used to offset distributions cannot be used elsewhere in the tax return.
- ***Note for CA returns:*** CA does not conform to the 2018 and later federal changes. Withdrawals made for K-12 expenses or apprenticeship costs *are taxable on the CA return*.
  - **You must ask taxpayers whether expenses were college-level.**
  - Expenses taxable by CA are entered on CA Schedule CA, as discussed in the section Additions to Income, page **107**.

HSA Distributions

- Any taxable HSA distributions (this is unusual) flow to Schedule 1 Line 8f.
- If a distribution is received on a Form 1099-SA:
  - Form 8889 must be prepared, and *a tax return must be filed even if there is no other income*.
  - Go to the **Form 8889 - Health Savings Account** page [Deductions > Adjustments > Health Savings Account].
- Get information from the taxpayer to complete the type of coverage, and the second and third boxes in the "HSA Distributions" section.
  - Unreimbursed expenses from a prior year (but after the HSA was set up) are qualified medical expenses IF they weren't used as a Schedule A deduction. If the taxpayer wants to count expenses from a prior year as qualified medical expenses, the taxpayer must have good records, to avoid double-counting.
- Qualified medical expenses for HSA accounts include over-the-counter (OTC) medicines and feminine hygiene products. **Pub 969, Health Savings Accounts and Other Tax-Favored Health Plans**, is the definitive guide; **Pub 4012** page E-14 has a short list. An extensive list can be found at **https://learn.hellofurther.com/Individuals/Spending_Your_Account/Eligible_Expenses** .
- If the entire distribution was matched or exceeded by qualified medical expense, or rolled over, there is no taxable amount, and no exception is needed; the TaxSlayer form is complete. But **if the second and third amounts in the "HSA Distributions" section, totaled, are less than the first amount, then the difference is taxable and there is a potential penalty.**
  - TaxSlayer puts the difference on Schedule 1 Line 8e, Other Income.
  - For the penalty:
    - *If* the excess distribution (the difference) was made after the beneficiary become disabled, turned 65, or died, then check the exceptions box.
    - If there is no exception, there is a 20% additional tax. TaxSlayer carries this amount to Schedule 2 Line 6, Taxes.
- ***Note:*** If a distribution is used for qualified medical expenses, those expenses can't be put on Schedule A.
- ***Note for CA returns:*** CA doesn't recognize HSA contributions, distributions, or expense deductions – see the section Health Savings Accounts in CA, page **111**..
  - Manual adjustments are required for interest, dividends, or other income earned within an HSA account; for any distribution in excess of qualified medical expenses; and – **if** the taxpayer is itemizing on the CA

return and could have medical expenses exceeding 7.5% of AGI – for qualified medical expenses covered by HSA distributions.

- It's unlikely that the taxpayer will bring a document showing how much income was earned within their HSA account, and, in any case, the amount is likely to be insignificant. Do *not* ask taxpayers for this information if they don't bring it with them.

Foreign Income

- Income from Canadian and German social security programs are treated like U.S. Social Security payments. Calculate the U.S. dollar equivalent (see below), then follow the instructions in the section Canadian or German Social Security, page **48**.
- Except for those two types of social security income, any other social security or pension income from a foreign country *that is in-scope* (per **Pub 4012** page D-44) is simply "Other income", and flows to Schedule 1 Line 8z. After converting the foreign currency (note that some payments may be in U.S. dollars), go to the **Other Income** page [Income > Other Income > Other Income Not Reported Elsewhere], select "Other Income", and enter the amount.
  - ***Note:*** Compensation received from a foreign employer, if not on a W-2, is still reported on Form 1040 Line 1a, and is ***out-of-scope*** for preparers without International certification.
- To convert a foreign currency to U.S. dollars:
  - The IRS publishes "Yearly Average Currency Exchange Rates": **irs.gov/individuals/international-taxpayers/yearly-average-currency-exchange-rates**.

Jury Duty Pay

- Jury duty pay is not "earned income" for the purpose of EIC. Normally, such pay is *not* reported on a 1099-MISC; if it is, treat it like any other 1099-MISC form.
- Go to the **Other Income** page [Income > Other Income > Other Income Not Reported Elsewhere], select "Jury Duty Pay", and enter this income, which flows to Schedule 1 Line 8h.
  - ***Note:*** If the taxpayer was required by their employer to **turn over jury duty pay to the employer**, then the pay is still reported on Schedule 1 Line 8h, but an adjustment is made as described in the section Schedule 1, Line 24 - Other Adjustments, page **75**.

Other Income Without a Supporting IRS Form

- For taxable income that doesn't fit anywhere else, go to the **Other Income** page [Income > Other Income > Other Income Not Reported Elsewhere].
- The pull-down menu on this page has 13 entries, only seven of which are in scope:
  - Alaska Permanent Fund Dividend [rare] (Schedule 1 Line 8g)
  - Jury Duty Pay (see the paragraph above)(Line 8h)
  - Prizes and awards (Line 8i)
  - Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (Line 8t)
  - Taxable grants (Line 8z)
    - ***Note:*** If the taxable grant is reported on a Form 1099-G, see the section Schedule 1, Line 7 - Unemployment Compensation, page **64**.
  - Wages earned while incarcerated (in prison), *not* on a W-2 or other tax form (Line 8t)
    - If such wages are on a W-2, they should be entered from that form; also see the section Work Release or Penal Income, page **31**.
  - "Other Income" (Line 8z)
    - Taxpayers who receive small amounts of compensation for holding an appointed public office are not considered to be engaged in a "trade or business". Similarly, someone receiving a one-time payment for being an executor or administrator of a will is not engaged in that trade or business, and should not report this income on Schedule C.
    - This entry is also used for payments for participating in a medical study.

ADJUSTMENTS TO INCOME

SCHEDULE 1, LINE 11 - EDUCATOR EXPENSES

- This adjustment is limited to a taxpayer/spouse who is a K-12 teacher, counselor, principal, or aide, and who works in a school for at least 900 hours per school year; the maximum for 2024 is $**300**. The amount is for *each* educator; for MFJ returns, it's possible to get an adjustment of up to $600. This amount is now adjusted for inflation.
- Refer to **Pub 4012** page E-8 for rules.
  - ***Note:*** While expenses for this adjustment are normally donated books, supplies, and equipment, unreimbursed professional-development expenses related to teaching can also be used, as can expenses used for preventing spread of COVID-19 in the classroom
- The amount is entered on the **Educator Expense** page [Deductions > Adjustments > Educator Expenses].
- Expenses beyond the $300/$600 limit *may* be a federal charitable deduction, with caveats. See the section Itemized Deductions Treated Differently by CA, page **110**, "Lines 11-2".
- ***Note for CA returns:*** The Line 11 amount is NOT recognized by CA as a subtraction from income.
  - TaxSlayer automatically adjusts the CA return so that it ignores the entry on Line 11. The adjustment is posted to CA Schedule CA Part I, Section C Line 11.
  - The amount (as well as expenses beyond the $300/$600 limit) can be claimed as an unreimbursed employee expense for CA purposes, *if* the taxpayer is itemizing on the CA return, but *may* be more profitably claimed as a charitable deduction, with caveats.
    - This itemized deduction is part of a group of CA-only deductions that are subject to the 2%-of-AGI reduction. For more information, see page **86** and page **110.**

SCHEDULE 1, LINE 12 - CERTAIN BUSINESS EXPENSES (*OUT-OF-SCOPE*)

- The amount on this line comes from specific items on Form 2106. In general, this line is ***out-of-scope***; there is a limited exception for returns involving members of the military, if counselors have Military certification
- Some non-military employees *can* take this deduction, and it may be appropriate for them to use a paid preparer if their unreimbursed expenses are significant. Those types of employees are:
  - Qualified performing artists
  - Fee-basis state or local government officials
  - Employees with impairment-related work expenses

SCHEDULE 1, LINE 13 - HEALTH SAVINGS ACCOUNT DEDUCTION

- Information about HSA contributions is on **Pub 4012** pages E-10 through E-14; more information is in **Pub 969, Health Savings Accounts and other Tax-Favored Health Plans**.
  - HSA contributions can only be made if the taxpayer was covered by a high deductible health plan (HDHP). For 2024 the IRS defines a high deductible health plan as having a deductible of at least $1,600 for an individual or $3,200 for a family.
  - Taxpayers covered by Medicare are not eligible to contribute to a HSA, even if they have an open HSA account. (They can continue to take *distributions* from that HSA account.
- Enter the amount contributed to an HSA *by the taxpayer* in the first dollar amount field on the **Form 8889 - Health Savings Account** page [Deductions > Adjustments > Health Savings Account].
  - The taxpayer may provide **Form 5498-SA**, which shows the amount of contributions during the tax year. If they do not have this form, the taxpayer's word is sufficient.
  - Contributions designated for the tax year may be made as late as the April filing deadline.
  - ***Note:*** Any contribution in excess of the amount allowed as a deduction is subject to a 6% additional tax, assessed on Form 5329, Part VII, which makes the return ***out-of-scope***.
- Amounts contributed by an *employer* are shown on the Form W-2 as code W in box 12. Information entered in the **W-2** page in TaxSlayer is *not* displayed on the 8889-input page, which says "We will automatically pull your employer contributions from your W-2. DO NOT enter amounts from your W-2."
  - The information from the **W-2** page *does* show on line 9 of Part I of the printed Form 8889, in the PDF of the taxpayer return.
- ***Note for CA returns:*** CA doesn't recognize HSAs – see Health Savings Accounts in CA, page **111**. TaxSlayer automatically makes the adjustment on CA Schedule CA Part I, Section C line 13.

SCHEDULE 1, LINE 14 - MOVING EXPENSES (*out-of-scope*)

- For tax years 2018 through 2025, moving expenses paid by the taxpayer *are not deductible* on the federal return, except for military personnel. Returns that claim a deduction for moving expenses for military personnel are ***out-of-scope*** unless counselors have Military certification.
  - ***Note for CA returns:*** CA doesn't conform to this change; moving expenses can be claimed by non-military personnel. However, such CA returns are ***out-of-scope*** without Military certification.

SCHEDULE 1, LINE 15 - DEDUCTIBLE PART OF SELF EMPLOYMENT TAX

- This amount is carried by TaxSlayer from Schedule SE (visible on the PDF of the taxpayer return); it represents the employer's part of the tax (7.65% of net business income).

SCHEDULE 1, LINE 16 - SELF-EMPLOYED SEP, SIMPLE PLANS (*out-of-scope*)

SCHEDULE 1, LINE 17 - SELF-EMPLOYED HEALTH INSURANCE (SEHI)

- Health insurance premiums, including Medicare and LTC, are allowed as an expense (adjustment) on a Schedule C (self-employment) with a net profit. If a taxpayer doesn't have a Schedule C, they can't take the SEHI adjustment.
  - *Note:* Health insurance [or LTC] premiums can only be deducted on Schedule C for months when the person wasn't eligible to participate in *any* employer-subsidized health (or LTC) plan.
  - In general, if the taxpayer is itemizing, rather than taking the standard deduction, and if the taxpayer's total medical expenses exceed the 7.5% of AGI threshold *plus* the net profit from Schedule C(s), the taxpayer is *always better off putting all medical insurance premium costs into Schedule A*.
    - That's because every dollar on Schedule 1 Line 17 *reduces* the QBI deduction by 20 cents – and thus affects taxable income by a net of only 80 cents, while every dollar on Schedule A in these circumstances affects taxable income by a full dollar.
- If the taxpayer should take the SEHI adjustment, *enter all **qualifying** health and dental insurance premiums* on the **Schedule C – Expenses page** (click "General Expenses" from the Schedule C menu).
  - TaxSlayer flows these costs to Schedule 1 Line 17, to the extent allowed, and any excess flows automatically to Schedule A medical expenses. (TaxSlayer shows, on the **Self-Employed Health Insurance Deduction** page, the following: "$[whatever].00 has been entered in the Schedule C for Health Insurance Premiums").
    - Starting with tax year 2023, this expense is also shown on Form 7206, Self-Employed Health Insurance Deduction, automatically produced by TaxSlayer. (This form is not searchable within TaxSlayer; entries are only made on the **Schedule C – Expenses** page.)
  - If the taxpayer or spouse has paid **Medicare premiums**, and has a Schedule C, enter those premiums in Schedule C, rather than on the **Social Security SSA-1099/RRB-1099 Tier I** page.
  - Similarly, if the taxpayer pays long-term care (LTC) premiums, these should be entered on Schedule C, if there is one, rather than directly on Schedule A.
    - ***Note:*** The deductible amount of long-term care (LTC) premiums depends on age. See **Pub 4012** page F-9 for the age ranges and limits, which TaxSlayer enforces.
  - These costs *won't* show on the printed Schedule C.
  - **Don't use** the **Self-Employed Health Insurance Deduction** page in TaxSlayer. Don't enter health insurance payments on this page, or net profit figures, or anything else. All fields on this page are for information that is unnecessary, entered elsewhere (on Schedule C), already known to TaxSlayer (net profits), or *out-of-scope*.
- Basics:
  - The adjustment amount is limited to the net profit on Schedule C (Schedule 1 Line 3), minus the deductible part of the self-employment tax (Schedule 1 Line 15).
    - TaxSlayer follows this rule *if* allowable health insurance premiums are entered in Schedule C. (Any excess entered in Schedule C flows to Schedule A as medical expense.)
  - **Age is not a factor** – the taxpayer **can** be older than 65.
  - The policy can be in the name of the taxpayer or the spouse, or both, or in the name of the business.
  - The allowable costs are only for **premiums**, not for deductibles, co-payments, or other health-related costs.

- Allowable premiums include those for dependents under the age of 27 as of year-end, even if the child is not the taxpayer's dependent.
  - "Child" includes stepchild, adopted child, or foster child.
- [Workaround] If there is **more than one Schedule C**, healthcare costs should be entered on the schedule(s) in such a way as to maximize the SEHI adjustment.
  - Because the taxpayer can claim a SEHI adjustment for insurance costs for the taxpayer's spouse, and vice versa, any qualified health insurance cost can be entered on *any* Schedule C.
  - The health insurance costs on a given Schedule C can become a SEHI adjustment *only to the extent of the net profit for that Schedule C.* For example, if a Schedule C has a net profit of $1,000, and health insurance costs of $1,600 are entered via that Schedule C, only $1,000 (minus the adjustment for SE taxes) flows to the SEHI adjustment, *even if there is another Schedule C with net profits.*

- The types of insurance allowable for this deduction include **Medicare**, Medicare supplemental policies, LTC insurance, and private health insurance.
  - Private health policies must be in the name of the taxpayer or the business. Even if a taxpayer pays a monthly amount for employer-provided insurance, those costs aren't deductible because the policy is in the name of the employer, not the taxpayer, and is subsidized by the employer.
  - Premiums paid for dental and other types of health insurance, such as vision, catastrophic, and travel insurance for medical costs, *are* deductible, provided that these policies aren't subsidized by an employer.
    - Premiums for life or disability insurance are *not* deductible.
  - While premiums paid by the taxpayer for **ACA-subsidized** health insurance ("Marketplace" policies) *are* allowable costs for the SEHI adjustment, they are ***out-of-scope*** [though the return itself may not be – see below] for the Tax-Aide program because of the circularity of calculating the amount of insurance premiums that the taxpayer is responsible for. [The subsidy amount (APTC) depends on taxpayer AGI; the AGI is calculated using the SEHI adjustment; and the SEHI adjustment depends on the APTC.]
    - The taxpayer has three options: not reporting such costs on the tax return (in-scope); claiming such costs on Schedule A, if itemizing (in-scope); or using a paid preparer or tax software, in order to use Marketplace (net) premiums for the SEHI adjustment (*out-of-scope*).
      - The value of using a paid preparer or tax software can be easily tested: treat the Marketplace premiums, temporarily, as usable (enter them in Schedule C), *after* all other insurance premiums are entered, and a refund already calculated, and see if making them usable (temporarily) results in a significant change in what the taxpayer owes or is owed.
    - If the taxpayer buys unsubsidized health insurance through an ACA marketplace, those premiums *are* allowable for the SEHI adjustment.
  - If the Public Safety Officer exclusion is claimed (up to $3,000 of retirement plan distributions can be excluded from taxable income, as discussed on page 43), the insurance costs that are used for exclusion cannot be used for the SEHI adjustment, since they were essentially paid using nontaxable dollars.
- **Premiums paid for health insurance coverage for a month where the taxpayer could participate in an employer-subsidized health plan *are not allowable for this deduction*, whether taxpayer participated or not.**
  - But coverage from a *former* employer doesn't affect what can be claimed – for example, if the taxpayer has a COBRA policy that is part of a separation package, with part of the policy costs paid by the former employer, the taxpayer can still claim the premiums that s/he paid.
- There are two reasons to enter premium costs on Schedule C, rather than directly on the **Self-Employed Health Insurance Deduction** page [Deductions > Adjustments > ....]
  - First, on the **Schedule C – Expenses page**, you can *separately* enter multiple health insurance costs, and TaxSlayer totals them. This helps ensure that all health insurance premiums were entered and prevents totaling errors.
  - Second, TaxSlayer requires, on the **Self-Employed Health Insurance Deduction** page, that the amount of "net profit and any other earned income from the trade or business" be entered. ***If*** the total for premiums is entered on the SEHI Deduction page, TaxSlayer uses the net profit figure on that page, *rather than the actual Schedule C profit figure,* in calculating the amount that goes on Schedule 1 Line 17. This creates another possibility of an error.

SCHEDULE 1, LINE 18 - PENALTY ON EARLY WITHDRAWAL OF SAVINGS

- Penalties for early withdrawal are normally reported on Form 1099-INT; they are entered in TaxSlayer as part of the normal process of entering a Form 1099-INT, as described on page **32**.
- In some unusual circumstances, the taxpayer may have paid an early-withdrawal penalty that wasn't reported on a Form 1099-INT; enter this penalty on the **Early Withdrawal Deduction** page [Deductions > Adjustments > Penalty on Early Withdrawal of Savings or CD].

SCHEDULE 1, LINE 19 - ALIMONY PAID

CA process: CA does **not conform** with the federal change that for divorces finalized after December 31, 2018, as well as separations signed after that date. Thus **all alimony paid must be entered in TaxSlayer** regardless of the date of divorce decree or subsequent amendments.

- Refer to **Pub 4012** page E-14 for rules.
- Alimony does NOT include child or family support, which are NOT deductible.
- Go to the **Alimony Paid** page [Deductions > Adjustments > ....]
  - The SSN of the person receiving alimony is required because that person must report it as *income*.
    - If no SSN is available, use 111-00-1111.
      - If the alimony paid is a reduction in income on the federal return, **paper file the return with a statement as to why no SSN** was available. (The statement doesn't have to be in TaxSlayer [Miscellaneous Forms > Explanations > ...].)
      - ***Note for CA returns***: In this situation, the CA return also must be paper-filed.
  - If the alimony agreement was revised after 2018 **and** the revised agreement says that alimony paid is no longer treated as a deduction (nor as income to the recipient), **enter the revised date** (not the original agreement date) so that TaxSlayer eliminates the alimony from the federal return.
- ***Note for CA returns:*** If the alimony paid does not reduce taxable income on the federal return, TaxSlayer automatically posts the alimony as an adjustment (decrease of income) on CA Schedule CA Part I, Section C line 19a.
- ***Note for CA returns:*** The **last name**, not the full name, of the person being paid alimony must be entered in the State Section [Basic Information > Additional Personal Information].

SCHEDULE 1, LINE 20 - IRA DEDUCTION

- Taxpayer and spouse may each make IRA contributions, subject to age and income limits. **Pub 590-A, Contributions to Individual Retirement Arrangements (IRAs)**, has full details.
  - IRA contributions can't exceed *earned income*. If a taxpayer has no earned income, they can't make an IRA contribution. *Exceptions: taxable alimony income, excludable Medicaid Waiver Payments.*
  - Dollar limits for IRA contributions, below, are for the *total* contributions to traditional and Roth IRAs. Exceeding the dollar limit makes the return potentially ***out-of-scope***, as discussed below.
  - IRA contributions that exceed contribution limits are subject to an annual additional tax as long as the excess continues (the tax is reported on Form 5329 Part III or IV), which makes the return ***out-of-scope***.
    - The contribution limit is the smaller of taxable **compensation** (Form 1040 Line 1 plus Schedule 1 Line 2a plus Schedule 1 Line 3) or $7,000 ($8,000 if age 50 or older at the end of 2024). If filing MFJ, the contribution limit applies separately to the taxpayer and spouse
  - Federally deductible contributions to traditional IRAs can be made *regardless* of taxpayer age; previously the maximum age was 70½.
    - ***Note:*** Deductible contributions to traditional IRAs made after reaching age 70½ *affect the deductibility of QCD payments*. See page **40** for details.
    - ***Note for CA returns:*** **California does not conform. IRA contributions made after the taxpayer has reached age of 70½, are *not* deductible**. A **manual** adjustment to CA Schedule CA is required, to *increase income* - see the section Manually Entering Income Differences on CA Schedule CA, page **106**. The increased income appears on CA Schedule CA Part I, Section B line 8z.
      - Adjusting (reducing) CA income when distributions are made, in a subsequent year, from an account where an over-age-70½ contribution has been made, is *out-of-scope*. See the section Distributions from an IRA Where Over-Age-70½ Contributions Have Been Made, page **38**.
- To enter the IRA contribution amount (if MFJ, the total amount for taxpayer and spouse), go to the **IRA Deduction** page [Deductions > Adjustments > ....]

- o Coverage by a retirement plan is generally indicated in box 13 of Form W-2. Even if that box has been checked on a **W-2** page, TaxSlayer *won't* carry that information to its IRA Deduction page!
- o If TaxSlayer determines that an excess contribution has occurred, after "Continue" is clicked, it shows the **Form 5329** page [Federal Section > Other Taxes > Tax on Early Distribution].
  - ▪ Advise the taxpayer that the penalty can be avoided and the return brought back in scope, if excess contributions are withdrawn by the filing deadline, *including extensions*. (Details in Pub 590-A.)
    - ▫ Form 5329 is one of ten for which a PDF can be created from a menu page within the return.
- **If** either the taxpayer or spouse **is covered** by an employer's retirement plan, then some of the allowable contributions may be nondeductible – they won't reduce the taxpayer's taxable income. *Additional entries in TaxSlayer may be required.*
  - o Coverage by a retirement plan is generally indicated in box 13 of the Form W-2 from the employer.
  - o If the taxpayer (and/or spouse, if a MFJ return) **was** covered by a retirement plan during the tax year, then deductible amount of the contribution depends on the taxpayer's MAGI. For 2024, nondeductibility can begin once the MAGI reaches $77,000 (for single filers; higher for other filing statuses) and can equal the entire contribution (no deductible contribution allowed) with a MAGI as little as $87,000 (for a single filer; higher for other filing statuses). Details are in Pub 590-A.
  - o TaxSlayer calculates the nondeductible amount.
  - o Compare the amount entered on the **IRA Deduction** page to the amount on Schedule 1 Line 19 (use the Summary/Print link on the left navigation bar).
    - ▪ If the two amounts are **not** the same, then go to **Form 8606 - Nondeductible IRAs** page [Deductions > Adjustments > Nondeductible IRAs] and fill in the form – see the **IRS instructions for Form 8606**.
      - ▫ Form 8606 is one of ten for which a PDF can be created from the **Adjustments** menu.
    - ▪ If a nondeductible IRA contribution is made, and deductions or conversions are taken from more than one IRA during the tax year, use the IRA Worksheet (**https://cotaxaide.org/tools/**).
- An IRA contribution can make the return eligible for the Schedule 3, Line 4 - Retirement Savings Contribution Credit (discussed on page **94**); TaxSlayer automatically calculates and applies this credit.
- Taxpayers who contributed to a traditional IRA for the current tax year have the option of recharacterizing their contribution as a contribution to a Roth IRA until they file their return (or the April filing deadline, whichever comes first).
  - o Recharacterizing from a traditional IRA to a Roth IRA is valuable if the taxpayer didn't get a benefit from the IRA contribution (see Schedule 1, Line 20, IRA deduction, and Schedule 3, Line 4, Retirement savings contribution credit).
  - o Recharacterizing the other way – moving money from a Roth IRA to a traditional IRA - can make sense if the taxpayer would lower their AGI, especially if it helps avoid a CA no-health-insurance penalty.
  - o If recharacterization makes financial sense:
    - ▪ The taxpayer must arrange the recharacterization through their IRA trustee.
    - ▪ The recharacterization must be done before the return is completed and filed, so the taxpayer must return after obtaining documentation from their IRA trustee.

SCHEDULE 1, LINE 21 - STUDENT LOAN INTEREST DEDUCTION

- For rules see **Pub 4012** page E-17. Note that in some cases a taxpayer can claim this adjustment when their child was the student.
- Even if payments are made by others (say, a grandmother), for tax purposes the payments are treated as if they were made by the taxpayer. http://www.sheknows.com/parenting/articles/988817/parents-pay-student-loans-and-give-child-the-deduction
- The taxpayer might not have Form 1098-E, Student Loan Interest Statement (lenders are supposed to issue this when the interest amount for the year is $600 or more). If not, other information from the taxpayer *is* acceptable.
  - o Only *interest* paid is deductible; repayment of principal is *not*. If the taxpayer doesn't have a Form 1098-E, then determine how much of payments during the year were for interest (not repayment of principal).
  - o The taxpayer cannot take this adjustment to the extent that student loan interest was paid with distribution from a tax-free 529 plan.
- Enter interest paid on the **Student Loan Interest Deduction** page [Deductions > Adjustments > ....]

- More information, if needed, can be found in **[Pub 970, Tax Benefits for Education](#)**.
- ***Note for CA returns:*** Student loan debt that is canceled or repaid under the Income Contingent Repayment plan, the Pay As You Earn Repayment plan, and the Revised Pay As You Earn Repayment plan as administered by the U.S. Department of Education, is excluded from gross income by CA as well as on the federal return.

SCHEDULE 1, LINE 24 - OTHER ADJUSTMENTS

Only four parts of Line 24 are in scope. Go to the **Other Adjustments** page [Deductions > Adjustments > ...], and select the appropriate item:

- Line 24a, Jury duty pay. Make an adjustment when the taxpayer received jury duty pay, **reported it on Schedule 1 Line 8g**, and was required by their employer to **turn over the jury duty pay to the employer** (typically in situations where the taxpayer has a paid leave of absence while on jury duty).
- Line 24e, Repayment of supplemental unemployment – see Pub 525
- Line 24f, Contribution to Sec 501(c)(18)(D) pension plan – see Pub 525
- Line 24j, Housing deduction from Form 2555 (***out-of-scope*** except with International certification)

TAXABLE INCOME AND TAX CALCULATION

LINE 12 - STANDARD OR ITEMIZED DEDUCTION (SCHEDULE A)

Standard Deduction

- Starting with tax year 2018, the federal standard deduction roughly doubled. For 2024, the basic standard deduction is $14,600 for single and MFS filers, $21,900 for HoH, and $29,200 for MFJ/QSS. Those filing Single or HoH get an additional $1,950 if 65 or older, and an additional $1,950 if blind. For those filing MFJ, QSS, or MFS, the incremental amount is only $1,550 per person (taxpayer and/or spouse)
- TaxSlayer defaults to the standard deduction.
  - If a taxpayer files MFS and the taxpayer's spouse takes the standard deduction, the taxpayer must *also* take the standard deduction. *Do not enter anything on Schedule A.*
- There are two situations when the taxpayer must itemize:
  - The taxpayer files MFS and the taxpayer's spouse itemizes (**out-of-scope for some CA substates)**.
    - In such a case, go to the **Force Itemized Deduction Instead of Standard Deduction** page [Deductions > Itemized Deductions >Use Standard or Itemized Deduction] and click the button to force the use of the itemized deduction.
  - Either the taxpayer or spouse is a dual status alien or nonresident alien. [Such returns are ***out-of-scope***.]
- If the taxpayer is filing MFS and is unsure whether his or her spouse itemizes, and isn't in communication with the spouse, then prepare the return in whichever way (itemize or not) most benefits the taxpayer but warn the taxpayer that if the spouse has already filed electronically, and if the choice doesn't match what the spouse did, then the IRS will reject the return.
- TaxSlayer automatically selects the **better** of the standard deduction or the itemized deduction, unless the itemized deduction is *forced* for an MFS filing. There is no loss to the taxpayer (except time) if you enter information on Schedule A, but that information is not used. [Still, if entering that information *clearly* won't to make a difference, *don't do it.*]
  - If you want to see both the federal standard deduction amount and the calculated federal itemized total deduction based on input in TaxSlayer, go to the **Compare Standard vs Itemized Deduction** page [Deductions > Compare Deductions].
- ***Note for CA returns:*** It's quite possible (see next section) that the taxpayer will benefit by taking the standard deduction on the federal return but itemize on the CA return. TaxSlayer determines separately whether itemizing is best for the federal return and whether it's best for the CA return.
  - CA itemizing is *not* done in the state section, it's done by entering itemized deductions on the *federal* return. **The federal section includes expenses that are no longer allowable on the federal return but are allowable on the CA return –** such as unreimbursed employee expenses.

When to Itemize

- If it isn't clear whether it's advantageous for the taxpayer to itemize on the federal return, in general it's best to go ahead and complete Schedule A. That's *in general*. **However:**

- **Even if federal itemized deductions are likely to be larger than the standard deduction, DO A REALITY CHECK FIRST.** On the federal return, look at Form 1040 Line 16, Tax, to see if this is zero. If it is zero, then there is no reason to itemize for **federal** purposes.
  - ***CA process note:*** If you conclude that itemizing is pointless on the federal return, then check whether the amount on CA Form 540, page 3, line 64, Total tax, is zero. **If so, there is no point in itemizing for either the federal or state return**: doing so would waste the taxpayer's and your time.

- ***Note for CA returns:*** The CA standard deduction is significantly less than the federal standard deduction. For 2024, the amounts are $5,540 if Single or MFS, and $11,080 for the other filing statuses. So, ***if*** the taxpayer owes any CA taxes, as discussed immediately above, it's much more likely that itemizing is worth doing – or at least enter enough itemized expenses so that line 64 becomes zero.
  - ***Note:*** If itemizing for CA, but TaxSlayer calculates that itemizing is not advantageous for the federal return, TaxSlayer **may not** include the Schedule A in the print packet. If the CA return includes a CA Schedule CA, the taxpayer has itemized details. Otherwise, you should print Schedule A separately – this can be done from the **Deductions** menu page in the Federal Section.

Schedule A

- **Pub 4012** pages F-5 and F-6 are a comprehensive list of questions to ask the taxpayer to identify potential itemized deductions.
- **Pub 4012** page F-8 lists medical expenses that can and cannot be deducted on Schedule A; these are items that often come up in conversations with taxpayers.
- TaxSlayer entry pages for Schedule A information are listed on the **Itemized Deductions** menu page [Deductions > Itemized Deductions; or use "Schedule A" in the search box.]

Schedule A - Medical and Dental Expenses (Line 1)

- The medical and dental expenses section of Schedule A should be done *after all other parts of Schedule A are done*, because it often takes significant time to review and enter the taxpayer's information for this section, and that may be unnecessary effort.
  - After doing all other parts of Schedule A, see if Form 1040 Line 16, Tax is zero (via the Summary/Print link on the left navigation bar), and similarly CA Form 540, page 3, line 64, Total tax (via a PDF of the state tax return). If both amounts are zero, **do not** enter medical expenses; they won't benefit the taxpayer.
- Medical expenses aren't worth entering, for federal or state tax purposes, if they total less than **7.5% of AGI**, (Federal AGI is Form 1040 Line 11). If it's worth entering medical expenses, go to the **Schedule A - Medical Deductions** page [Deductions > Itemized Deductions > Medical and Dental Expenses].
  - For each category on this page, expenses can be entered as a total *or* in detail.
    - Ideally, the **taxpayer** is responsible for calculating the total for each category (doctors/dentists, prescriptions, and so on), with only the totals entered in TaxSlayer.
    - If the taxpayer hasn't totaled the expenses for one or more categories, and if there are relatively few expenses in a category, you may choose the option to click the blue box to the right of the dollar field, for each category where there are expenses. Then enter payments to individual service providers or enter payment groupings done by the taxpayer.
  - **Pub 502, Medical and Dental Expenses**, is the definitive guidance for this type of deductions.
- Medical and dental insurance:
  - If the taxpayer is itemizing rather than taking the standard deduction, and if the taxpayer's total medical expenses exceed the 7.5% of AGI threshold *plus* the net profit from Schedule C(s), then the taxpayer is *generally better off putting all medical insurance premium costs into Schedule A* rather than taking the Self-Employment Health Insurance (SEHI) adjustment on Line 16 of Schedule1.
    - That's because every dollar of the SEHI adjustment *reduces* the QBI deduction by 20 cents – and thus affects taxable income by a net of only 80 cents, while every dollar on Schedule A, in the circumstances described, affects taxable income by one full dollar.
    - However, if the taxpayer would benefit from a lower AGI (for example, to reduce the taxable portion of Social Security income, or to reduce the amount of APTC that is repayable), then it may be best to take the SEHI adjustment, since Schedule A expenses don't reduce AGI. ***If in doubt, try both ways, to see which maximizes the taxpayer's refund or minimizes the amount owed.***

  - Medicare premiums entered in the **Social Security SSA-1099** page should not be entered again. Although TaxSlayer does not display those amounts on any Schedule A-related page, it *will* add them to what is entered directly on the **Schedule A - Medical Deductions** page.
  - Medicare premiums don't always show on a Form SSA-1099:
    - If a taxpayer was 65 years or older during the tax year, they may be paying for a Medicare Supplement Insurance (Medigap) policy. These payments never appear on a Form SSA-1099.
    - If the taxpayer was 65 years or older during the tax year but did **not** receive Social Security, they may be paying Medicare premiums directly.
  - On the Form CSA 1099-R of a federal retiree, box 5 is *always* health insurance premiums. However, if the retiree is having dental, vision, or LTC insurance premiums deducted from their annuity, **such premiums won't show on the paper CSA 1099-R page.** The only way to see these other premiums is to see the taxpayer's Form RI 38-38, Notice of Annuity Adjustment. Codes are listed on the back of the form, such as:
    - 42 is Federal Dental Insurance
    - 43 is Federal Vision insurance
    - ***Note:*** 45 is a catchall that includes Long-Term Care; enter the amount on the "Qualified long-term care premiums" line (below), not on the "Medical and dental insurance" line .
  - Amounts paid by taxpayers for a Marketplace policy, as evidenced by a Form 1095-A, do count as health insurance premiums. TaxSlayer won't automatically include those on Schedule A.
    - **However,** when PTC is provided by the government to reduce the out-of-pocket cost of a Marketplace policy (for most taxpayers, this is the case), then insurance amount included on the **Schedule A - Medical Deductions** should be **net of** the PTC: that is, what is entered in TaxSlayer should be actual amount paid per the 1095-A, **plus** any APTC that must be repaid, **minus** any additional PTC allowed.
      - **Look at Schedule 2 Line 2, Excess APTC Repayment, and Schedule 3 Line 9, Net PTC, to see if either is non-zero.** If so, you need to calculate the net amount paid by the taxpayer.
    - Since the Health Insurance section in TaxSlayer is normally done *after* the Federal Section, *if the taxpayer has a Form 1095-A*, do the following as you work on itemized deductions:
      - Enter, in TaxSlayer, as a first approximation, the total of the monthly premiums paid directly by taxpayer to the insurance company.
      - Create a note (page **8**) saying that the amount of health insurance premiums paid needs to be adjusted based on the amount on Schedule 2 Line 2 or Schedule 3 Line 9.
    - After the Health Insurance section is completed:
      - Look at those two lines, and return to Schedule A to make the adjustment, if any (there almost always is).
      - Update the note to state the amount that was adjusted based on Schedule 2 Line 2 or Schedule 3 Line 9.
  - Don't include medical premiums paid using pre-tax dollars – these dollars reduced taxable income.
  - Don't include long-term care insurance premiums as part of "medical and dental insurance"; these are entered separately on the "Qualified long-term care premiums" line at the bottom of the TaxSlayer page.
- Medical miles
  - The number of medical miles driven is as an approximation for operating costs associated with a personal vehicle. Specific costs (gasoline, car maintenance, and similar) cannot be claimed.
    - The 2024 rate is $0.21 per mile.
    - The 2023 rate was $0.22 per mile.
    - The 2022 rate was $0.18 per mile from 1/1/2022 through 6/30/2022 and $0.22 per mile from 7/1/2022 through 12/31/2022.
    - If the taxpayer has any costs for doctor visits, prescription medicines, or other things requiring travel, this field normally should have a number in it.
      - One obvious exception occurs when the taxpayer doesn't own a vehicle.
  - All other transportation costs (bus, parking, tolls, taxicab fare, airplane tickets, and so on) are entered as "Other medical expenses."
- Other medical expenses
  - Other medical expenses must be entered by clicking the blue icon to the right of the dollar box (unless there is only one expense for that category).
  - Medical costs that are part of monthly fees in a senior residence *are* potentially deductible.

        - For seniors who live in a retirement community, particularly in assisted-living units, but also for those in independent-living units, a significant part of their monthly payments may be for the medical facilities and services of the retirement community, *even if not used.*
        - Seniors living in board and care facilities who have been declared by a medical professional as incapable of self-care or requiring constant supervision may be able to claim most or all the facility fees as medical expenses.
        - For a taxpayer to take this deduction, the retirement community must provide written information (typically a letter to all residents), stating either a percentage or a flat dollar amount of fees that are for medical facilities and services.
    - Personal care services done in the taxpayer's home *are* deductible as medical expenses if their primary purpose is to provide a chronically ill person with assistance with his or her disabilities.
        - Such services must be specified in a plan of care prescribed by a licensed health care practitioner, and meet other requirements as described in the "Qualified Long-Term Care Services" section of **Pub 502**.
            - ***Note:*** If the taxpayer pays, *directly*, one or more individuals who provide care services, rather than paying through an agency, and the total paid in 2024 to any single employee is over the threshold for Line 1b Household Employee Income not on a W-2, page **30**, then Schedule H, Household Employment Taxes, is required, making the return ***out-of-scope.***
    - Lodging costs incurred while traveling out of town are deductible if the lodging is primarily for, and essential to, medical care, the medical care is provided by a doctor in a licensed hospital or in a medical care facility, and there's no significant element of personal pleasure, recreation, or vacation in the travel away from home.
        - This deduction is limited to a maximum of $50 per night for each person who receives the lodging. For example, if a parent and a sick child in outpatient care receive lodging, up to $100 per night can be deducted.
- Qualified long-term care premiums
    - The deductible amount of long-term care (LTC) premiums depends on age. See **Pub 4012** page F-9 for the age ranges and limits, which TaxSlayer enforces.
    - Premiums are deductible only if paid for a "qualified" plan. To be "qualified," policies issued after 1996 must adhere to certain requirements; see **Pub 502**. Plans issued prior to that date must only have been approved by the insurance commissioner of the state in which they were sold.
    - In TaxSlayer, click the "Add Premiums" button to enter LTC premiums.
- On Form 1040 Schedule A, TaxSlayer calculates and subtracts the nondeductible amount of medical expenses, 7.5% of AGI.
- ***Note for CA returns:*** Medical expenses reimbursed by an HSA are deductible for CA but not for federal.o These expenses are entered on Form 8889 (see section Schedule 1, Line 13 - HSA, page **70**).
        - A manual adjustment is needed for CA Schedule CA - see Health Savings Accounts in CA, page **111**, for further information.

Schedule A - State and Local Income and Sales Taxes Paid (Line 5a)

- ***CA process note:*** State and local income taxes paid, and sales taxes paid, are allowable deductions only for the federal return, not for CA. If the taxpayer is taking the federal standard deduction, **there's no need to enter** these taxes on Schedule A in TaxSlayer.
- For Schedule A, TaxSlayer uses the LARGER of (a) state and local income taxes paid or (b) general sales taxes paid.
    - The general sales tax figure always requires the preparer to enter some information in TaxSlayer.
    - For the state and local taxes, *most of the time* no additional information needs to be entered.
        - ***CA legal note:*** California does not allow localities to assess a local income tax on individual taxpayers.
- **Go to the Schedule A - Taxes You Paid** page [Deductions > Itemized Deductions > Taxes You Paid].
    - ***Note:*** This page is also used to enter real estate taxes paid (see the next section, below), personal property taxes (see two sections below), and, if needed, "other taxes" (four sections below).
    - ***Note:*** If you have previously entered information on this page or entered property tax paid on the mortgage interest page, then when you click "Taxes You Paid", you'll go to a different page – it has the same title, but shows only one line, with dollar figures for "Real Estate Taxes" and "Personal Property Taxes". Click the pencil icon ("Edit") to go to **Schedule A - Taxes You Paid**.

- <u>State and local income taxes</u>
  - TaxSlayer includes state and local income taxes from W-2s, all 1099s, and estimated taxes paid [Federal > Payments and Estimates] when calculating Schedule A line 5a. *Don't enter these amounts a second time*.
    - ***CA process note:*** Taxslayer also automatically includes CASDI entered **in box 14** of the **W-2** pages.
  - In the first box on **Taxes Paid** page, total and enter any of the following state income taxes paid in the tax year:
    - Tax paid with last year's state tax return (or extension) *and* any prior-year state returns filed in 2024, if taxpayer confirms the amount due *was actually paid*
    - Tax paid in 2024 as part of a collection or installment payment agreement (for any tax year(s)).
  - In the second box on the **Schedule A - Taxes You Paid** page, enter the final payment to CA for estimated state income taxes for tax year 2023, *if* that final payment was made in 2024.
- <u>General sales tax</u>
  - On the **Schedule A - Taxes You Paid** page, click the "Add Sales Tax Worksheet" button to go to the **<u>Sales</u> Taxes Deduction** page.
    - You have **two calculation options** – use the TaxSlayer worksheet for your calculations (easier) or use the IRS sales tax deduction calculator.
      - If you use the TaxSlayer worksheet, *don't enter percentages*. (For reference, California 2024 sales tax was 7.25%.)
      - If the taxpayer lived in multiple places in the year, *use the IRS calculator.*
  - <u>Large purchases:</u> Both calculation options require you to determine if the taxpayer bought a motor vehicle, aircraft, mobile home, or building materials (for a new home or substantial addition or renovation) during the year, and, if so, the **sales tax paid**. If the taxpayer purchased multiple vehicles, sales tax may be deducted for each purchase.
    - The sales tax is on the bill of sale or dealer invoice (as is the VLF for line 5c, below). Do *not* try to calculate sales tax using vehicle price or amount the taxpayer said they paid.
    - ***Note:*** The person who made the purchase is the one who can claim this additional sales tax, if itemizing. Someone (say, a parent) purchasing a vehicle for another person, and *not* getting the title, can still claim the sales tax deduction, *but not the VLF.*
    - ***Note:*** Sales tax included in payments on a leased vehicle **does count**.
    - ***Note:*** For building materials, the sales tax must be separately listed on an invoice *paid by the taxpayer*, not by a contractor.
  - <u>Untaxed income:</u> Both calculation options involve the total income that was *not* included in the taxpayer's AGI but was available for spending.
    - The most likely situations of untaxed income are tax-exempt interest (Line 2a), untaxed Social Security benefits (Line 6a minus Line 6b), and nontaxable retirement distributions (Line 4a/5a minus 4b/5b - but rollovers and transfers must be excluded; see 1099-R Form – Transfer or Rollover, page 39). Less common are types of untaxed income that typically go to lower-income taxpayers who don't itemize: excludable Medicaid Waiver payments, Workers' Compensation, disability insurance payments, and public assistance.
      - Note that sales-tax calculators use income *ranges*, which begin at "less than $20,000", and go up in $10,000 increments. You only need to get the *range* correct, not the exact amount that isn't included in the AGI figure.
      - For a full list of untaxed income, see the General Sales Tax Deduction Income Worksheet, **https://cotaxaide.org/tools/**.
    - ***Warning:*** TaxSlayer displays its calculation of total income ("MAGI") on the "Schedule A - Taxes You Paid" page; <u>sometimes this is not even close to being correct</u>. If using the TaxSlayer worksheet to calculate general sales tax, ***review this figure to see if it is at least approximately correct.*** If not, enter an adjustment in the "Amount to Adjust the Calculated MAGI by" box (see next section), or use the IRS sales tax calculator instead of TaxSlayer.
  - <u>TaxSlayer worksheet calculation</u>
    - At the **<u>Sales</u> Taxes Deduction** page, enter the taxpayer's ZIP code.
    - If the taxpayer lived in **only one place** during the tax year, or two or more places in California with **same** sales tax rates, enter "365" for the days. Otherwise, enter the actual number of days the taxpayer lived at the first location during the year.

        - If the taxpayer purchased a motor vehicle, aircraft, mobile home, or building materials, as discussed above, then enter the sales tax paid for these purchases in the "General sales taxes paid" box; otherwise, *leave this blank*.
        - Click "Continue."
            - If the number of days listed doesn't total 365 and not all locations have been entered, then click "Add a Sales Tax Deduction" to add another location.
            - If/when the number of days totals 365, click "Continue" again.
        - Back on the **Schedule A - Taxes You Paid** page, go to the "Modified Adjusted Gross Income" section at the bottom of the page, and adjust as needed.
            - Compare the MAGI figure to the AGI figure on Form 1040 Line 11 (on Summary/Print page) for reasonableness.
            - For the sales tax calculation, TaxSlayer *does* know to add to AGI the amount on Line 2a (tax-exempt interest), plus the difference between Lines 5a/b and 6a/b (total vs. taxable pensions and Social Security), plus any excludable Medicaid Waiver payments.
            - In the box "Amount to Adjust the Calculated MAGI by", enter (as a positive number) any untaxed income that TaxSlayer does *not* know about, because it isn't reported at all on Form 1040. This includes Supplemental Security Income (SSI), veterans' benefits, gifts, and inheritances.
    - IRS sales tax deduction calculator
        - At the **Sales Taxes Deduction** page in TaxSlayer, go to the bottom and click "Click here" (sic), which opens a new tab on your browser. Click the "Sales Tax Calculator" button; on the next page, scroll down and click (bottom right) the "Continue" button. Select a tax year; click continue.
        - When you select the income range, it should include **nontaxable income**, as discussed above.
        - When the calculator asks about the sales tax paid on "specified items", enter the **sales tax paid** on any large purchases, as mentioned above.
        - Answer the question "Did you live at the same address all [year]?" If "Yes," a zip code field appears. Enter and confirm the taxpayer's zip code. If "No," it asks for the number of primary residences the taxpayer lived in, the zip codes for each primary residence, and the dates for each residence.
        - On the "Results" page of the IRS calculator, note the "Total General Sales Tax Deduction" *dollar amount* (it's a good idea to print this page for the taxpayer's records; it's an even better idea to leave this tab open to show the quality reviewer).
        - If the first round of calculations wasn't for a full year, click "Start Over" to calculate the general sales tax for the second (and any subsequent) location where the taxpayer lived during the year, and repeat the steps above, calculating the total for all localities.
        - Return to the TaxSlayer tab.
        - On the **Sales Taxes Deduction** page, scroll to the top, then click "Override", enter the amount from the IRS calculator, then "Continue."
- ***Note for CA returns:*** Neither sales tax nor state income tax paid is deductible on CA Schedule A; TaxSlayer automatically adjusts CA Schedule CA Part II line 5.

Schedule A - Real Estate Taxes (Line 5b)

- In general:
    - Deductible real estate taxes are limited to properties in the United States. Real estate taxes can't be for rental or business properties because a tax return with such property is ***out-of-scope***.
        - ***Note:*** Sometimes mobile home owners are charged a "pass-through tax" that is ostensibly for property taxes. In fact, this is part of the rent paid by mobile home owners, regardless of the label; it can't be claimed on Schedule A.
    - If a property has multiple owners, other than a married couple, property tax deductions can be taken by a co-owner *only for the payments made by that co-owner*, regardless of ownership percentages. If a non-owner makes payments on behalf of a co-owner, those payments are a gift unless otherwise specified by the donor, and only that co-owner can claim those payments on Schedule A.
    - There is no limit to the number of eligible properties for which a taxpayer may deduct property taxes paid.
    - Most real estate tax information is now available online without registering or paying. If you don't know the website where you can find a county's information, or if you are looking for real estate taxes paid in

other counties, a good website is **publicrecords.onlinesearches.com/**. (On the "Property" tab, scroll down to the "Property Records" section, and select "Assessor and Property Tax Records".)

  - ***CA process note:*** A good alternative for California counties is to click the appropriate county "Tax Collector" link (fifth column) at **boe.ca.gov/proptaxes/countycontacts.htm**.

- To enter real estate taxes, **go to the Schedule A - Taxes You Paid** page [Deductions > Itemized Deductions > Taxes You Paid]; enter the total for all *deductible* real estate taxes actually paid during the tax year, not what was assessed (see next two bullets).
- ***CA process note:*** California real estate taxes are generally paid in two installments, due in November and February, but not delinquent until December and April, respectively. The amount entered on line 5b should be the amount actually paid in the tax year (some taxpayers do pay both installments at once, in November or December).
- ***Legal note:*** States have received IRS guidance that real estate taxes not based on the value of the property *may* still be deductible:
  - Several types of charges are **not** deductible as real estate taxes:
    - Homeowners' association fees (HOA fees), timeshare fees, and the like.
    - Fees for services provided to the property alone (such as trash collection, water service, and sewer service). *Note*: Services such as city-provided rat or mosquito control benefit the entire neighborhood, not just the individual property, and thus *are* deductible.
    - Direct assessments for improvements that tend to increase the value of the property, such as curbs and sidewalks, or city or state-financed energy improvements. (These direct assessments can be added to the property cost basis.) However, there *are* improvements that benefit an entire neighborhood which *may be* deductible. The gov't. will clearly call these a "tax" rather than an "assessment". Online searches can often help determine whether a direct assessment is truly a tax. *Note:* The IRS has advised that **"Lighting Zone" assessments *are* deductible**, as improving an entire neighborhood.
    - Energy-saving projects paid through the property tax bill; these are often financed by a property-assessed clean energy (PACE) or home-energy renovation opportunity (HERO) program. (The interest portion of such payments *is* deductible as home mortgage interest *if* the loan that financed the project is secured by a lien against the taxpayer's home. The lender gives the taxpayer an initial amortization schedule, which they should bring. If the taxpayer doesn't have this, and it seems the taxpayer may benefit from itemizing on the federal or state return, ask the taxpayer to get a copy of the amortization schedule from the lender before completing the tax return.)
  - Because property tax bills can include items that are not real estate taxes, it's important to **review the actual bills** (generally available online – see above, if the taxpayer did not bring these), rather than simply enter the dollar amounts paid.
  - The nondeductible amount on property tax bills is divided equally between the two payments. For example, if the taxpayer paid only one of the two tax bills during the tax year, divide the nondeductible amount by two, and subtract from the payment amount, to get the amount to enter on Schedule A. Or, if three bills were paid during the tax year (payment #2 from the prior bill plus both halves of the current bill), there are three halves of nondeductible payments to subtract from the total of the three payments.
  - *Note:* As property tax totals *and* nondeductible items usually change each year, technically you should **separately determine the deductible amount for each payment**, then total them for Schedule A.
  - Document your findings in a TaxSlayer note, per page **8**. For example, a note called "PROPERTY TAX" might say "Nondeduct.: $215 Sewer charge for 2022-3 payment 2, $230 for 2023-4 payment 1; Vector disease control $8 each payment; PACE." (This would help next year's preparer know what's non-deductible for *next* year's spring payment, since the taxpayer may not bring the *previous* bill.)
- If the taxpayer bought and/or sold their home during the tax year, the real estate closing statement(s) **must** be reviewed, because it is almost certain that the taxpayer either paid real estate taxes at closing or was given credit for real estate taxes already paid.

Schedule A - Personal Property Taxes (Line 5c)

- **Go to the Schedule A - Taxes You Paid** page [Deductions > Itemized Deductions > Taxes You Paid].
- The CA Vehicle License Fee (VLF) qualifies as a personal property tax. But the total amount paid to the CA DMV includes nondeductible registration fees and may even include unpaid parking tickets. **Only** the VLF amount is deductible.
  - There is no limit to the number of vehicles whose VLFs may be deducted by a taxpayer.

- The VLF amount is on the DMV invoice sent to the taxpayer if the taxpayer has brought that form.
- The VLF amount is often listed on the taxpayer's vehicle registration card, near the bottom of the form, coded as "Lxxxx."
- The VLF can be looked up **online**, IF the taxpayer drove to your site *or* has the license plate number and VIN (both are on the vehicle registration card, and often on the car-insurance card): go to **dmv.ca.gov/FeeCalculatorWeb/vlfForm.do**.

- If the taxpayer purchased a vehicle during the tax year, the bill of sale includes the VLF charged, as well as the sales tax paid (for line 5a, above).
- If the taxpayer has a boat, an RV, or a vehicle trailer with a license plate, there are state registration fees for those, and the VLF amount of the fees should also be included on line 5c of Schedule A.
- If the taxpayer has a manufactured home (mobile home) installed prior to July 1, 1980, they may be paying an in-lieu tax through their annual registration fee with California Housing and Community Development, rather than paying property taxes. The in-lieu tax is deductible as a personal property tax.

Schedule A – Total State and Local Taxes (Line 5e)

- Beginning with tax year 2018, the total federal itemized deduction for state and local taxes (SALT) is limited to $10,000. TaxSlayer automatically makes this adjustment on Schedule A line 5e.
  - ***Note for CA returns:*** Neither state income tax nor state sales tax is deductible for CA. But CA **does** allow deducting *unlimited* real estate taxes and personal property taxes, so enter **the full amount** of such taxes; the full amount flows automatically to CA Schedule CA Part II line 5.

Schedule A - Other Taxes (Line 6)

- ***Note:*** Vehicle license fees should be entered in the "Personal Property" box on the TaxSlayer page, as discussed in the prior section; that places them on line 5c of the Schedule A, when printed.
- Entries for "Other Taxes" are rarely used, if ever. But if needed, go to the **Schedule A - Taxes You Paid** page [Deductions > Itemized Deductions > Taxes You Paid] to enter information in the "Other Taxes" section.
  - Homeowners' association and timeshare fees are *not* taxes and are *not* deductible on Schedule A.
- Line 6 can include foreign income taxes, but only when the taxpayer is not claiming a foreign tax credit on Schedule 3, Line 1, Foreign Tax Credit, as discussed on page **89**.
  - Claiming a foreign tax credit always results in less taxes owed than does itemizing, **but claiming the <u>credit</u> is *out-of-scope* if the taxpayer paid more than $300 of foreign tax ($600 for MFJ returns)**, as discussed on page **88**. The taxpayer may decide that using Tax-Aide is worth the loss of the credit.
  - ***Warning:*** If itemizing is chosen, *all foreign tax amounts entered anywhere other than Schedule A need to be zeroed out - there is no other way to keep these amounts off Schedule 3 Line 1.* (Create a note, per page **8**, about what is being done.)
    - To zero out foreign taxes entered elsewhere in TaxSlayer, review all entries for 1099-INTs, 1099-DIVs, and the page **Form <u>1116</u> - Foreign Tax Credit**, where the total for all K-1 forms is entered.
  - ***Note for CA returns:*** CA allows no deduction for foreign income taxes. If foreign income taxes are claimed on Schedule A line 6, then, in the State Section, "Itemized Deductions" page, enter the amount of foreign taxes *as a subtraction*, in the "Taxes You Paid" section.

Schedule A - Interest and Points Reported on Form 1098 (Line 8a)

- **Pub 936, Home Mortgage Interest Deduction**, has the most detailed information on the interest deduction.
  - ***Note:*** Debt incurred before October 14, 1987, is handled differently – see Pub 936 instead.
- Interest and points paid are usually reported on Form 1098. If they are **not**, the payments should be reported on lines 8b and 8c, respectively, of Schedule A, as discussed below.
  - Motor homes and boats that provide basic living arrangements generally qualify as main or second homes.
  - Emergency housing assistance isn't taxable income, but if the assistance was in the form of direct payments to a mortgage holder, the interest portion of such payment(s) is *not* deductible on Schedule A.
- Interest and points paid on a **second home** are treated identically to those for a main home*, except* deduction of points paid on loans secured by a second home, or to **refinance a second home**, must be spread over the life of the loan, and any allowable home equity loan must be on the <u>main</u> home only.
- The tax code distinguishes between "acquisition debt" and "home equity debt". Acquisition debt is a loan that is incurred in acquiring, building, or substantially improving a qualified residence of the taxpayer. Home equity debt is a loan secured by a property, but *not* used to buy, build, or substantially improve that

property. **To avoid confusion, "home equity debt" is referred to as "non-acquisition debt" in this manual.**
- o Note that a home equity loan (HELOC) can be acquisition debt, if (for example) it was used for a major remodeling project, while a first mortgage, if refinanced with cash taken out for personal expenses, would be a mix of acquisition debt and non-acquisition debt.

- What can be included on Line 8a:
  - o Interest plus any points paid during the tax year in conjunction with acquisition debt, up to $750,000 ($375,000 MFS), is deductible **if the loan was signed after December 15, 2017.** For loans before that date, the maximum remains $1 million ($500,000 MFS).
    - *You must determine (a) when the loan was made, (b) if the loan was originally made to buy, build, or improve the taxpayer's home, or not; and (c) if a refinance of an earlier loan, whether the refi was a larger amount than the original loan; and (d) if the refinance was for a larger amount, what was done with the extra cash.*
      - If some of the loan is determined to be nondeductible, create a TaxSlayer **note (**see page **8)** so interest can be correctly split between deductible and nondeductible in future years.
      - The (Mixed) Mortgage Interest Worksheet (**https://cotaxaide.org/tools/**) can help determine the deductible portion.
    - ***Note for CA returns:*** Interest paid is still deductible on the CA return, for up to $1 million in acquisition debt ($500,000 MFS), *regardless of date signed* (CA doesn't conform to the federal reduced limit). The difference (interest on loan amounts over $750,000 but not exceeding $1 million, if signed after December 15, 2017) must be entered manually on CA Schedule CA as an additional deduction, discussed in the section Itemized Deductions Treated Differently by CA, page **110**, and in the section immediately following that one.
    - Interest paid on a loan obtained during the tax year to refinance an old loan that was used to buy, build, or improve a main home **is deductible**, up to the $750,000 limit, but points paid to refinance the mortgage must be spread over the life of the new mortgage. (Enter prorated points paid *separately* in TaxSlayer; create a TaxSlayer note (page **8)** so that points will be entered in future years. Example: a note called "POINTS" might say "deduct $133/yr thru 2029, then $135 in 2030".)
    - If the new loan was ***larger*** **than the original loan**, you must determine if the additional amount was used to improve the home [in which case the related interest *is* deductible], or whether the additional amount of the loan was used for something else [say, to pay off credit card debt, for a vacation, or just put into a savings account], in which case the related interest is *not* deductible.
  - o Interest on loan proceeds used to pay special assessments on condominium owners *is* deductible *if* the special assessment was for capital improvements.
  - o Interest is only deductible if a loan is secured by the home it was used to buy, build, or improve.
    - For example, interest for a second mortgage used to purchase a vacation home is *not* deductible.
  - o Repayment of principal is calculated as paying down the principal of the loan in this order: (1) non-acquisition portion; (2) acquisition portion that is over $750,000; and (3) remaining acquisition portion
  - o Late payment fees are deductible as interest in situations where the interest is deductible.
- As of 2018, there **no longer is a separate $100,000 limit** for non-acquisition debt. Interest (and points) paid on home equity debt is no longer deductible on Schedule A.
  - o ***Note for CA returns:*** CA does not conform. Up to $100,000 of interest and points on non-acquisition debt is still deductible.
    - As discussed above, home equity debt can be part of a first or second mortgage, if refinanced, or from a home equity line of credit, if used for something other than to buy, build, or improve a taxpayer home.
    - Interest paid on home equity debt must be entered manually on CA Schedule CA as an additional deduction, as discussed in the section Itemized Deductions Treated Differently by CA, page **110**, and in the section immediately following that section.
- Go to the **Mortgage Interest Reported on 1098** page [Deductions > Itemized Deductions > Mortgage Interest and Expenses > Mortgage Interest Reported on Form 1098].
  - o For each 1098, report the information separately (click an "Add" button).
    - Enter only the name of the bank and the interest and points paid. None of the other fields that TaxSlayer added are required. **Enter property tax on the Taxes You Paid** page instead.
- What should **not** be entered on the **Mortgage Interest Reported on 1098** page:
  - o Home mortgage interest paid to an individual (see the section immediately below).

  - **Mortgage insurance premiums** (box 5 of Form 1098) **–** this deduction **is no longer available** as of 2022.
    - ***Note for CA returns:*** CA also does not allow deducting mortgage insurance premiums.
  - **Reverse mortgage costs**:
    - During the life of the reverse mortgage, the taxpayer doesn't **pay** interest, so there is no deduction for interest that is accruing on this mortgage.
    - In the year that a reverse mortgage ends and is paid off, the interest that is included in the payoff amount is considered to be interest on home equity debt and so is not deductible, per **Pub 936, Home Mortgage Interest Deduction**.
      - ***Note for CA returns:*** CA does not conform. However, the amount of allowable interest is limited to that paid on a maximum of $100,000 (the maximum for non-acquisition debt) for each year the reverse mortgage was in effect, and a complex calculation is required once the mortgage amount exceeds that maximum. ***If the taxpayer owes significant CA taxes and could benefit from a large itemized deduction, refer the taxpayer go to a paid tax preparer.***
- If a property has multiple owners, other than a married couple, mortgage interest deductions can be taken only by the co-owner *who made the mortgage payments*, regardless of ownership %. If a non-owner made payments on an owner's behalf, that is a gift unless otherwise specified by the donor, and only that owner can claim those payments on Schedule A.
  - If the taxpayer was liable for and paid interest on a mortgage, but a co-owner (non-spouse) received a Form 1098 that includes some of the interest the taxpayer paid, the taxpayer can still claim all the interest s/he paid. To do so, a statement must be attached to the return stating how much of the interest on that Form 1098 was paid by each owner, with name and address of the person who received the form.
    - The easiest way to attach a statement is to use one or more Preparer Notes, of up to 1000 characters each, that are sent to the IRS with the e-filed tax return. Go to the **Preparer Note** page [Miscellaneous Forms > Explanations > ....]

Schedule A - Mortgage Interest Not Reported on Form 1098 (Line 8b)

- Home mortgage interest paid to **an individual** is reported separately from interest paid on a Form 1098
  - For example, the taxpayer may have purchased a home using a mortgage loan from a parent, and is repaying that loan with interest.
- If the taxpayer is missing a Form 1098 from a **bank or other organization**, and the missing information can be reconstructed from other sources (remember that monthly mortgage payments almost always consist of both principal and interest; only the *interest* portion of the monthly payments is deductible), that information is reported **as if a Form 1098 existed** (see the section above).
  - If the missing Form 1098 cannot be reconstructed, the taxpayer must contact the organization to get the missing form or do without it when itemizing.
- Go to the **Schedule A - Interest Not Reported on 1098** page [Deductions > Itemized Deductions > Mortgage Interest and Expenses > Mortgage Interest Not Reported on Form 1098].

Schedule A - Points Not Reported on Form 1098 (Refinance) (Line 8c)

- Points paid when a mortgage is refinanced can be amortized over the life of the loan; they cannot simply be deducted on the return for the year the loan was refinanced.
  - To calculate the amount deductible for a tax year, divide the amount paid (for points) by the number of months of the loan (30 years = 360 months) and multiply by the number of months that the loan existed during the tax year.
  - ***Note:*** If some of the interest on the loan is not deductible, then a proportional amount of the points paid is also not deductible.
- If the loan is refinanced and a **different lender is used,** or if the loan is paid off early, the remaining deductible portion of the points from the paid-off or refinanced loan can be deducted here.
- Go to the **Points Not Reported on 1098** page [Deductions > Itemized Deductions > Mortgage Interest and Expenses > ....]

Schedule A - Investment Interest (Line 9) - out-of-scope

Schedule A - Gifts by Cash or Check (Line 11) – Charitable Contributions

- Donations must be to a qualified charity (registered with the IRS).

- If there is any question about eligibility, check the IRS database: **irs.gov/charities-non-profits/tax-exempt-organization-search**.
- ***CA process note:*** Donations to the California College Access Tax Credit Fund may need to be reduced by 50% because of the state tax credit that such donations generate. For more information, see the section College Access Tax Credit, Code 235, CA Form 540, Page 2, lines 43-45, page **112**.

- "Gifts by cash or check" includes checks, money orders, and credit card payments. Cash (that is, currency or coin) contributions are **not** deductible unless documentation is provided by the charity.
  - If a taxpayer purchases an item and donates it, new, to a charity, the donation is a monetary donation, not an "other than cash" donation.
  - If a taxpayer pays for care for others in the household to be able to leave their house to do volunteer work for a charity, the payments are **not** deductible as charitable donations.
  - A purchase of lottery or raffle tickets is not a "gift" (donation), regardless of how the charitable organization characterizes the purchase. (See **Pub 4012** page F-16 for other examples.)
- The deductible contribution is the amount given minus the value of any property or service received. For example, if donation results in the donor receiving a monthly magazine, then the full amount is *not* deductible.
- You **do not need to see any proof of donations**, but the taxpayer should understand that no deduction is legally allowable without adequate documentation *prior to filing the return*, and that the IRS – if there is an audit – disallows contributions which are not properly documented.
  - For contributions of less than $250, the taxpayer must have at least one of the following:
    - Bank records (canceled check or bank/credit account statement)
    - Written acknowledgment from the charity documenting the amount and date of payment to that charity
  - For contributions of $250 or more, taxpayers **must** have **both** bank records AND written acknowledgement, and the written acknowledgment MUST state the value of any property or service received by the taxpayer (such as a magazine subscription) in exchange for the contribution.
- Donations made directly from retirement accounts to a charity are not taxable income (see the section 1099-R Form – Qualified Charitable Distribution, page **40**), but also **cannot be used on Schedule A**; that would be double-counting.
- Go to the **Charity Cash Contributions** page [Deductions > Itemized Deductions > Gifts to Charity > Cash Gifts to Charities].
  - Details entered on this page *are for the taxpayer's records; it's not required by, nor reported to, the IRS.*
  - You may enter a total for each organization – Red Cross, Boy Scouts, United Way, etc.
    - Enter the Date of Donation as Jan. 1 of the current tax year (since it doesn't matter).
  - Another quicker alternative is to click the "Override" button and enter the total amount.

Schedule A - Contributions – Other than by Cash or Check (Line 12)

- The taxpayer should keep records of items and amount donated.
  - For any noncash contribution worth **$250 or more**, the taxpayer must have a *written acknowledgment* from the charity of what was donated. A receipt filled in by the taxpayer *is not acceptable documentation*. (See **Pub 526** for more information.)
- The amount of a noncash contribution is the fair market value (FMV) of the item at time of donation.
  - Clothing and household items must be in good used condition or better.
  - Donation value estimates can be found on the Salvation Army website: **satruck.org/Home/DonationValueGuide.**
  - More information is in **Pub 561, Determining the Value of Donated Property.**
- Donations of vehicles, boats, and similar (Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes) which have a value of more than $500 are ***out-of-scope***. If the valuation by the charity was for $500 or less, the charity *won't* send the taxpayer a letter with the precise valuation; the taxpayer may deduct $500.
- Unreimbursed travel expenses, such as parking and tolls, can be claimed as noncash contributions.
- Non-cash contributions of more than $5,000 **total** (reported on Section B of Form 8283) are ***out-of-scope***.
  - On the **Gifts to Charity** page, the last two lines, "Declaration of Appraiser" and "Donee Acknowledgement" are for donated property with an **individual** value of over $5,000; the TaxSlayer pages for those two lines are ***out-of-scope***.
- In TaxSlayer, noncash donations are entered in one of two ways:

  - If the **total** of all such donations is $500 or less, use the **Schedule A Gifts to Charity Information** page [Deductions > Itemized Deductions > Gifts to Charity > Non-Cash Gifts to Charities].
    - Enter only the **total amount**.
    - ***Note:*** This page is also used to enter **mileage** driven by the taxpayer for unreimbursed volunteer work or other charitable use; TaxSlayer calculates the dollar amount. (The 2024 rate for charitable mileage is 14 cents per mile.)
  - If the **total** of all noncash contributions exceeds $500, use the **Form 8283, Non-Cash Donated Items** page [Deductions > Itemized Deductions > Gifts to Charity > Non-Cash Donations (more than $500)]; if the total exceeds $5,000 the return is ***out-of-scope.***
    - Each donation is entered separately; **ten** fields of information are required.
      - The IRS doesn't require the cost or other basis of property, the date acquired by the donor, or how the property was acquired, ***if*** the fair market value of property on the day it was donated was $500 or less. Unfortunately, TaxSlayer *does*.
    - As noted above, for any one contribution claimed to be worth **$250 or more**, the taxpayer must have a *written acknowledgment* from the charity of what was donated. A receipt filled in by the taxpayer *is not acceptable documentation* unless signed by a representative of the charity.
    - For the method used to determine the fair market value, "thrift shop value" usually applies.

Schedule A - Casualty and Theft Losses – out-of-scope (Line 15)

- Casualty and theft losses here are limited to those from a federally-declared disaster. Taxpayers who meet the criteria and have potentially substantial casualty or theft losses, should use a paid preparer, because determining actual losses is complex and ***out-of-scope***.
  - The IRS has a **Casualty Loss Worksheet** to see if a taxpayer **may** have a casualty loss that would reduce their tax bill. If the worksheet shows they do **not** have such a loss, then the return is *in-scope*.
- Tax-Aide can assist taxpayers by mentioning or printing the following IRS publications:
  - **Pub 4512, Determining If You Have A Tax Deductible Casualty Loss**, a two-page overview
  - **Pub 547, Casualties, Disasters and Thefts**
  - **Pub 584, Casualty, Disaster, and Theft Loss Workbook**
  - **Pub 2194, Disaster Resource Guide** (dated 2007; no longer listed as current by the IRS but still potentially useful)

Schedule A – Other Itemized Deductions (Line 16)

- These are entered in TaxSlayer on the **Schedule A - Miscellaneous Deductions** page [Deductions > Itemized Deductions > Miscellaneous Deductions].
- The following are *in-scope* expenses for line 16:
  - Gambling bets, to the extent of gambling winnings – see Gambling Winnings (Form W-2G, page **65**)
  - Impairment-related work expenses (for a disabled person)
  - Claim repayments of more than $3,000
    - This is for situations where the taxpayer had to repay *more than* $3,000 that they had included in income in an earlier year – for example, unemployment benefits.
      - ***Note for CA returns:*** If $3,000 or less, the repayment is subject to the 2%-of-AGI reduction and is potentially usable if itemizing on the CA return, though not on the federal return – see the next section.
  - Unrecovered pension investments (includes annuities)
    - If a taxpayer died during the tax year, and had a pension without survivor benefits, any unrecovered employee pension contributions may be reported on line 16 of Schedule A on the final tax return for that taxpayer. See **Pub 575, Pension and Annuity Income**, for details.
- The following miscellaneous deductions are ***out-of-scope***:
  - Amortizable premiums on taxable bonds
  - Federal estate tax

Schedule A - Unreimbursed Employee Expenses and Miscellaneous Deductions Subject to 2%-of-AGI Reduction (No line on Schedule A)

Beginning with tax year 2018, expenses that were subject to the 2%-of-AGI reduction are not deductible on the federal Schedule A. ***They continue to be deductible if itemizing on the CA return, and are still entered in the Federal Section of TaxSlayer.***

- ***Note for CA returns:*** California conforms to federal Schedule A deductions *as of tax year 2015*, so these expenses *are* allowed as a CA itemized deduction; they are reported on CA Schedule CA Part II lines 19-21.
  - o TaxSlayer handles such "no longer valid for federal, but possibly valid for states" expenses by continuing to have them **entered on <u>federal</u> itemized deduction pages**.
    - ▪ There are <u>three pages used for entering such information</u>. Most of the rest of this section is organized around those three pages.
- First you need to understand what the 2%-of-AGI reduction means.
  - o For example, if a taxpayer has a **federal** AGI of $50,000, the 2% reduction would affect the first $1,000 of such deductions – that initial $1,000 of deductions *is not allowable* on the CA return.
    - ▪ To continue the example, for a taxpayer with AGI of $50,000, assume the taxpayer has investment expenses on a broker's statement of $1,250, and no other expenses subject to the 2%-of-AGI reduction. Then the *net* adjustment amount on CA Schedule CA, as discussed on page **110**, would be $250.
  - o If the <u>total</u> of expenses listed below, in this section, is *less* than the 2% threshold for a taxpayer, **there is no point in entering the expenses in TaxSlayer.**
- <u>Unreimbursed employee expenses *other than* job-related travel</u>
  - o Enter non-travel expenses, including professional/union dues, job search, uniforms, tools, and job supplies, *if not reimbursed by the employer,* on the **Schedule A Unreimbursed Employee Expenses Information** page [Deductions > Itemized Deductions > Unreimbursed Employee Business Expense].
    - ▪ Job search expenses must be for the taxpayer's <u>current</u> line of work, and include costs for preparing and mailing a résumé, job placement and employment agency fees, and transportation, meals, and lodging expenses if a trip is mainly to look for a new job.
  - o Certain education-related expenses *can* be claimed here. Expenses must be for education that maintains or improves the taxpayer's job skills or that the taxpayer's employer, or a law, requires for the taxpayer to keep his or her salary, status, or job. **But** the education cannot be part of a program that qualifies the taxpayer for a new trade or business.
    - ▪ Educator expenses *not* for professional development *may* be claimed as a charitable deduction on the CA return. See the section Itemized Deductions Treated Differently by CA, page **110**.
    - ▪ Enter educator expenses here that can be claimed on the federal return as a deduction, but not on the CA return (*not* subject to the federal $300/$600 limit).
- <u>Job-related travel expenses</u> are entered on the **Form 2106 Information** page [Deductions > Itemized Deductions > Job-Related Travel Expenses].
  - o If MFJ, select the person for whom the form applies**.** (You can later create a second set of expenses for the other spouse.)
  - o If expenses were *partially* reimbursed by employer, then Form 2106 cannot be used and the return is ***out-of-scope.***
  - o Vehicle expenses are in-scope *only* for the standard mileage rate. (The number of miles is entered in TaxSlayer; it calculates the dollar amount.)
  - o Note: Enter meal expenses *in full*; TaxSlayer calculates the allowed amount, using the stated percent, and puts that amount on Schedule A.
    - ▪ Beginning with tax year 2018, entertainment expenses aren't deductible on the federal Schedule C.
- <u>Other deductions, not related to employment</u>, subject to the 2%-of-AGI reduction, are entered on the **Schedule A – Miscellaneous Deductions** page [Deductions > Itemized Deductions > Miscellaneous Deductions]:
  - o Tax-return preparation fees
  - o Safe-deposit box rental (if used to store investment-related documents)
  - o Investment expenses (***tip***: Review all brokerage statements of the taxpayer.)
    - ▪ ***Note:*** Investment expenses in box 5 of the Form 1099-INT and in box 6 of Form 1099-DIV, entered along with other amounts on those forms, should **not** be entered again in the federal Schedule A section. TaxSlayer automatically flows those expenses to CA Schedule CA Part II line 21.
  - o Claim repayments of $3,000 or less (these are repayments by the taxpayer of amounts reported as income in an earlier year - **but enter only if that income was treated as taxable by CA**) – click the "Add Additional" button.

LINE 13 - QUALIFIED BUSINESS INCOME DEDUCTION

The QBI deduction is generally 20% of business income. TaxSlayer calculates the QBI deduction automatically; **don't** be manually change it.

- If taxable income, Line 15, plus the QBI deduction, Line 13, exceeds $191,950 ($383,900 if MFJ) for tax year 2024, the return is ***out-of-scope***.
- The QBI deduction can be less than 20% of business income. When the amount of taxable income that is in excess of any net capital gain is less than business income, then the 20% calculation is done on the smaller number.
- The QBI deduction can be more than 20% of business income if there are section 199A (REIT) dividends reported in box 5 of Form 1099-DIV, because the deduction also includes 20% of those dividends.
- ***Under no circumstances*** *should the* ***Qualified Business Income Deduction Amounts*** *page be used (available from the Schedule C menu).*

LINE 16 - TAX

- If Line 15, Taxable Income, is positive, but Line 16 is blank or zero, *this is not an error.* For taxpayers in the 10% and 12% tax brackets, capital gains and qualified dividends are taxed at a rate of **zero**. If the total of capital gains and qualified dividends is greater than the taxable income on Line 15, then the Tax amount is in fact *zero*.

NONREFUNDABLE CREDITS

- Form 1040 Line 19 and Schedule 1 Lines 1 to 6 are for **nonrefundable** credits, which can only offset taxes due (1040 Line 16). In contrast, **refundable** credits benefit the taxpayer even if no tax is due. The Earned Income Credit, for example, often results in a tax refund of thousands of dollars.
  - The child tax credit is a hybrid – part of the credit can be nonrefundable, and the rest refundable. Similarly, the American Opportunity Credit remains a hybrid – it goes to Schedule 3 Line 3, as needed, and the refundable portion, if any, can flow to Form 1040 Line 29.
- Nonrefundable credits are on TaxSlayer's **Credits** page [Deductions > Credits Menu] (**Pub 4012** tab G).
- If the amount of nonrefundable credits is greater than the tax due, that may affect other calculations, such as the amount of capital loss carryover used, or the amount of a state tax refund that is taxable.
  - *Enter in TaxSlayer all information for nonrefundable credits for which the taxpayer is eligible, regardless of their anticipated effect on the tax owed. They may provide a benefit in the* ***next*** *tax year.*

LINE 19 - CHILD TAX CREDIT OR CREDIT FOR OTHER DEPENDENTS

- On the front of Form 1040, in the Dependents section, to the far right of each dependent's name, are checkboxes for these two credits, showing who has qualified.
- On the Summary/Print page (**Tax Return Summary** page), if someone is shown as getting one of these credits but does *not* qualify:
  - In TaxSlayer's Basic Information section, go to the page for that person; check the box labeled "Check if this qualifying child is NOT YOUR DEPENDENT". This removes the person from the Dependents section, and prevents the taxpayer from getting the Child Tax Credit or Credit for Other Dependents for that person.

Child Tax Credit

- This credit is for qualifying children under age 17 as of the end of the tax year. (***Note:*** for tax year 2022 on, the CTC reverted to the form – and amounts – in effect for tax year 2020.)
  - It is in addition to the credit for child and dependent care expenses, and the earned income credit.
  - A qualifying child must have a Social Security number as of the filing date, or as the original filing deadline for the tax year, whichever is earlier.
  - A custodial parent can allow the noncustodial parent to claim a dependent for purposes of the child tax credit, education credits, and medical expense deduction.
    - This requires a written declaration – Form 8332 or similar documentation.
- If the taxpayer is eligible for CTC, then TaxSlayer automatically calculates the amount based on filing status and information entered for dependents.
  - The taxpayer and/or spouse do *not* need SSNs, but dependents do.

    - ***Warning:*** a return *cannot be amended to retroactively claim CTC after a dependent gets a SSN. If the taxpayer expects to get that SSN by October 15, they should* ***file an extension*** *rather than file a tax return, in order to preserve the right to CTC for that dependent.*
- The child tax credit is both a nonrefundable *and* a refundable credit.
  - The CTC amount that goes on Line 19 is calculated as Line 16, Tax; minus other refundable credits, if any; minus the credits for other dependents, if any. If the calculated amount for CTC, on Line 19, hasn't fully used the amount of the child tax credit, then the some or all of the remaining amount, up to $1,700 per child in 2024, **can** go to Line 28 - Additional Child Tax Credit (page **102**) as a refundable credit, **if** the taxpayer has more than $2,500 of taxable earned income.
- If CTC (or the companion credit, ACTC) is received on the current tax return, and the qualifying child is **15 or 16 years old** at the end of the tax year, remind the taxpayer that the credit ends when the child becomes 17 (thereafter, it is a Credit for Other Dependents).
- If needed, more information is on **Pub 4012** pages G-4 to G-6 and in **Pub 972, Child Tax Credit**.

Credit for Other Dependents

- This credit ***cannot be claimed*** if any of the following are true:
  - The dependent had gross income of $5,050 or more in 2024.
  - The dependent provided more than half of his or her own support.
  - The dependent is not a U.S. citizen or U.S. national, **and** did not live in the United States during the entire year, except for temporary absences.
- Detailed information on this credit is on **Pub 4012** page G-7.

SCHEDULE 3, LINE 1 - FOREIGN TAX CREDIT

- *New:* Some international tax paid is now reported on Form 1065 Schedule K-3. To determine if a taxpayer's K-3 is *out-of-scope,* refer to **https://ta-nttc.tiny.us/Scope-Manual**.
- Foreign taxes paid by a taxpayer can either be claimed as a **credit**, entered (directly or indirectly) on Form 1116 and flowing to Schedule 3 Line 1, or as a **deduction**, entered on Schedule A Line 6 ("Other taxes"). The taxpayer must make one choice or the other; the amount of foreign taxes paid *cannot be split between the credit and the deduction*.
- If total foreign tax paid by taxpayer EXCEEDS $300 ($600 for a joint return), claiming the credit is normally ***out-of-scope***, because it requires completing a **full** Form 1116, which is ***out-of-scope*** without International certification**.** (Tax-Aide normally uses only the *simplified* method of claiming the credit.)
- When claiming a credit is ***out-of-scope,*** the taxpayer has two options:
  - Use a paid preparer or tax software to prepare the return, claiming the full credit on Schedule 3 Line 1.
  - Treat the entire amount of foreign taxes paid as an *itemized deduction* on line 6 of Schedule A, "Other taxes", as described on page **82**.
    - The Schedule A option, of course, has no value to the taxpayer unless they're itemizing.
    - ***Note for CA returns:*** No CA deduction is permitted for foreign income taxes, so this option has no value for the CA return.
- **Pub 514, Foreign Tax Credit for Individuals** is the definitive guidance.

SCHEDULE 3, LINE 2 - CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

- Refer to **Pub 4012** starting at page G-13.
  - ***Note:*** If the care provider worked in the taxpayer's home and the total amount paid was over $2,700, determine if the taxpayer is required to file **Schedule H, Household Employment Taxes**. If so, the return is ***out-of-scope***.
- This credit is available if the taxpayer paid someone else, including an organization, to care for a qualifying person. A qualifying person is:
  (1) A dependent child who was under age 13, OR
  (2) A dependent or spouse, regardless of age, who could not care for him/herself
  AND (3) this was done so the taxpayer could work or look for work (the qualifying person, the one needing care, must have lived with the taxpayer for more than half the year).
  - ***Note:*** In the year that a child turns 13, these expenses are allowable only for the part of the year before their 13th birthday.

  - ***Note:*** For MFJ returns, *both* taxpayer and spouse must have earned income, unless disabled or a full-time student.
- While this credit is for expenses for *care*, not for *education*, education *below* kindergarten is an acceptable expense, as is after-school care *if* the primary purpose is *not* educational. Also acceptable are day camp, but not overnight camp, adult day care, and in-home care.
  - Expenses for care do not include amounts that the taxpayer paid for food, lodging, clothing, education, and/or entertainment. However, the taxpayer can include small amounts paid for these items if they are incidental to and cannot be separated from the cost of caring for the qualifying person.
- *Note: TaxSlayer screens were completely redesigned for TY2023.* See screen shots and instructions on **Pub 4012** pages G-14 through G-16.
- Go to the **F2441 - Child and Dependent Care Credit Expenses** page [Deductions > Credits Menu > Child Care Credit].
  - Child-care provider information is now part of TaxSlayer carryforward.
  - Answer "Yes", click "Continue".
  - Enter all provider information.
    - ***Note:*** **If** an EIN/SSN of a provider is unavailable, the return **must be paper filed.** (Create a note saying that; see page **8**.)
  - When done, click "Continue".
  - On the "Recipient(s) of Care from …" provider page, chose the dependent and enter Amount Paid.
    - *Do not add qualifying persons here*. All dependents and qualifying person should be entered in the Basic Information section, on the Dependents and Qualifying Children page – see page **20.**
    - Enter the total amount paid to this provider for each dependent, including any amounts paid by the employer and reported in box 10 on the Form W-2. (If any dependent care benefits were paid by the employer, make sure that this amount has been entered correctly on the **W-2** page; amounts entered in box 10 appear automatically on line 12 of Form 2441.)
    - ***Note:*** When a taxpayer has two qualifying persons for this credit but only one qualifying person has child and dependent care expenses, the IRS still allows use of the $6,000 limit that applies to two or more qualifying persons. In this situation, **add a second dependent who has no expenses**, but check the box "Qualifying Person had no expenses."
    - ***If a child does not qualify for this credit, do not enter expenses, and do not check the box about having no expenses.***
      - If TaxSlayer lists a person who does not qualify for this credit, there is no way to remove the person. Simply do not enter expenses, nor indicate there are no expenses, and TaxSlayer won't include that person in its calculations.
  - When done, click "Continue".
  - Additional Care Providers can be added.
    - When done with the section, click "Continue."
  - "Dependent Care Benefits" page - enter any forfeited benefits or those received but not listed on a W-2.
  - "Disabled or Full-Time Student Exception" - If the taxpayer and/or spouse were a full-time student or disabled, then they are considered to have worked and earned income.
    - This information is on page 1 of the Intake Booklet.
    - "Full-time student" means being enrolled for at least five months (any part of a month counts as a full month) during the tax year, at a "brick and mortar" school. That school doesn't have to be a college or university, but the enrollment must be for the number of hours or courses considered full-time attendance by the school.
  - Answer the "Delayed Care Payments" question (usually "No").
  - Click "Continue" to see the summary result for this credit.
- Form 2441 is one of ten for which a PDF can be created from a menu within the return.
- ***Note for CA returns:*** CA has a **nonrefundable** credit for Child and Dependent Care Expenses, which requires CA Form 3506. TaxSlayer automatically generates this after Form 2441 information is entered in the Federal Section.
  - The CA credit is not available to taxpayers whose federal AGI is over $100,000.
  - If the provider's business address, entered on **F2441** (above), is the same as the address where the care was provided, then *no action is needed for CA Form 3506.*
  - Otherwise, go to the **Child Care Credit** page in the State Section [Credits > Child Care Credit].

    - *Note:* Entering information about other funds received is **not** required; that information does not affect the calculations in CA Form 3506.
  - When done with this form, click "Continue."

SCHEDULE 3, LINE 3 - EDUCATION CREDITS

- If the taxpayer paid, or was deemed to have paid, or used loans for qualified expenses for themselves or a dependent to enroll in or attend an eligible educational institution, an education credit may be available.
  - Expenses used for calculating credits must be paid during the tax year.
  - Expenses used for calculating credits must be reduced by any scholarship amount designated for those expenses.
  - If the taxpayer is filing MFS, none of these benefits are allowable.
- An **eligible educational institution** is an accredited postsecondary institution.
  - If there is any doubt as to accreditation, check the U.S. Department of Education database at **ed.gov/accreditation**.
- The taxpayer can take **ONLY ONE** credit **per student** per year: the American Opportunity Credit (AOC) or the Lifetime Learning credit.
  - *Note:* The American Opportunity Credit is often referred to as the American Opportunity **Tax** Credit (abbreviated AOTC). For consistency with NTTC training, this manual uses "AOC".
- If a taxpayer could be claimed as a dependent but was not, that taxpayer is still eligible for a credit. Situations where it makes financial sense to shift an education credit to a dependent are rare, and mostly involve high-income taxpayers, for example someone paying the Alternative Minimum Tax (AMT), which is, of course, out-of-scope.
- Normally the student has received a Form 1098-T from the educational institution, showing tuition and fees paid, whether the student was at least a half-time student, scholarships and grants.
  - If box 4, "Adjustments made for a prior year", has an amount in it, the return is ***out-of-scope*** if the taxpayer wants to use any of the expenses on the Form 1098-T to claim an educational credit or a deduction on either Schedule A or Schedule C.
  - 1098-T information is entered on **Form 8863 - Educational Credit**, as described below. That TaxSlayer page is limited to *two Form 1098-Ts per student.*
    - If a student has three or more 1098-Ts that can be used for a specific educational credit, the return must be completed by hand and paper-filed.
  - If the 1098-T has a dollar amount in box 5, "Scholarships or grants", see the section Scholarships, Fellowships and Grants – Form 1098-T on page **31** regarding whether this amount is taxable.
    - *Note:* Quite often, when a scholarship is for a dependent, the best approach is to treat $2000 of that (or the full scholarship, if less than $2000) as taxable income for the dependent and use the related $2000 of expenses to maximize the educational credit for the taxpayer.

Which Education Benefit is Best?

- If the student qualifies for the American Opportunity Credit (AOC), in almost all cases it is the most beneficial credit because
  - It is a partially refundable credit
  - Eligible expenses include course materials as well as tuition and fees.
- If the student does not qualify for the AOC because they are not a half-time student or previously had four years of college academic credit, then claim the Lifetime Learning Credit unless a Schedule C business-related expense is available and is better.
  - *Note:* Education expenses over the amounts allowable for either credit may be deductible elsewhere.
- A systematic process should be used to determine which education credit is best.
  - First complete ALL other aspects of the return.
  - If the taxpayer had health insurance through the Marketplace, make sure that ACA information (Form 1095-A) is entered.
  - Use one of the listed tools below; if that doesn't provide a clear answer, then use a manual process.
- There are tools that can be used to determine the amounts eligible for the two education credits, to help the taxpayer decide which is best:
  - New for tax season 2024*:* After you complete the Education Credits, Form 8863, information in TaxSlayer, TaxSlayer shows you a comparison screen, with refund (or tax due) amounts for Lifetime Learning, American Opportunity, or *no* credits! This is a big help.

- **Pub 4012** tab J has a comprehensive overview and comparison of the American Opportunity Credit and Lifetime Learning Credit.
- The Education Benefits Calculator, an optimizer, is at **cotaxaide.org/tools/.**

- **Pub 970, Tax Benefits for Education,** provides a comprehensive list of options.

American Opportunity Credit (AOC)

- This credit can be claimed if all the following apply:
  - The student had not completed the first four years of postsecondary education (usually but not always the freshman through senior years of college), as determined by the eligible educational institution, by the beginning of the tax year, and has not already claimed this credit four times.
  - The student is enrolled at least half-time in a degree program.
    - ***Note:*** If the student completed a four-year program in the first part of the current year, and then enrolled in a masters or PhD program, expenses for that advanced degree during the tax year *can be used for the AOC.* This is one reason it may be advantageous not to claim AOC for the freshman year that begins in the fall, with only five months of costs to claim.
    - ***Tip:*** If a student had minimal expenses for the tax year, it may be best in the long run to claim Lifetime Learning this year, and save a year of AOC eligibility for a future tax return.
  - Neither the AOC nor its predecessor, the Hope Scholarship Credit, has been claimed (by the taxpayer or anyone else) for this student for any four prior tax years.
    - ***Note:*** It may be advantageous to amend a prior return where a lower AOC credit was claimed, to instead claim the Lifetime Learning Credit for that year, to make the taxpayer eligible to claim a larger AOC credit in the current (or future) year, assuming all other conditions are met. [From the IRS perspective, there is no limit to how many years back we can amend, because the taxpayer pays an additional amount with the amended return, but **federal** amended returns by Tax-Aide are in scope only for the prior **three** years.]
  - The student hasn't been convicted of a felony drug offense.
- Regarding those four years:
  - Foreign college-level study is also counted toward the first four years if the eligible education institution counts that study as academic credit.
  - These qualifying first four years don't have to immediately follow secondary school and don't have to be continuous; there can be breaks between, as well as quarters or semesters with fewer than maximum academic credits.
- Allowable expenses are tuition, fees, books, supplies, and (potentially) computers, other hardware, or software.
  - A computer *is* needed for students *if* the student says that a computer is needed - for example, to see or submit online-only homework assignments.
  - Amounts paid by others, such as grandparents, are deemed paid by the taxpayer.
- The credit is split into refundable and nonrefundable parts.
  - 60% is nonrefundable (to a maximum of $1,500); this goes on Schedule 3 Line 3.
  - 40% is refundable (to a maximum of $1,000); this goes on Form 1040 Line 29.
- **When the student is the taxpayer** and is less than 24 years old, use **Pub 4012** page J-14, which is a set of seven questions to be answered to determine if the refundable part of AOC can be claimed.
  - TaxSlayer asks these questions toward the bottom of the **Form 8863 – Educational Credit** page, if AOC has been selected. ("Are you eligible for the refundable portion of the American Opportunity Credit? Answer NO if 1, 2, & 3 apply to you:") *If the student is not the taxpayer or spouse, ignore the 1, 2, and 3, and just answer "Yes."*
    - If the student *is* the taxpayer or spouse, *and* questions 1, 2, and 3 do seem to apply, see the full set of Pub 4012 questions (above) for a final determination of whether to answer "Yes" or "No."
  - If you reach question 7, and the answer to that question is "... no, you do not qualify...", then education expenses should probably be used, if possible, for the Lifetime Learning Credit or as an expense or deduction on Schedule C or Schedule A.
- *Tip:* If claiming AOC, it is recommended to document this in a TaxSlayer note (see page **8**) named "AOC" which is updated each year. (Examples: "AOC claimed for Nick in 2020 & 2021" or "AOC claimed 4 years already".)
- If the AOC was previously disallowed and the taxpayer is now – appropriately – claiming that credit, go to the **Information to Claim Certain Refundable Credits After Disallowance** menu page [Deductions >

Credits Menu > Claiming Refundable Credits after Disallowance > ...], reachable via the search box by entering 8862, and select "Claim AOTC After Disallowance."

- ***Note:*** The menu option "Claim AOTC After Disallowance" only appears if Form 8863 claiming AOC has been added to the return.
- ***Note:*** If the IRS makes a final determination that the AOTC claim was due to reckless or intentional disregard of the rules, the taxpayer is barred from claiming that credit for the following two tax years and shouldn't file Form 8862 in those years. If the final determination is that fraud was involved, the prohibition is for ten years rather than two; do not file Form 8862 during this ten-year period.
- ***Note:*** Once a Form 8862 has been filed, it is *not* necessary to file that form in future years *unless* a claim for this credit is again reduced or disallowed.

Lifetime Learning Credit

- This credit is limited to courses that are "*either part of a post-secondary degree program or taken by the student to acquire or improve job skills",* per Pub 970.
- Allowable expenses are normally only tuition and fees. Amounts **required** to be paid to the institution for course-related books, supplies, and equipment are also allowable, but note that normally such items can be purchased elsewhere.
  - Amounts paid by others, such as grandparents, are deemed paid by the taxpayer.
- There is a $10,000 limit on costs per return, regardless of the number of students for whom this credit is claimed.

Entering Education Information in TaxSlayer

- To begin the process of claiming a benefit, go to the **Form 8863 - Educational Credit** page [Federal Section > Deductions > Credits Menu > Education Credits].
- Select the name of an eligible student.
- Select which of the benefits is being claimed, and the dollar amount of qualified expenses for that benefit.
  - Qualified expenses for the two credits are discussed above. Qualified educational expenses paid by a third party may be claimed).
- When AOC or Lifetime Learning is selected, TaxSlayer displays a box asking for more information about the educational institution. Institution information is now part of carryforward.
  - **Both** educational credits require the student to have attended an institution eligible to participate in a student aid program administered by the U.S. Department of Education.
    - *Note:* Educational expenses related to self-employment, and deductible as an expense on Schedule C, do *not* have this requirement.
  - Schools that qualify are listed at **ope.ed.gov/dapip/**.
  - **The IRS won't accept an e-filed return if an EIN was not entered.**
    - TaxSlayer won't allow entry of an EIN unless at least one of the two questions about a 1098-T is answered "Yes."
    - If no EIN is entered, TaxSlayer shows a warning, and the return *must be paper filed*.
- The question about whether the Hope credit or AOC has "already been claimed on 4 prior tax returns?" must be answered "No" *if* the AOC has been selected at the top of the page [that is the requirement]; if the LLC has been selected, you must answer "Yes" to complete the page.
  - If the question is answered "No", then answer the next one to three questions.
    - Also, create a note (per page **8**) that records the individuals and years for which the American Opportunity credit has been claimed.
- Click "Continue" to have TaxSlayer calculate how the information you entered affects the tax return.
  - TaxSlayer now shows a comparison here of how the credits affect the return.
  - ***Warning:*** TaxSlayer may determine that the credit selected by the preparer was incorrect – for example, AOC was checked but TaxSlayer decided that the taxpayer wasn't eligible, and instead awarded the Lifetime Learning Credit. *Look at the listing* that appears after clicking "Continue" to determine if the expected credit was awarded.
  - For either the AOC or LLC, TaxSlayer creates Form 8863.
- ***Note for CA returns:*** CA has no education credits, so education expenses allocated on the federal return for an education credit can be allocated otherwise on the CA return
  - If the taxpayer has a Schedule C on the return, **and** the educational expenses are related to that business, **and** the business has a net profit, then follow the procedure in the section Manually Entering Income

Differences on CA Schedule CA, page **106**, to *reduce* income on the CA return [the reduction is the *lesser* of the educational expenses or the net profit].

- If the taxpayer is itemizing on the CA return **and** cannot use some or all the expenses on a Schedule C, **and** the educational expenses are job-related, then – subject to the 2%-of-AGI reduction, the educational expenses can be added to the CA return as an additional itemized deduction.
  - There is no way to directly claim this additional deduction in the State Section of TaxSlayer. Instead, add that amount to Schedule A, as described in the section Schedule A - Unreimbursed Employee Expenses and Miscellaneous Deductions Subject to 2%-of-AGI Reduction (No line on Schedule A), page **86**, so that it flows to CA Schedule CA Part II line 21.

SCHEDULE 3, LINE 4 - RETIREMENT SAVINGS CONTRIBUTION CREDIT

- This credit is available to taxpayers who made **elective** contributions to IRAs, Roth IRAs, and other qualified retirement accounts, and ABLE account beneficiaries who contribute to their account.
  - Contributions on a Form W-2: in Box 12, codes **D, E, F, G, H, S, AA,** and/or **BB**; or, in Box 14,
an amount coded, in TaxSlayer, as "Retirement (Not in Box 12) – Carry to Form 8880"
  - IRA contributions (for both traditional **and** Roth IRAs) made directly by the taxpayer, rather than through an employer (see page 2 of the Intake Booklet).
    - Traditional IRA contributions will have been entered in the **<u>IRA</u> Deduction** page, as described in section Schedule 1, Line 20 - IRA Deduction, page **73**.
    - Roth IRA contributions are entered on the **<u>Retir</u>ement Savings Contributions Credits** page, as described below.
- Taxpayers who made contributions as described above may still be disqualified from using the credit by the following factors:
  - The taxpayer was <u>not 18 years old</u> as of the January 2 following the tax year.
  - The taxpayer was <u>claimed as a dependent</u> on someone else's return.
  - The taxpayer was a <u>full-time student</u> during the year.
- If, based on the above, the taxpayer is eligible, determine if the taxpayer's income is too high. Review the following *after the taxpayer's AGI has been determined*.
  - For 2024, the credit is not available to those whose incomes (AGI) were above the following:
    - Single, Qualifying Surviving Spouse, and MFS: $38,200
    - Head of Household: $57,375
    - Married Filing Jointly: $76,500
  - TaxSlayer correctly prevents award of this credit if an income limit is exceeded; no further action by the preparer is needed. No Form 8880 is created.
- If the taxpayer *did* make a contribution, *did not* have a disqualifying factor, and *did* stay under the AGI limit, then go to the **<u>Retir</u>ement Savings Contributions Credits** page [Deductions > Credits Menu > Retirement Savings Credit]; this page is partially illustrated on **<u>Pub 4012</u>** page G-19.1.
  - In the first box, enter qualifying retirement distributions **made in the prior two tax years, but not in the current tax year. (**The software automatically accounts for current tax-year information.)
    - Ideally this information comes from actual prior tax returns. If those are unavailable, take the taxpayer's word as to whether there were distributions in those years, and the (estimated) amount, but warn the taxpayer that any retirement credit on the current return might be required to be repaid if the IRS determines that distributions in either of the prior two tax years were unreported or underreported.
    - "Qualifying retirement distributions" includes distributions from IRAs, 401Ks, and similar retirement accounts. It also includes pensions *where the employee could make **voluntary** retirement contributions*.
      - Federal employees who entered service **after 1987** were enrolled in the Federal Employee Retirement System (FERS), which doesn't allow **voluntary** retirement contributions.
      - Similarly, U.S. military pensions are *not* qualifying distributions.
  - The second box ("Enter as a negative number …") should **no longer be used**. Instead, any current tax-year distribution that should not be included in Form 8880 calculations, such as a rollover, is handled by using the checkbox below box 2a on the TaxSlayer 1099-R input page. (For details, see the section 1099-R Form – Distributions from Retirement Accounts, page **36**.)
  - In the third box, enter the total of current year traditional or Roth IRA contributions.

    - Do **not** include any traditional IRA contribution entered elsewhere; TaxSlayer automatically includes those in its calculations.
    - If you enter an amount in the third box, TaxSlayer will, when you exit the Form 8880, show that amount as "Taxpayer Contribution", on a "list" page. This does *not* mean that TaxSlayer has determined that there will be a retirement savings credit on the tax return.
  - The fourth box involves deferred salary arrangements, which are ***out-of-scope.***
- After entering information on the **Retirement Savings Contributions Credits** page, you can see what Form 8880 looks like from the Credits menu – this form is one of ten for which a PDF can be created from a menu within the return.
  - You can only see the Form 8880 if TaxSlayer calculates that a retirement savings credit is applicable; if it does not, it doesn't create Form 8880.
- If the taxpayer meets all the requirements for the retirement credit *except* for being a student, TaxSlayer correctly calculates the credit as being zero, but includes a Form 8880 in the PDF of the tax return. If this form is printed as part of the taxpayer's copy of the tax return, shred it.

SCHEDULE 3, LINE 5 - RESIDENTIAL ENERGY CREDITS

Note: Credits for solar electric or solar water heating property have never been in-scope for Tax-Aide. Only Part II of Form 5695 is in-scope. Also out-of-scope are credits for "green" vehicles, fuel cells, wind turbines, geothermal heat pumps, and battery storage.

- See **Pub 4012** page G-21 for what qualifies for the "energy efficient home improvement credit" and limitations; also refer to **Instructions for Form 5695** if needed.
  - ***Note:*** A 2022 law increased this credit *for property placed in service* ***after 2022****; the increase does* ***not apply to prior tax returns.*** The increase extends through 2032 with no lifetime limit.
  - For prior returns, the credit was 10% of qualifying improvements, with maximum amounts on some items, and an overall maximum of $500 for all years since 2005.
  - Second homes, rental homes, and other property do not qualify.
- Go to **Form 5695 - Non-Business Energy Property** page [Deductions > Credits Menu > Residential Energy Credits] and **follow instructions on Pub 4012 page G-21.1 to G-21.3**.
  - *Note:* To avoid a possible IRS **e-file reject**, you **must** answer the questions and enter an address under Qualified Energy Efficiency Improvements (1st TaxSlayer button). Don't check the box indicating the improvements were related to construction of the home: these are ***out-of-scope***.
  - *Note:* If entering Residential Energy Property Expenditures (2nd TaxSlayer button), you **must** click "Add Address" and add the taxpayer's home address, even though you already entered it under the 1st TaxSlayer energy screen! Failure to do so risks an IRS **e-file reject**.
  - **Always check the actual generated Form 5695 for required addresses and completeness.**
  - For certain items such as insulation, only the cost of the **material** can be claimed – not the cost of installing the material, permits, or any other costs. The taxpayer must have documentation, such as the contractor invoice, to separate material costs from other costs.

SCHEDULE 3, LINE 6 - OTHER NONREFUNDABLE CREDITS

Schedule R: Credit for the Elderly and Disabled (Line 6d)

- This credit applies ONLY if the taxpayer or spouse:
  - (1) was **age 65 or older** at the end of the tax year **OR**
  - (2) retired on **permanent and total disability**, had taxable disability income (typically, code 3 on a 1099-R), AND was under the minimum retirement age as of December 31 of the tax year.
- This is a nonrefundable credit; if the taxpayer owes no tax (see Line 16 of the 1040), it has no effect on the tax owed, but should still be entered because it can affect calculations such as the taxable amount of a state income tax refund.
- There are income and other limitations for this credit.
  - If AGI is greater than $25,000, or Social Security benefits are more than $7,500, then the taxpayer is **not eligible** for this credit; do not go to the TaxSlayer pages or research further.
  - If the taxpayer (disabled or at least 65 years old) is under those dollar limits, use the screening sheet on **Pub 4012** page G-22 to determine whether they qualify.
    - **Pub 524, Credit for the Elderly or the Disabled**, has even more information if needed.
    - If the taxpayer **does not** qualify, do not enter any information in TaxSlayer.

- If the taxpayer *does* qualify, based on the screening sheet in Pub 4012, go to the **Schedule R Retired/Disability Question** page [Deductions > Credits Menu > Credit for the Elderly or Disabled Schedule R > Schedule R Retired…](in the search box, shows as "Go to Form Elderly or the Disabled Credit now").
  - If the taxpayer or spouse is under 65 but retired on permanent and total disability, then the related box on page 1 of the Intake Booklet should be checked.
  - On the initial page, select the appropriate category.
  - TaxSlayer shouldn't show the second page, **Statement of Disability,** if the taxpayer (or both taxpayer and spouse, if MFJ) are 65 or older. But it should appear if one or both is disabled *and* under age 65.
    - The format for the physician's statement, mentioned on the second page, is shown in **Instructions for Schedule R**.
  - The third page, **Income**, is critical. The two dollar fields *are used differently in TaxSlayer calculations.*
    - "Total disability income" should include *only* disability income entered *elsewhere* in TaxSlayer, such as a code 3 (disability) distribution on a 1099-R.
    - "Other pension, annuity, or disability benefit that is excluded from income under any other provision of law" should include *only* income that is *not* entered elsewhere in TaxSlayer; one example would be Supplemental Security Income (SSI) payments.
  - Click "Continue" to finish.

All other credits for Line 6 of Schedule 3 are out-of-scope.

OTHER TAXES

SCHEDULE 2, LINE 1 - ALTERNATIVE MINIMUM TAX (*out-of-scope*)

- This is calculated by TaxSlayer. Any value on this line makes the return ***out-of-scope***.

SCHEDULE 2, LINE 2 - EXCESS ADVANCE PREMIUM TAX CREDIT REPAYMENT

- Any amount on Schedule 2 Line 2 is determined by TaxSlayer based on input from Form 1095-A. This form is issued to taxpayers who purchased health coverage through the Marketplace (Exchange) – that is, those who answered (or should have answered) "Yes" to this question in the Intake Booklet, and who probably received an advance premium tax credit (APTC).
  - APTC (also known as "subsidy") is paid by the federal government to the insurer, not the taxpayer. When the taxpayer files their tax return, part of completing the return is TaxSlayer determining whether the subsidy for the year was too high, too low, or just right.
  - The amount of APTC (subsidy) paid to the health insurer is based on *what the taxpayer told the Marketplace* about their *expected* income during the tax year.
    - Note: Taxpayers receiving APTC should always notify the exchange when they have a significant change to their income or family during the year. Otherwise they may owe a substantial amount (for excess subsidy) when they file their tax return. Or they may pay unnecessarily high premiums during the year, recovering the extra amounts only after filing their return.
- If a taxpayer received a 1095-A, the taxpayer must file a tax return to reconcile the amount of premium tax credit they *should* have received, **even if there is no other filing requirement**.
- ***CA process note:*** The terms "[State] Marketplace" or "exchange" refer to Covered California (**coveredca.com**) unless the taxpayer lived outside CA during the year.
  - If the taxpayer has a Form 1095-A from a state other than CA, then the state return is ***out-of-scope*** (because the taxpayer was not a full-time resident of CA during the tax-year). But the federal return is in scope if the policy for your site allows federal-only returns to be prepared.
- Detailed information on the premium tax credit can be found beginning on **Pub 4012** page H-10.

Health Insurance Section

- On the **Affordable Care Act Insurance Plans** page, answering "No" will complete the section.
  - If IRS records (obtained from Marketplaces) show that the taxpayer had coverage through a Marketplace, the IRS will **reject** the return with code F8962-070. In most cases, to successfully e-file, the taxpayer needs to provide their Form 1095-A to be entered in TaxSlayer.

  - *New:* TaxSlayer now has an e-file warning if there was a 1095-A on the prior return but not the current return.
  - *Note:* if, despite the reject code, the taxpayer insists they didn't have Marketplace insurance, the return can be e-filed again *without* a Form 8962. Instead, on the **Affordable Care Act Insurance Plans** page, one of two options (variants of "No") should be checked. TaxSlayer then automatically includes a required statement to the IRS as to why no 8962 is included in the return, and the return should be accepted.
- On the **Verify Your Household Members** page, clicking "Add New Household Member" generally means that the return is ***out-of-scope*** because it would require answering questions related to Part IV, "Allocation of Policy Amounts", of Form 8962. Part IV is ***out-of-scope***.
  - All dependents should have been entered in the Basic Information > Dependents/Qualifying Person section.
  - If the taxpayer had coverage through the Marketplace (so, has a Form 1095-A), **and** received APTC (which is the norm), **and** someone is listed on the 1095-A who is not listed on the tax return, that requires a "shared policy allocation," which is ***out-of-scope*** because it requires completing Part IV of Form 8962**.**
    - One example might be a child whose parents divorced during the tax year. Another is a child under the age of 26 who is otherwise independent.
    - *If done right, this problem should be caught before the return is started. Match names on the 1095-A against names on page 1 of the Intake Booklet.*
  - If the taxpayer married during the year and *chooses* to use the alternative calculation for the year of marriage (Part V of Form 8962), then the return is ***out-of-scope.***

Form 1095-A Information

- On the **Affordable Care Act Insurance Plans** page, answering "Yes" means that the taxpayer should have gotten a Form 1095-A and thus **has a federal filing requirement.**
  - Even if a taxpayer who purchased health insurance through the Marketplace *did not receive any APTC (subsidy)*, the taxpayer should have received Form 1095-A, and the taxpayer *might* be entitled to a net premium tax credit (Schedule 3 Line 9). If so, information related to that form should be entered in TaxSlayer, which means the taxpayer should contact the marketplace to get that form.
  - If the taxpayer **does not have a Form 1095-A, or a Form 1095-A is incomplete, or incorrect, the return cannot be completed.** The taxpayer must contact the Marketplace (see above) to get a Form 1095-A, or a corrected one, or the information which should be on the Form 1095-A. The taxpayer can usually get this information over the phone; help them call Covered CA if necessary.
  - If the taxpayer has one or more Form 1095-A's which are correct, and none are missing [usually a taxpayer has just one Form 1095-A], then proceed:
    - TaxSlayer uses information entered in this and the following page (about dependent income) to prepare **Form 8962, Premium Tax Credit (PTC)**; this form is one of ten for which a PDF can be created from a page within the return. (This form is printable from the first page in the Health Insurance section – look for the small printer icon and "Print" to the left of the "Continue" button.)
      - **Pub 4012** pages H-15 and H-16 show what should appear on Form 8962.
    - The **Advanced Premium Tax Credit (1095-A)** page will expand to allow entering information from the Form 1095-A in TaxSlayer, after the first question is answered "Yes".
    - ***Note:*** **Pub 4012** page H-17 discusses Form 1095-A in detail, how to handle **multiple 1095-As**, particularly for column B entries.
  - If the taxpayer stopped paying premiums, and Form 1095-A shows, for any month, a zero in column A but dollar figures in columns B and C, see bottom of **Pub 4012** page H-18 for the taxpayer's options.
  - If the taxpayer had Marketplace coverage during the year *and* was covered by Medicare or employer insurance during a month when the taxpayer was *also* receiving APTC, the taxpayer is not entitled to APTC for that month. For such a month, change the SLCSP shown in column B of the 1095-A to $0.
  - If the taxpayer had both Marketplace coverage *and* was covered by Medicaid during a month when the taxpayer was *also* receiving APTC, that doesn't affect the calculations for possible APTC repayment nor what is entered in TaxSlayer.

Dependents' Modified AGI (if filing requirement)

- This TaxSlayer page is visible only if the taxpayer has dependents on the return. It requires information to be entered **only** for dependents who were **required** to file their own tax returns due to their gross income.

- o Do **not** enter information for dependents who are filing a tax return only to claim a refund of tax withheld or estimated tax paid or filing only because they owe self-employment tax (Schedule C).
- o **Pub 4012** page A-4 has information on when dependents are **required** to file a tax return.

Repayments of APTC

- After completing the Health Insurance section, **look at Schedule 2 Line 2** (via the Summary/Print option; go to page 5), or look at Form 8962 (part of the PDF for the return), to see whether TaxSlayer has calculated that the taxpayer must repay some or all the APTC received during the tax year.
  - o For tax years 2021 through 2025 there is no cutoff at 400% of the federal poverty line (FPL), which reduces the amount of APTC that might have to be repaid.
  - o ***Note:*** The repayment calculation is based on the taxpayer's **MAGI** (AGI + any excluded foreign earned income + any exempt interest income + any nontaxable SS income + any included dependent income). So it's important to have entered all income in TaxSlayer before analyzing the repayment situation.
- If the taxpayer is repaying a significant amount of APTC, look at Form 8962 Line 5 to determine if s/he is just above a **repayment cap level** (400% or 300% or 200% of FPL). If so, getting the taxpayer's MAGI *below* that level threshold, using one of the options discussed above, could save the taxpayer a lot of money. [***Warning:*** "401" is almost always a bogus percentage, because Form 8962 instructions say to put that number on line 5 whenever actual percentage exceeds 400. So if you see "401", you must do the calculation yourself.]
  - o Repayment caps are listed at the bottom of page H-21 of **Pub 4012**. For example, for 2024, a HoH or MFJ household with MAGI at 201% of FPL has their APTC repayment capped at $1,900. But if that household lowered their MAGI to 199%, they would be required to repay no more than $750, saving $1,150.
  - o The most common way to reduce MAGI is for the taxpayer to contribute to a traditional IRA by the April filing deadline. Other options are listed on **Pub 4012** page H-21.
  - o Normally, filing HoH is more advantageous than filing Single. However, if the taxpayer is required to repay a large amount of excess Advanced PTC (but not all), a filing status of Single may be advantageous, since the repayment is capped at $1,575 for Single filers, but at $3,150 for HoH filers, for tax year 2024.
  - o ***Note:*** MFS filers are *not eligible for APTC* unless a victim of domestic abuse or spousal abandonment, but there still may be an advantage in filing as MFS because of a repayment cap.
    - ***CA policy:*** Filing MFS to reduce APTC repayments, rather than filing MFJ, is ***out-of-scope***.
- If the taxpayer is repaying all or a significant amount of APTC, discuss with them whether they have Market-place coverage for the coming year, and, if so, whether the Marketplace has a good estimate for the taxpayer's income going forward. (If not, they should *call*.) A good estimate is important for avoiding a large repayment when taxes are filed next tax year.
- APTC repayment on Schedule 2 Line 2 **is an allowable medical expense** on Schedule A, as are insurance premiums listed on Form 1095-A. The amount on Schedule 2 Line 2 should be treated **as if the taxpayer had paid the premiums during the tax year of the return.** (This is an exception to the normal "calendar year" determination.)

SCHEDULE 2, LINE 4 - SELF-EMPLOYMENT TAX

- TaxSlayer determines the amount on Line 4, Self-employment tax, based on information entered on Schedule C; the amount is 15.3% of net earnings on Schedule C (up to the first $168,600 of net income for 2024, and $176,100 for 2025) and 2.9% beyond that.
  - o ***Note:*** No self-employment tax is owed if net earnings on Schedule C are less than $433, although the *filing requirement* is for $400 or more of net earnings.
- If Schedule C income is from a notary business, self-employment tax does not apply, and an adjustment must be made – see the section Notary Fees, page **61**.
- Unique rules apply to the clergy; such returns are ***out-of-scope***.
- ***Note:*** Self-employment tax does not apply to statutory employees - FICA and Medicare taxes are withheld on their Form W-2s.

SCHEDULE 2, LINE 5 - UNCOLLECTED SS AND MEDICARE TAX ON TIP INCOME

- An amount on this line should come from Form 4137, tip income not reported on Form W-2s; see the section W-2 Form - Tip Income (Form 1040 Line 1c), page **29**.

SCHEDULE 2, LINE 6 - UNCOLLECTED SS AND MEDICARE TAX ON WAGES (*OOS)*

- This Form 8919, Uncollected Social Security and Medicare Tax on Wages (for taxpayers who were employees but were treated as independent contractors by their employer), makes the return ***out-of-scope***.

SCHEDULE 2, LINE 8 - ADDITIONAL TAX ON IRAS, OTHER QUALIFIED PLANS

- Form 5329 is used for the assessing various additional taxes. The most common is for early withdrawal from IRAs and other tax-favored accounts.
- If additional tax is assessed, it appears on both Form 5329 (on the PDF for the return) and Schedule 2 Line 8.
  - If no exception applies to the penalties automatically calculated by TaxSlayer, then Form 5329 doesn't need to be included in the return.

5329 Part I – Additional Tax on Early Distributions

- An "early distribution" means one taken before age 59½.
- TaxSlayer assesses the federal 10% penalty if there is a code **1** or code **J** in box 7 of a Form 1099-R. The surtax is 25% in the case of a SIMPLE early distribution – code **S** in box 7 of the Form 1099-R.
  - While code **J** is potentially subject to the penalty, if it was determined to be in-scope per the chart on **Pub 4012** page D-51, then it isn't subject to the 10% additional tax.
  - ***Note for CA returns:*** CA also assesses a 2.5% additional tax on Form 3805P, on line 63 of Form 540.
- Any penalty can be eliminated if the taxpayer qualifies for an exception, entered on Part I of the **Form 5329** page. The process for doing this is discussed in the section 1099-R Form – Exceptions to the Additional Tax on Early Distributions, page **38**.

5329 Parts II through VIII - Out-of-scope

- If the taxpayer received a Form 1099-QA, Distribution from ABLE Accounts, determine if the distribution was fully spent on **qualified expenses** – for the designated beneficiary's blindness or disability, in maintaining or improving his or her health, independence, or quality of life.
  - If so, the return is in-scope; the distribution is not reportable as income and isn't entered in TaxSlayer.
    - Qualified expenses paid from an ABLE account can't be used elsewhere on the tax return.
  - If not, Part II of Form 5329 needs to be filled out, which makes the return ***out-of-scope***.

5329 Part IX – RMD Not Taken

- If an RMD was taken in the tax year and then redeposited – a rollover – see the section 1099-R Form – Transfer or Rollover, page **39**). If the taxpayer reached age 73 by December 31, 2022, the taxpayer should have begun taking withdrawals from tax-deferred retirement accounts, such as regular IRAs. If the taxpayer failed to take their required minimum distribution (RMD) during the tax year, they might be liable for the excess accumulation surtax (this penalty was reduced to 25% for 2023 onward), computed in Part IX.
  - For such taxpayers, there were two exceptions to the withdrawal requirement:
    - The taxpayer could have elected to *defer* taking the RMD in the year in which they reach age 73. In that case, the taxpayer must essentially do **two** RMD withdrawals in the following year.
    - If the taxpayer was still working for an organization, the taxpayer was not required to make withdrawals from that organization's 401(k) or 403(b) plans, regardless of age, *if* they still participated in the plan, and *if* the organization's plan so allowed.
- The RMD amount is shown in box 12b of Form 5498, which the IRA administrator (such as a bank) should have sent to the taxpayer.
  - ***Note:*** While this form is *not* required in order to do a tax return, it may be necessary to ask the taxpayer to return with it if taxpayer was 73 years old, or older, in the tax year, **and** has one or more qualified retirement accounts, **and** has made *no* withdrawals, or very limited withdrawals, during the tax year.
- The RMD must be calculated separately for each IRA that the taxpayer owns, but the taxpayer can withdraw the **total** amount from any one or more of the IRAs. Similarly, a 403(b) contract owner must calculate the RMD separately for each 403(b) contract that he or she owns, but can take the **total** amount from one or more of the 403(b) contracts.
  - However, RMDs required from other types of retirement plans, such as 401(k) and 457(b) plans, have to be taken **separately** from **each** of those plan accounts.
  - SEP and SIMPLE IRAs *are* included in these calculations; Roth IRAs are *not*.

Other Taxes

- RMD information, including the exact percentage of December 31 balances required to be distributed to meet RMD rules, can be found at **irs.gov/pub/irs-tege/uniform_rmd_wksht.pdf**.
- If the taxpayer has failed to take a required distribution, they need to correct the problem by taking the required distribution as soon as possible, which means taking two distributions during the year in which the correcting distribution is taken.
- To report a RMD which has not been taken, go to the Part IX of the **Form 5329** page [Federal Section > Other Taxes > Tax on Early Distribution]
  - o Enter the RMD amount in the box for "Minimum required distribution for current year"
    - ▪ If the taxpayer has more than one retirement account subject to RMD, calculate the total of all RMDs
  - o Enter total distributions in the box for "Amount actually distributed to you in current year"
    - ▪ If the taxpayer had distributions (on a Form 1099-R) from more than one retirement account, calculate and enter the total of all RMD amounts
- On the **Form 5329** page, a waiver of the entire 25% surtax may be requested. To do so:
  - o Check the box labeled "Check here to claim a waiver ... "
  - o Enter the amount for which a waiver is being requested.
  - o Provide the IRS with an explanation.
    - ▪ A waiver request requires describing the circumstances that led to the failure and how the shortfall has been remedied (by taking the required distribution, belatedly)
    - ▪ Remediation must be done; the IRS may ask for proof the required distribution was done before approving the waiver. Ideally, remediation is done before the return is filed, but if that would delay the return beyond the April filing deadline, don't wait for remediation before filing the return.
    - ▪ Once remediation is done, even if the IRS denies the waiver request (because it deems there was no extenuating circumstances for failure to take the RMD), the penalty is only 10% of the RMD not taken.
  - o There are two recommended ways to get the explanation to the IRS, both involving the 70-character field which (after the box is checked) is at the bottom of the **Form 5329** page:
    - ▪ Use the 70-character field to make the explanation (70 characters is roughly 14 words)
    - ▪ Or, in the field, write "See separate explanation, attached", then put the information in one or more Preparer Notes; each note can have up to 1000 characters of information, and is sent to the IRS with the e-filed return.
      - ▫ Go to the **Preparer Note** page [Miscellaneous Forms > Explanations > ...]
  - o Form 5329 is one of ten for which a PDF can be created from a menu within the return.

SCHEDULE 2, LINE 9 - HOUSEHOLD EMPLOYMENT TAXES (*out-of-scope*)

SCHEDULE 2, LINE 10 - REPAYMENT OF FIRST-TIME HOMEBUYER CREDIT

- 2008 homebuyers who received the First Time Homebuyer (FTHB) credit (2008 Form 1040 line 68) were required to **repay** the credit, starting in 2010 – *the credit was a* ***loan***.
  - o The repayment is spread over 15 years, at $500 per year, so payments could continue through 2024.
- If taxpayer has already repaid their entire credit (ahead of schedule), do not enter any information in TaxSlayer.
- TaxSlayer now has an e-file warning if the prior return had a payment but the current return does not.
- If the taxpayer is unsure of the status of repayment, information can be looked up online at **irs.gov/individuals/first-time-homebuyer-credit-account-look-up** .
  - o ***Note:*** This link is at the bottom of the **Form 5405 - First-Time Homebuyer Credit and Repayment** page, after the first question on that page is answered.
- If the credit has not been fully re-paid, the 2008 tax return was a MFJ return, and the 2024 tax return is also a MFJ return, then separate pages are required for taxpayer and spouse.
  - o Each is credited with half of the repayments made in prior years.
  - o If one spouse on the 2008 tax return is deceased, that half of the credit does not have to be repaid; refer to **Form 5405 instructions**.
- Repayment of some or all the un-repaid portion of the credit may be required if the home is disposed of.
  - o Repayment is affected by whether the house was disposed of at a profit or loss.
  - o If the house is no longer the primary residence of the taxpayer because of destruction or condemnation, the return is ***out-of-scope***.

- If the taxpayer *has not* repaid all the credit, go to the **Form 5405 - First-Time Homebuyer Credit and Repayment** page [Federal Section > Other Taxes > First-time Homebuyer Repayment].
  - Note that this TaxSlayer page pertains *only* to the credit given in 2008. If the credit was given in 2009, 2010, or 2011, that would have been a *grant* that doesn't need to be repaid.
  - If the taxpayer has repaid only the minimum - $500 per year – beginning in 2010, then the "the full amount repaid with your prior year tax returns" would, for the 2024 tax return, be 14 times $500 for a total of $7,000.
    - *Don't assume the taxpayer has paid only the minimum amount each year – **ask***. If the taxpayer is unsure, that information can be looked up online (see the irs.gov link above).
  - TaxSlayer has Carryforward for this, as well as a warning if a payment was made in the prior but is not being made on the current return.
  - Click "Continue" when done.
  - ***Note:*** Form 5405 is one of ten for which a PDF can be created from a menu within the return, in this case, the **Other Taxes** menu page. It is *not* required to be filed when the taxpayer is making a routine annual payment.

SCHEDULE 2, LINE 13 - UNCOLLECTED TAXES

- If box 12 on a **W-2** has a dollar amount for code A, B, M, or N, for uncollected Social Security/RRTA or Medicare tax on the taxable cost of group-term life insurance, then TaxSlayer places the amount on this line.
- The other taxes that go on this line (from Form 8959, Additional Medicare Tax, and 8960, Net Investment Income Tax), if applicable, make the return ***out-of-scope***.

PAYMENTS AND REFUNDABLE CREDITS

LINE 25 - FEDERAL INCOME TAX WITHHELD

- Federal tax withheld is carried to this line from entries on **W-2** pages and some 1099s.
- For Form 1099 withholding not entered elsewhere (such as on a Form 1099-B), go to the **Other Federal Withholdings** page [Federal Section > Payments & Estimates > Other Federal Withholdings], enter the amount, check the box (if appropriate), and click "Continue."

LINE 26 - 2024 ESTIMATED TAX PAYMENTS

- These are payments the taxpayer HAS MADE using Form 1040-ES (federal) for the CURRENT tax year, plus any overpayment amount from the prior year that was credited toward estimated taxes for the current year.
  - ***Note:*** See Federal Estimated Tax Payments, page **119**, to prepare payment vouchers for NEXT year's estimated tax payments.
- Go to the **Payments - Estimated Payments** page [Federal Section > Payments & Estimates > Federal Estimated Payments for 20xx] and enter information using taxpayer information (actual amounts paid) and, if applicable, the prior year's tax return.
  - Before entering a number for "Amount Applied from Prior Year Refund", confirm with the taxpayer that the expected refund (on the tax return) was actually received by the taxpayer, and not changed by the IRS.

LINE 27 - EARNED INCOME CREDIT

- EIC (aka EITC) is available to people who have earned income, subject to income and age limits.
  - A taxpayer *without a child* cannot get EIC unless the taxpayer is between age 25 and age 64 at the end of the tax year.
    - If filing MFJ without a qualifying child, only one taxpayer must meet the age requirement.
  - ***Note for CA returns:*** For CalEITC, taxpayers 18 years and older are eligible, regardless of whether there is a qualifying dependent (details on page **113**).
- EIC is a refundable credit – it isn't necessary to owe federal tax to claim the credit.
- To claim EIC for a dependent, that dependent must have a Social Security number.
  - ***Warning:*** a return *can't be amended to retroactively claim EIC after a dependent gets an SSN. If the taxpayer expects to get that SSN by October 15, s/he must **file an extension** rather than file the tax return in order to preserve the right to EIC for that dependent.*

- For 2024, the **income limits** (after which the taxpayer is not eligible for EIC) are:

Filing Status	Qualifying Children Claimed			
	Zero	One	Two	Three or More
Single, HoH, or QSS	$18,591	$49,084	$55,768	$59,899
MFJ	$25,511	$56,004	$62,688	$66,819

  - ***Note****:* MFS returns that meet certain criteria can qualify for EIC (for 2021 returns and later).
    - ***CA process note*****:** MFS returns that meet CA scope requirements, above, should have EIC if all other requirements (earned income, AGI, age if no dependents) are met.
- If TaxSlayer has determined that a return doesn't qualify for EIC, this shows at the top of the **Calculation Summary** page – the first page when an existing return is opened (and, of course, available from the left navigation bar by clicking "Summary/Print").
  - The notice (in a box with a light green background) is titled "REASONS FOR NO EARNED INCOME CREDIT (EIC)."
- If EIC was disallowed in a prior year, more information must be entered to claim EIC on subsequent returns:
  - The **Information to Claim Certain Refundable Credits After Disallowance** menu page [Deductions > Credits Menu > Claiming Refundable Credits after Disallowance > ...], reachable via the search box by entering **8862**, is needed only very infrequently for EIC issues. It is used when you need to (a) claim eligibility for the EIC when that has been disallowed in a prior year, or (b) to disallow EIC when TaxSlayer has calculated an amount for that credit.
  - ***Note:*** If the IRS makes a final determination that the EIC claim was due to reckless or intentional disregard of the rules, the taxpayer is barred from claiming that credit for the following two tax years and should not file Form 8862 in either of those years. If the final determination is that fraud was involved, the prohibition is for ten years rather than two; do not file Form 8862 during this ten-year period.
  - ***Note:*** Once a Form 8862 has been filed, it is *not* necessary to file that form in future years *unless* a claim for this credit is again reduced or disallowed.
- To check the amount that TaxSlayer has calculated for EIC, you can go to the **Calculation Summary** page (via Summary/Print on the left navigation bar) to see the entry on Form 1040 Line 17a.

LINE 28 - ADDITIONAL CHILD TAX CREDIT

- If a taxpayer's tax liability is less than the nonrefundable CTC, as discussed on page **88**, then the taxpayer may be able to claim the refundable ACTC.
  - TaxSlayer computes this credit automatically; calculations are shown on Schedule 8812, part of a full PDF for the return.
- ACTC is normally limited to 15% of any earned income above the current year starting point (for 2024 this remains $2,000), but taxpayers with three or more children may also be eligible for ACTC regardless of income. **However,** ACTC is limited to the amount of FICA plus Medicare tax paid (on W-2s) minus the EIC received by the taxpayer.
  - ***Note:*** For self-employment, earned income is calculated by taking the amount on Schedule 1 Line 3 (Business income) **minus** the amount on Schedule 1 Line 15 (deductible part of self-employment tax).
- The total of the two credits (Line 19, the nonrefundable child tax credit amount, plus Line 28, refundable) remains $2,000 or less per eligible child for 2024.
- If the CTC and/or ACTC was reduced or disallowed in a prior year and the taxpayer is now – appropriately – claiming one or both of those credits, go to the **Information to Claim Certain Refundable Credits After Disallowance** menu page [Deductions > Credits Menu > Claiming Refundable Credits after Disallowance > ...], reachable via the search box by entering 8862, and select "Claim CTC/ACTC After Disallowance".
  - ***Note:*** If the IRS makes a final determination that the AOTC claim was due to reckless or intentional disregard of the rules, the taxpayer is barred from claiming that credit for the following two tax years, and should not file Form 8862 in either of those years. If the final determination is that fraud was involved, the prohibition is for ten years rather than two; do not file Form 8862 during this ten-year period.
  - ***Note:*** Once a Form 8862 has been filed, it is *not* necessary to file that form in future years *unless* a claim for this credit is again reduced or disallowed.

LINE 29 - AMERICAN OPPORTUNITY CREDIT

- Up to 40% (maximum $1,000) of the AOC may be refundable.
  - o See the American Opportunity Credit (AOC) section, page **92**, for details.

SCHEDULE 3, LINE 9 - NET PREMIUM TAX CREDIT

This line has an amount only if the taxpayer purchased health insurance on an exchange such as Covered California, and if the advance premium tax credit (APTC), aka "subsidy", was less than the taxpayer was entitled to. (Typically, that's when the taxpayer had *less actual* income in the tax year than the taxpayer told the exchange they *expected* to earn.)

- If Line 8 of Schedule 3 has an amount, an adjustment may be required to Schedule A.
  - o If the taxpayer itemizes, and includes medical expenses, and those medical expenses include premiums paid for health insurance purchase on an exchange such as Covered California (these are listed in the "monthly enrollment premiums" column on the Form 1095-A), then the amount entered on Schedule A must be *reduced* by the amount on Line 8 of Schedule 3.
    - ▪ This is an exception to the rule that only income received, and expenses incurred within a calendar (tax) year can be included on the return for that year.
- For details about how this credit is calculated, see the section Schedule 2, Line 2 - Excess Advance Premium Tax Credit Repayment, page **96**.

SCHEDULE 3, LINE 10 - AMOUNT PAID WITH REQUEST FOR EXTENSION TO FILE

- Schedule 3 Line 9 is relevant only when preparing a tax return after the regular filing season has ended, or when preparing a prior year tax return.
- For the tax year being prepared, if the taxpayer requested an extension, by filing Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return, to delay tax filing for up to six months, then the taxpayer **may** have made a payment with that extension request. **Ask the taxpayer if such a payment was made, and if so, how much was paid.**
  - o If the taxpayer is unsure of the amount – or even whether an amount was paid – then do not guess; instead, *do not enter a dollar amount*. If the taxpayer did file an extension request and paid an amount, the IRS will correct the tax return and issue the taxpayer a refund check for the amount paid with the extension but not reported on Line 9.
- If the taxpayer confirms that Form 4868 was filed and knows the payment amount made for the tax year being prepared, enter that payment in TaxSlayer: go to the **Amount Paid with Extension Request** page [Federal Section > Payments & Estimates > ....]

SCHEDULE 3, LINE 11 - EXCESS SOCIAL SECURITY

TaxSlayer makes this entry automatically if there are multiple Form W-2s for an individual and the combined wages exceed the maximum subject to Social Security taxes for the year ($168,600 for 2024).

STATE SECTION AND CA ADJUSTMENTS & DIFFERENCES

CA Tax-Aide policy is that the only in-scope state returns are full-year CA-resident returns. All other states' returns and CA part-year or nonresident returns are *out-of-scope.* We aren't trained in other states' laws.

GENERAL INFORMATION

Preventing or Removing a California Return

- In some cases, you won't want a CA return - for example, the taxpayer didn't live in California at all during the tax year, or lived in CA for only part of the year.
- There are two ways to prevent or remove a CA return:
  - o In TaxSlayer, a state return is specified on the **Personal Information** page in the Basic Information section, in the field labeled "Resident State as of 12/31". Change the value to "none."

- Or, once past the Basic Information section, click "State Section" in the left navigation bar. If you see a state return listed (presumably "California"), click the trashcan icon at far right to remove that state return.

- If you delete a CA return or prevent it from being created, you **must** tell your ERO:
  - In your Activity Reporting log, record the tax return as "Federal only."
  - Also select the "Federal only" return tag, and [depending on local policy] create a TaxSlayer note (page **8**) explaining why there is no CA return.

State Information Requested Immediately After the Personal Information Page

- A useful TaxSlayer feature, though confusing at first, is the page immediately following the **Personal Information** page when creating a return. Though titled **California Return**, this page doesn't put you in the state return. Instead, the page is designed to capture *common* CA information, so that you often don't need to go to the State Section to complete a return.
- For CA returns, this "pop-up" page asks for information about a name change, the Renter's Credit, any Use Tax owed, the possible lack of health insurance, and the taxpayer's residence.

<u>Renter's Credit</u>

- For the taxpayer to be eligible for this credit:
  1. **Rent must have been paid** on a principal residence **in CA for 6 months** or more during the tax year.
     - The residence could be a mobile home for which the taxpayer rents the land, or a boat slip if the residence is a boat.
     - *Note:* If the landlord isn't reporting the rent as income (very common if "renting" from a relative), then it's not "rent" but rather "sharing expenses"! In that case, answer "No" in TaxSlayer.
  2. The taxpayer **did not claim a homeowner's property tax exemption** at any time during the year (to do so, the taxpayer must have owned a home at some time during the tax year). The homeowners' exemption may be seen on the property tax bill, whether paper or online (see page **80**).
  3. The residence where rent was paid was **not exempt from property taxes** (such as when a property is owned by a non-profit organization or a government entity). In such case, the property tax bill shows $0 tax on net value! (see page **80** for online property-tax lookup)
  4. The taxpayer **did not live with another person for more than half the year**, where that person (such as a parent) **claimed the taxpayer as a dependent**.
  5. At no time during the tax year was the taxpayer (a) a **minor** who also was (b) living with and under the **care of a parent, foster parent, or guardian**.
- If the taxpayer is eligible, based on these five criteria, answer "Yes" to the question "Do you qualify for the Renter's Credit?" otherwise answer "No."
  - The FTB doesn't require any supporting information, such as the landlord's name phone number, be submitted with the CA return. If audited, the taxpayer substantiate that they do pay rent.
- There are **two additional criteria** for eligibility for this credit – the taxpayer must be a CA resident for the entire year [but, of course, it's Tax-Aide policy that we don't do partial-year CA returns], and, for 2024, CA AGI must be $52,421 or less (single) or $104,842 (MFJ, HoH, or QSS). TaxSlayer handles the income criterion correctly - if you answer "Yes" but the taxpayer's income is too high, TaxSlayer *won't* give this credit.
  - Thus, answer the question based solely on the first five criteria above, *ignoring income*.
- The Renter's Credit shows on CA Form 540, page 2, line 46, **if** the question was answered "Yes", and **if** the income limit was not exceeded.
  - ***Note:*** Even though this is a *nonrefundable* credit, and thus has no value if line 34, Tax, Page 2 of CA Form 540, is zero, TaxSlayer *always* lists any eligible credit amount on Line 46.

<u>CA Use Tax</u>

- *Note*: CA Tax-Aide seems to have de-emphasized this topic since passage of California's "Amazon tax" on out-of-state purchases; most such purchases now include California sales tax, so the use tax is moot.
- <u>Background</u>: If someone in California buys merchandise, they must pay sales tax unless that item is specifically exempt (such as food). If a California resident purchases a taxable item for use in California from an out-of-state vendor, and that vendor doesn't charge California sales tax, then the purchaser must still pay the California sales tax amount, in the form of "use tax."

- The taxpayer, or a member of the taxpayer's tax family, could have ordered items on the internet, by mail (catalog sales), or by phone (800 call center), and not paid CA sales tax. (Vendors without a "physical presence" in California aren't currently required to collect CA sales tax.)
- The taxpayer could have made a purchase while out of state, bringing the purchased item back to CA.
  - If the taxpayer paid another state's sales tax on a purchase brought back to California for use within California, that payment can be subtracted from what would otherwise be owed, to the extent of the applicable CA use tax on that purchase.
  - Goods purchased outside the U.S., carried into the U.S. (not shipped), and declared for customs purposes are subject to use tax to the extent they exceed $800 in value. (Goods purchased from a vendor outside the U.S. and shipped to California are fully subject to use tax.)

- The amount of use tax to be paid by the taxpayer is normally entered on the CA-specific page that appears after the **Personal Information** page is completed. If that number needs to be changed (or the CA-specific page does not appear), go to the **Tax** page [State Section > **California State Return** > ...], and enter or change the amount in the "Use Tax" field, then click "Save."
  - If zero is entered, then TaxSlayer, on Form 540 page 4, checks the box below line 91 that says "No use tax is owed."
- Use tax for vehicles and mobile homes purchased outside California should be paid directly to the California Department of Tax and Fee Administration (CDTFA); exclude such purchases from the calculations involving Form 540, page 3, line 91. **If Use Tax is zero, and a payment was made to CDTFA,** change the answer to "If your use tax is zero, did you pay your use tax obligation directly to CDTFA?" to "Yes".
- To calculate the amount owed, the taxpayer has three choices:
  - (1) If the taxpayer tracked out-of-state purchases made during the year, the total owed can be calculated using the taxpayer's figures, and the local sales tax rate.
    - This includes **a use tax of zero dollars**, if the taxpayer made no out-of-state purchases, or is sure they paid CA sales tax on all out-of-state items shipped to them, and that, for all purchases made in person while out of state, the sales tax charged was at or above their local sales tax rate.
    - In almost all cases, option (2), if the taxpayer qualifies for this, *is better.*
  - (2) If **all** items purchased without sales tax being charged **each** cost less than $1,000, then the taxpayer can choose to use the Estimated Use Tax Lookup Table [below] to calculate the use tax owed.
  - (3) If one or more items costing $1,000 or more were purchased without sales tax being charged, then the use tax must be calculated using the use tax worksheet found on the **2022 CA 540 booklet** page 18. The **Estimated Use Tax Lookup Table** *for taxpayers who did **not** purchase an untaxed item with a value of $1,000 or more*:

Adjusted gross income (AGI)	Use tax to be paid	Adjusted gross income (AGI)	Use tax to be paid
Less than $10,000	$0	$80,000 to $89,999	$8
$10,000 to $19,999	$1	$90,000 to $99,999	$9
$20,000 to $29,999	$2	$100,000 to $124,999	$10
$30,000 to $39,999	$3	$125,000 to $149,999	$12
$40,000 to $49,999	$4	$150,000 to $174,999	$15
$50,000 to $59,999	$5	$175,000 to $199,999	$15
$60,000 to $69,999	$6	More than $199,999	Multiply by 0.009% (0.00009)
$70,000 to $79,999	$7		

Full year minimum essential health care coverage

- This question is about the California's Individual Healthcare Mandate; see page **114**.

Principal/Physical Residence Address

- If the taxpayer's mailing address and the physical address *are* clearly different (such as the mailing address is a PO Box), **do not immediately answer "no"** to the question "Is your Principal/Physical Residence Address the same as the address on the tax return?" Instead, **ask the taxpayer** if you can put their physical address on their California return.
  - If the taxpayer wants to know why, tell them that California law requires the FTB to collect this information, to use to expand jury-duty pools.

- If the taxpayer is *willing to provide their physical address*, write that address on page 1 of the Intake Booklet, and answer "No" to the question. Then, after finishing the Basic Information section in TaxSlayer, go to the State Section, and enter the physical address.
  - TaxSlayer may be inconsistent on how it gets you to the **Additional Personal Information** page, where the address is entered, but in any case that page can be reached from the **Basic Information** page (menu) in the CA State Section.
- If the taxpayer is ***not willing** to provide their physical address*, answer "Yes" to the question, so the CA return can be e-filed.
- If the taxpayer *has no physical address* (they are homeless, temporarily living in a shelter or hotel, etc.), answer "Yes" to the question, because it's not possible to enter a physical address for the taxpayer.

When CA-Related Changes Take Effect in TaxSlayer

- Entering information on a page in the State Section **does not change** the displayed CA Refund (or CA Amount Due) until you click "Continue" (or "Save") repeatedly, to reach the **State Return** page; then TaxSlayer does its computations for the state return. The delay in computations is why TaxSlayer objects if you try to go directly from a page in the State Section to a page in any other section.

BASIC INFORMATION MENU PAGE

- This menu page has links to four pages. Most information on those pages should have been entered already (or noted as *needing to be entered*).
- **Head of Household:** California requires an additional form, CA Form 3532, for those filing HoH; see the Head of Household section, page **15**.
  - ***Note:*** This appears on the **Basic Information** menu only if federal filing status is Head of Household.
- **Additional Personal Information**: This page collects information on whether the taxpayer or spouse is a dependent of another person, change of last name, and the name of the person being paid alimony. Directions to enter that information are found in various, logical places in the pages above for the Federal Section. The remaining questions are optional ("Do you want information on registering to vote", "Do you want information on health insurance").
- **Complete if You Were Active-Duty Military**: This page is ***out-of-scope*** except for military sites.
- **Taxpayer or Spouse is Deceased**: Information entered on this page, and related actions, are discussed in the section Other Personal Information, page **18.**

ADJUSTMENTS AND DIFFERENCES TO INCOME AND ITEMIZING

The information below identifies specific situations that MAY require manual entries on a CA return. For most returns, none of the information in this section requires any action by a counselor. If you know there's no need to enter information in the State Section, that section of TaxSlayer can be ignored.

- While California generally follows federal tax law, there are some situations where California and the federal law differ – see **FTB Pub 1001, Supplemental Guidelines to California Adjustments** (available in electronic version only) for more information.
- When these differences lead to adjustments on the CA tax return, the adjustments are listed in CA Schedule CA.
  - An example is Social Security benefits, which are taxable up to 85% on the federal return, but which are not taxable in California.
  - In TaxSlayer, viewing CA Schedule CA requires seeing the PDF for the entire state return.
    - Select the State Section (left navigation bar) and click the small printer icon.
- In most cases, TaxSlayer automatically makes the appropriate adjustments based on the federal forms.
  - Where TaxSlayer does not automatically do this, the word "**manually**" is used below, to indicate that you must make entries in TaxSlayer, and the name of the entry is underlined.
- Verify all entries on CA Schedule CA, if that form appears in the PDF for the tax return.

Manually Entering Income Differences on CA Schedule CA

- When the federal and CA returns differ regarding taxability of income, **and** TaxSlayer does not automatically handle the difference (by posting to CA Schedule CA), then the difference must be entered **manually**.
  - On the State Section main menu page, select "Additions to Income" or "Subtractions from Income."

- The total of the addition(s) and the total of subtraction(s) on these two TaxSlayer pages will appear separately on CA Schedule CA Part I, Section B line 8z.
    - It's impossible to make a **manual** TaxSlayer entry that posts to any line in Part I of CA Schedule CA *other than Section B line 8z.*

ADDITIONS TO INCOME - TAXED IN CALIFORNIA

Note: *the process for entering* ***manual*** *income adjustments is described in the section immediately above.*

California taxes as income certain items which aren't federally taxable. These *should* appear on CA Schedule CA, Part I (the specific section and line number are listed in brackets below), but as noted in the section above, in TaxSlayer they appear only on Section B line 8z.

- [Section A, line 1a] Wages – HSA employer contributions – see Health Savings Accounts in CA, page **111**.
    - The CA adjustment is done automatically by TaxSlayer.
- [A, 2] Interest from non-CA state and municipal bonds – see 1040 Line 2, page **32**.
    - TaxSlayer's page allows an amount of tax-exempt interest to be specified as *taxable* on the state return.
- [A, 2] Interest or other income earned in an HSA – see Health Savings Accounts in CA, page **111**.
    - The CA adjustment must be **manually** entered; it posts to CA Schedule CA Part I, Section B line 8z.
- [A, 3] Dividends from non-CA municipal bond funds – see 1040 Line 3, page **34**.
    - The amount to be taxable, if any, by the state can be specified in TaxSlayer, and so the CA adjustment is done automatically by TaxSlayer.
- [A, 5] Survivor benefits (on a Form 1099-R) attributable to service by a public safety officer who was killed in the line of duty before January 1, 1997, are excludible from federal income tax; CA does not conform.
    - The CA adjustment must be **manually** entered; it posts to Section B line 8z.
- [A, 5] Canadian and German Social Security (all other retirement payments from foreign governments are ***out-of-scope***, as discussed on page **48**).
    - The CA adjustment for Canadian and German social security payments must be **manually** entered; it posts to Section B line 8z.
- [Section B, line 8z] Withdrawals from 529 plans that are used for K-12 expenses
    - If the taxpayer has a Form 1099-Q, discussed on page **68**, you must ask the taxpayer whether qualified expenses covered by the withdrawals included any of the following; if so, that part of the withdrawal is taxable income for CA, and a **manual** adjustment is required: (1) expenses at the K-12 level; (2) apprenticeship costs; and (3) up to $10,000 of qualified student loan principal and/or interest payments.
- [Section C, line 20] IRA contributions after age 70 ½, as discussed on page **73**.
    - The CA adjustment must be **manually** entered; it posts to Section B, line 8z.

SUBTRACTIONS FROM INCOME - INCOME NOT TAXED

Note: *the process for entering* ***manual*** *entries to adjust income is described on page* ***106****.*

Income Not Taxed

California does not tax certain income items which *are* taxable on the federal return; these subtractions are listed below by section and line number of CA Schedule CA Part I, where they *should* appear. As noted above, in TaxSlayer they appear only on line 8z of Section B.

- ***Note:*** There is a question in TaxSlayer's California section, on the **Other Subtraction 1** [or **2** or **3**] page: "Is this entry exempt Native American Income, which may be reported on FTB 3504?". Except where noted below, the answer is "No." (This question refers to **FTB Form 3504, Enrolled Tribal Member Certification**. Tribal members are supposed to file this form (separately from their tax return) to document any income not taxable by CA. See **FTB Form 3504 Instructions**.)

- [Section A, line 1a] Military income: Active-duty military pay is only taxable by California if the military member is domiciled and stationed in California and the pay is earned in California.
    - ***Tax preparers must have the Military certification to prepare returns involving active duty pay.***
    - The CA adjustment must be **manually** entered; it posts to Section B, line 8z.
    - See **FTB Pub 1032, Tax Information for Military Personnel**, for other differences between federal and CA.
- [A,1a] Clergy housing income –tax provisions peculiar to clergy make the return ***out-of-scope***).
- [A,1a] Indian tribal members' income, if the member lives and works on tribal land – see the section W-2 Form - Indian Tribal Income, page **27**.

  - The CA adjustment must be **manually** entered; also answer "Yes" to the question about FTB Form 3504. The adjustment posts to Section B, line 8z.
- [A,2] Interest paid on municipal bonds issued by the state of California, including counties, cities, and agencies - see the section Interest Income on Form 1099-INT, page **32**.
  - TaxSlayer's page allows an amount of tax-exempt interest to be specified as *taxable* on the state return; if not so specified, it's automatically treated as not taxable by CA.
- [A,2] Interest earned from U.S. Government Savings Bonds, Treasury Bills, and any other bonds of the U.S. or its territories – see page **32**.
  - Use TaxSlayer's page to specify this interest as *not taxable* by California..
- [A,3] Dividends from CA municipal bond funds - see Line 3 - Dividends, page **34**.
  - Specity the taxable amount for CA, if any, on TaxSlayer's 1099-DIV page.
- [A,3] Dividends from U.S. government bond funds (1040 Line 3) – see page **34**.
  - Enter the adjustment on appropriate line of TaxSlayer's 1099-DIV page.
- [A,5] Tier II Railroad Retirement benefits (1040 Line 5) - see page **45**.
  - TaxSlayer automatically makes the adjustment.
- [A,6] Social Security benefits (U.S. only) (1040 Line 6) - see page **45**.
  - TaxSlayer automatically makes the adjustment. *If Canadian or German social security is entered, a manual adjustment is required, because these payments* ***are*** *taxable by California – see page* ***49***.
- [A,6] Tier 1 Railroad Retirement benefits (1040 Line 6) - see page **47**.
  - TaxSlayer automatically makes the adjustment (this is Social Security equivalent).
- [10] Any state tax refunds (1040 Schedule 1 Line 1) - see page **35**.
  - TaxSlayer automatically makes the adjustment.
- [19] Unemployment compensation paid by CA or another state (Schedule 1 Line 7) - see page **64**.
  - TaxSlayer automatically makes the adjustment.
- [21] Indian tribal members' benefits, if the member lives on his or her tribal land – see Indian Tribal Income on page **56**.
  - The CA adjustment must be **manually** entered; also answer "Yes" to the question about FTB Form 3504.
- [21] Lottery winnings in California (Schedule 1 Line 8b) – see the section Gambling Winnings (Form W-2G, Form 1099-MISC, or Cash), which begins on page **65** [other states' lottery winnings are taxable by CA].
  - The CA adjustment must be **manually** entered.
- [21] Government-agency authorized reward from a crime hotline (Schedule 1 Line 8z) - see **FTB Pub 1001** for details.
  - The CA adjustment must be **manually** entered.
- [21] HSA distribution in excess of qualified medical expenses (Schedule 1 Line 8f) – see Health Savings Accounts in CA, page **111**.
  - The CA adjustment must be **manually** entered.

Additional Business Expenses

California allows certain business-related expenses *not allowed on the federal Schedule A* to be added to the calculation of net profit from self-employment. These expenses *reduce* California taxable income, and are entered on CA Schedule CA Part I line 12.

- Work-related educational expenses for which the Lifetime Learning Credit was claimed
  - If the taxpayer has a Schedule C on the return, **and** the educational expenses are related to that business, **and** the business has a net profit, then those work-related educational expenses can be used to *reduce* income on the CA return [the reduction is the *lesser* of the educational expenses or the net profit].
    - The adjustment must be **manually** entered.
- Entertainment expenses which are business-related
  - California does not conform to the elimination of entertainment expenses as an allowable business expense. As of the publication date of this manual, TaxSlayer does not separate meal expenses from entertainment expenses, on the **Schedule C – Expenses** page, so it is necessary to handle entertainment expenses as a **manual** adjustment.

OTHER DIFFERENCES IN CALCULATING INCOME

In three other areas, California may calculate income differently from the federal

return.

Inherited Property Basis Difference (page 49)

- For inherited property, the CA basis is always the fair market value (FMV) at date of death.
- The federal basis for property inherited in 2010 (and sold during the tax year) may be different from FMV; this is shown on the 2010 **Form 8939, Allocation of Increase in Basis for Property Acquired From a Decedent** (**instructions**). If the basis is not FMV, the return is ***out-of-scope***.

IRA Basis Difference

- ***Note:*** For the federal return, the IRA basis recovery is on Form 8606 Part I.
- There may be a basis difference for CA as shown in the table below.
- The taxpayer must have records showing the amount contributed for each of these years and the amount deducted for federal and CA, if any.
  - o Without records, there can be no adjustment of the taxable IRA distribution.
- Generally, CA basis in excess of federal basis is applied to reduce the amount of taxable IRA distribution until CA basis is the same as federal basis.
  - o Thereafter, no further adjustment would be needed as CA follows federal IRA basis recovery rules.

Year	Federal	California
1975	Maximum deduction $1,500	No IRA deduction
1982-1986	$2,000 maximum; must be earned income	$1,500 maximum; not allowed if covered by pension plan
1987-1994	Limited to net federal *Schedule C* income plus wages	Limited to net income on *CA C Page 1* if less than federal
2007-2009	AGI limits increased for deductible IRA for active participants	CA AGI limits lower, allowed deduction could have been lower
2007-2009	Catch-up provisions	Non-conformity
1987 - Now	Nondeductible contributions	Separate election

- **FTB Pub 1005** has detailed instructions and worksheets.

Capital Loss Carryover (CA Schedule D)

- Capital loss carryover amounts can vary between federal and CA - see page **51** for how to determine this, and how to handle it.

FEDERAL ADJUSTMENTS TREATED DIFFERENTLY BY CA

Adjustments on Federal Return not Recognized by CA

California does not recognize (allow) three adjustments (reductions of income) that are on Form 1040 Schedule 1. On CA Schedule CA, the changes are entered as *subtractions* from what is on Schedule 1; the net effect is to *increase* the income amount that is taxable (the California AGI). The three federal adjustments that are affected are:

- Educator expenses (Form 1040, Schedule 1 Line 11) – discussed on page **70**.
  - o TaxSlayer automatically makes the basic adjustment on the CA return.
    - ▪ However, if the taxpayer wants to claim this amount on the CA return as unreimbursed employee expenses (a type of itemized expense subject to a 2%-of-AGI reduction on Schedule A), it's a **manual** adjustment – see the "ITEMIZED DEDUCTIONS TREATED DIFFERENTLY BY CA" section below.
- Health savings account deduction (Form 1040, Schedule 1 Line 13; HSA) – discussed on page **70** [these are *employee* contributions, which are *not* on Form W-2].
  - o TaxSlayer automatically makes the adjustment.
- IRA deductions (Form 1040, Schedule 1 Line 20) made after age 73 (previously was 70½), as discussed on page **73.** A **manual** adjustment (**income addition**) is required, discussed on page **106**.

Adjustments on Federal Return Handled Differently by CA

California handles differently any alimony paid for divorces finalized after 2018, as well as separations signed after 2018. TaxSlayer handles these adjustments automatically.

- See Schedule 1, Line 2 – Alimony Received, page **55**.
- See Schedule 1, Line 19 – Alimony Paid, page **73**.

ITEMIZED DEDUCTIONS TREATED DIFFERENTLY BY CA

- CA treats some Schedule A deductions differently from how they're handled on the federal return. Federal amounts, and changes to the federal amounts for the CA return, are shown on CA Schedule CA Part II.
- Adjustments to federal deductions can be entered **manually** when TaxSlayer doesn't handle them automatically. To **manually** adjust deductions, in the State Section, select "Itemized Deductions."
  - The **Itemized Deductions** page lists some adjustments that post to specific lines on CA Schedule CA Part II. For example, because CA still allows interest on non-acquisition debt secured by a home to be deducted (up to $100,000 of debt), you might need to enter an amount in the "Additions - Home mortgage interest and points reported to you on Form 1098" box.
  - There is also a non-specific "Other Adjustments to California Itemized Deductions" option at the bottom of the page; **this is for adoption-related expenses**, which is *out-of-scope.*

- ***Note:*** Bracketed numbers, below, are the [2023] line numbers for Part II of CA Schedule CA.

- [Part II, Line 4] Medical expenses in excess of 7.5% of federal AGI.
  - Medical expenses reimbursed by an HSA account, on line 15 of Form 8889, are not deductible on federal Schedule A, but possibly can be added to line 4 of Part II of CA Schedule CA. A **manual addition** is required.
  - The actual entry is **tricky, and should not be done until Schedule A on the federal return is complete.**
  - ***Warning:*** Qualifying expenses for HSA distributions include items, such as OTC drugs, that are *not qualifying for Schedule A.* These are *not qualifying for the CA itemized deduction.*
  - What is entered in TaxSlayer depends on how close the taxpayer is to the 7.5% threshold. Three examples follow. For all of them, assume a Federal AGI of $40,000, so that the 7.5% threshold is $3,000, that the HSA distribution was $1000, and that $900 qualified for Schedule A (but was *not* entered there; it was used for HSA purposes on the federal return).
    - (1) Schedule A (federal) medical expenses are $3,500, which is $500 over the threshold. Enter $900 in TaxSlayer.
    - (2) Schedule A (federal) medical expenses are $2,000. *Do not enter anything in TaxSlayer*. (If you enter $900, TaxSlayer thinks that this is the amount in excess of $3,000, and it counts the $900 as part of CA itemized deductions.
    - (3) Schedule A (federal) medical expenses are $2,500. Enter $400 in TaxSlayer. (Total allowable medical expenses on the CA return are $2,500 plus $900 equals $3,400; that's $400 over the threshold.)
- [5a] State and local taxes – see page **78**. On the federal return, the itemized deduction for state and local taxes (SALT) is limited to a total of $10,000.
  - CA does not conform in allowing state income tax or state sales tax as itemized deductions, regardless of amount.
  - For real estate and personal property taxes, CA does not conform to the $10,000 limit, though it's rare for taxpayers we serve to exceed that amount.
    - If the taxpayer is itemizing on the CA return, enter all real estate and personal property taxes paid on the federal Schedule A.
  - TaxSlayer automatically flows real estate and personal property tax amounts to CA Schedule CA Part II, lines 5b and 5c, while eliminating the state income tax or state sales tax amount.
- [6] Foreign income taxes when taken as a Schedule A deduction rather than a credit (see page **82**)
  - The CA adjustment must be entered as a **manual subtraction** (note that line 6 on the federal Schedule A is for all other taxes, not just foreign taxes; subtract only foreign taxes).
    - ***Note****:* Foreign taxes only go on Schedule A – and require a CA adjustment - if they exceed $300 (if MFJ, $600).
- [8] Home mortgage interest and points
  - CA does not conform to the reduction in mortgage and line-of-credit interest that can be deducted on the federal return, for loans made after December 15, 2017; the total was reduced to $750,000. Interest paid is still deductible on the CA return, up to $1 million in loans ($500,000 MFS), to the extent that these loans were used to **buy, build, or improve a home**.
    - Any difference (interest on loan amounts over $750,000 but not exceeding $1 million) must be entered as a **manual addition**.

- CA does not confirm to the elimination of interest and points on up to $100,000 of "home equity debt" (debt secured by a home, but **not** used to buy, build, or improve that home).
  - The amount of such interest and points must be entered as a **manual addition**.
- Calculation of what is acquisition debt (buy, build, or improve) versus non-acquisition debt (home equity debt) is complicated; see page **82** for a detailed discussion.

- [11-2] Gifts to Charity
  - Educator expenses for which a federal deduction was claimed on Schedule 1 Line 11 (see page **70**) *may* be claimed as CA charitable contributions if (a) they are not for professional development, (b) the educational institution is a registered charity with the IRS, and (c) all usual documentation requirements are met for taking a charitable deduction, either Schedule A Line 11 or 12, as appropriate (page **84**). Educator expenses that do *not* meet all three of these conditions may be deducted as Expenses subject to a 2%-of-AGI reduction, lines 19-21 below.
- [16] Gambling losses to offset lottery winnings in California – see page **65**
  - The CA adjustment must be entered as a **manual subtraction**; in TaxSlayer, this usually goes in the "Other Miscellaneous Itemized Deductions" section.
- [16] Repayment of unemployment benefits for a prior year – see page **64**
  - The CA adjustment must be entered as a **manual subtraction**; in TaxSlayer, this goes in the "Other Miscellaneous Itemized Deductions" section.
- [19-21] Expenses that were subject to a 2%-of-AGI reduction.
  - Beginning with tax year 2018, the entire category of itemized expenses subject to a 2%-of-AGI reduction, such as the expense of a safe deposit box, or tax preparation fees, **is no longer deductible on the federal Schedule A.** However, California conforms to allowable federal Schedule A deductions *as of 2015*, so such expenses *are still allowable* as a CA itemized deductions subject to a 2%-of-AGI reduction. [The 2% is based on the **federal AGI.**]
  - Most of the "2%-of-AGI reduction" expenses allowed for the CA return were entered on Schedule A on the *federal* return. TaxSlayer handles such "no longer valid for federal, but possibly valid for states" deductible expenses by continuing to allow them to be entered in the federal Schedule A section.
    - These expenses are described in the section on page **86.**
    - These expenses flow automatically from the federal Schedule A to Part II of CA Schedule CA.
  - There are two "2%-of-AGI reduction" expenses that are allowable on the CA return but are *not* included in the federal Schedule A. Both need to be entered as **manual additions** in Part II of CA Schedule CA.
    - Educator expenses for which a federal deduction was claimed on Schedule 1 Line 11 (see page **70**). (This is the deduction of up to $300.)
      - TaxSlayer automatically adjusts to increase CA *income*, as mentioned above, but doesn't adjust itemized deductions. Educator expenses are claimable as work expenses, but may be more profitably claimed as charitable donations if all conditions are met (see Lines 11-2 above).
    - Work-related expenses for which a federal education credit was claimed
      - TaxSlayer doesn't know if expenses for either of the two education credits (see page **93**) were ***work-related.*** If they *were*, then they *are* deductible using CA Schedule CA, either a subtraction of income (offsetting Schedule C *net* income, which is preferred, but there may not be any Schedule C net income), or as an additional itemized deduction, a **manual subtraction**, as "Other Miscellaneous Itemized Deduction".

HEALTH SAVINGS ACCOUNTS IN CA

- CA does not recognize HSAs nor the trust that is created for federal tax purposes.
  - This can affect many parts of a return.
- Form W-2 – contributions made by an employer to a Health Savings Account, shown in box 12 with code W, are not federally taxable, **but** are taxable by California. The federal income on the Form W-2 (box 1) doesn't include the amount in box 12, but this amount is taxable on the CA return.
  - TaxSlayer automatically adjusts line 7 of Part I of CA Schedule CA Part I, Section B line 8f.
- Interest or other income earned in an HSA account is taxable on the CA return.
  - It's unlikely the taxpayer will bring a document showing how much income was earned within their HSA account, and, in any case, the amount is likely to be insignificant.
    - Do *not* ask taxpayers for this information if they do not bring it with them.

- If you do have this information, follow the procedure in the section Manually Entering Income Differences on CA Schedule CA, page **106**, to **add** this as California income.

- Capital gains or losses within the HSA trust are taxable by California.
  - In TaxSlayer, there is currently no way to make this adjustment.
  - ***Note:*** an adjustment may result in a different capital loss carryover for CA purposes.
- For HSA distributions in excess of qualified medical expenses, line 16 of Form 8889, TaxSlayer includes the distribution in federal income (Schedule 1 Line 8f, Other Income), but it's not taxable for CA; a **manual** adjustment (subtraction) is required.
  - Follow the procedure in the section Manually Entering Income Differences on CA Schedule CA, page **106**.
- HSA distributions for which there are qualified expenses are not taxable income on either the federal or CA return; no CA *income* adjustment is needed.
- HSA contributions made by or on behalf of the taxpayer (Schedule 1 Line 13) reduce taxable income on the federal return, but CA does not recognize such reductions.
  - TaxSlayer automatically makes an adjustment on CA Schedule CA Part I, line 25.
- Medical expenses reimbursed by the HSA, on line 15 of Form 8889, aren't deductible on federal Schedule A, but should be added to CA Schedule CA as an additional itemized deduction. A **manual** adjustment is needed for CA Schedule CA Part II line 4.
  - Follow the procedure in the section Itemized Deductions Treated Differently by CA, page **110**.

CA-ONLY NONREFUNDABLE CREDITS

- All California-only credits are reached from the Credits menu page in the State Section. Four specific credits are listed: Child Care Credit; Renter's Credit; Schedule S, Other State Tax Credit; and CA Earned Income Credit.
  - Schedule S, Other State Tax Credit, is ***out-of-scope.***
    - If the taxpayer decides to not claim credit for taxes paid to other state(s), then Schedule S isn't needed and does not cause a scope issue. If the taxpayer wants to claim this credit, the taxpayer needs to use a paid tax preparer or tax preparation software.
  - For CA credits other than the four listed, use the **Other Credits** link.
    - TaxSlayer allows entering a maximum of *two* credits on the **Other Credits** page.
- All of California's credits are ***nonrefundable*** except CalEITC, the Young Child Tax Credit, and the Foster Youth Tax Credit. That means that if line 34, Tax, is zero, then *only* those three refundable credits can generate a tax refund for the taxpayer, assuming s/he had no California tax withholding.

Child and Dependent Care Credit (CA 3506), CA Form 540, Page 2, line 40

- See Schedule 3, Line 2 - Credit for Child and Dependent Care Expenses, page **89**, regarding this credit. (Care must be *physically* provided within California.)

College Access Tax Credit, Code 235, CA Form 540, Page 2, lines 43-45

- This credit is for individuals who make cash contributions to the College Access Tax Credit (CATC) Fund.
- Donors must apply for the credit and get certified by the California Educational Facilities Authority (CEFA) before they can make the donation.
- For tax years through 2027, the amount of the credit for each tax year is 50% of the amount contributed.
- Only the non-credit part of the contribution **is allowed as an itemized deduction on Schedule A.**

Joint Custody Head of Household Credit, Code 170, CA Form 540, Page 2, lines 43-45

- This credit is available to a person who files as Single or as MFS if:
  - The person paid more than one-half the household expenses for their home
  - Which is the main home of the taxpayer's child, stepchild, or grandchild for at least 146 days but less than 219 days of the taxable year
  - And the custody arrangement for the child is part of a decree of dissolution or legal separation, or part of a written agreement entered into before the final decree is issued.
- If MFS, the taxpayer must have lived apart from their spouse/RDP for the entire tax year.
- The credit is 30% of the tax due (CA Form 540, page 2, line 35), limited to a maximum of $592 for 2024.
- The credit can't be claimed if the Dependent Parent Credit, code 173, is claimed.
- See **FTB Instructions for Form 540** if there are any questions about entitlement to this credit.

Dependent Parent Credit, Code 173, CA Form 540, Page 2, lines 43-45

- ***Note:*** There are very limited situations where a MFS return is in-scope – see page **14**.
- This credit is available to a person filing MFS where:
  - The spouse did not live in the taxpayer's household during the last six months of the year.
  - The taxpayer has a mother or father who is their dependent.
  - The taxpayer paid more than half of household expenses of that dependent, whether or not the dependent lived in the taxpayer's home.
- The credit is 30% of the tax due (CA Form 540, page 2, line 35), maximum same as **Joint Custody HOH Credit**, directly above.
- ***Note:*** The credit can't be claimed if the Joint Custody HoH Credit code 170 is claimed.
- **FTB Instructions for Form 540** has full details if there are questions.

Senior Head of Household Credit, Code 163, CA Form 540, Page 2, lines 43-45

- This credit is available for a person 65 or older who:
  - Qualified as head of household for at least one of the two prior tax years
  - Does not qualify for HoH in the current tax year because the qualifying relative for HoH died within the two prior tax years
  - Whose AGI does not exceed $95,779 for 2024 – **caution, TaxSlayer may not apply this income limit properly**.
- **FTB Instructions for Form 540** has full details.
- The credit is 2% of CA Taxable Income (CA Form 540, page 2, line 19), but not more than $1,806 for 2024.

Child Adoption Credit, Code 197-- out-of-scope

Renter's Credit, CA Form 540, Page 2, 1ine 46

- Since TaxSlayer asks about this credit for *every* CA return, see page **104** (near the top of the State section).

CA-ONLY REFUNDABLE CREDITS

California Earned Income Tax Credit (CalEITC), CA Form 540, Page 2, line 75

- CA has a refundable state EITC, maximum of $3,644 in 2024. Eligibility:
  - For 2024, **the federal** AGI must be less than $31,951.
    - The taxpayer (or spouse, if a MFJ return) must be **18 years or older,** and *there is **no maximum age.***
      - The taxpayer cannot get CalEITC if they is eligible to be claimed as a dependent on another taxpayer's return.
    - A taxpayer and/or spouse qualifies ***even if they have an ITIN***.
  - The credit is calculated using earned income.
    - Income from self-employment **does** qualify as earned income when calculating CalEITC.
    - To count for CalEITC purposes, any income reported on a Form W-2 must be subject to California withholding. That means that the employment must be in California.
  - Filing status cannot be MFS (scope issues).
  - The taxpayer (and spouse, if filing MFJ) must have lived in California for more than half the year.
  - Investment income, broadly defined, must be less than $4,674 for 2024.
    - The investment income amount goes on line 4 of the FTB 3514.
- FTB 3514, California Earned Income Tax Credit, must be completed and filed with the return.
  - TaxSlayer completes this form automatically. Manual entries on the **CA Earned Income Credit (Form 3514)** page are needed only if:
    - The IRS or the FTB previously disallowed the taxpayer's federal or CalEITC (respectively). [This doesn't disqualify the taxpayer. It just increases the likelihood of an audit.]
    - There is a Medicaid Waiver Payment excluded on the federal return but included for CA EIC.
    - There was prison inmate (incarcerated) income.
    - There was income from a nonqualified plan. [Such plans are designed for executives and other select employees; if payment is via Form W-2, there is an amount in box 11; if payment was by Form 1099-R, the code in box 7 is probably "D".]

Young Child Tax Credit, CA Form 540, Page 2, line 76

- Any taxpayer who is eligible for CalEITC is eligible for the Young Child Tax Credit (YCTC) **if** they have one or more qualifying children who are under the age of six as of December 31 of the tax year. A Social

Security number *is not required*, but if the child has neither an SSN or an ITIN, then (as with the dependent exemption credit), FTB Form 3568 is required, alternative identifying information must be provided (to prove the existence of the child), and the CA return must be **paper filed.**

  - See the section Entering Information in TaxSlayer on page **20** for further steps for a child with neither SSN nor ITIN.

- As with CalEITC, **federal** AGI for 2024 must be under $31,951 to receive this credit. However, effective with tax year 2022, the taxpayer does not need to have earned income in order to get this credit. Effective with tax year 2023, the taxpayer does not need to have any income at all to get this credit.
- The maximum credit is $1,154 per qualifying child for 2024; TaxSlayer handles this automatically.
- YCTC information appears in Part VII of CA Form 3514, "California Earned Income Tax Credit."

Foster Youth Tax Credit, CA Form 540, Page 2, Line 77

- This refundable tax credit began in tax year 2022, in the same amount as CA YCTC, above. It is similar to CalEITC and YCTC, and is claimed on FTB 3514, California Earned Income Tax Credit. Unlike CalEITC and YCTC, the credit is available per qualifying individual up to a maximum of 2 children per tax return.
- To qualify for FYTC, a taxpayer must meet all of the following requirements:
  - Qualify for CalEITC
  - Be age 18 through 25 at the end of the tax year
  - Have been in foster care at age 13 or older and placed through the California foster care system
  - Satisfy foster care verification requirement x
- ***Note:*** This credit is for *former* foster children who are filing their own taxes, *not* for taxpayers who are claiming a foster child as a dependent.
- Select State Section > California Return > Credits > CA Earned Income & Foster Youth Credit (Form 3514) > Foster Youth Tax Credit, and answer the questions.

CA PENALTIES FOR LACK OF HEALTH INSURANCE

Individual Shared Responsibility (ISR) Penalty, CA Form 540, Page 3, line 92

- California's Individual Healthcare Mandate began with 2020. All California residents and their dependents are required to have health insurance the entire year. Failure to do so could result in a penalty up to the greater of:
  - $900 per adult plus $450 per minor dependent
  - 2.5% of income over the CA filing threshold
- If a taxpayer didn't have health insurance for at least one day in every month for each person on their tax return **and for anyone else they could have claimed** as a dependent, then they're **required by CA law** to include FTB **Form 3853 Health Coverage Exemptions and Individual Shared Responsibility Penalty Form** with their CA return. Taxpayers cannot escape the ISR penalty by choosing not to claim a dependent, so it almost always makes sense for them to claim all possible dependents on both federal and CA returns, as dependent credits (federal) and personal exemptions (CA) offset at least some of the ISR penalty. If a taxpayer refuses to claim a dependent on their California return for whom they would owe the Individual Shared Responsibility penalty, then the return is ***out-of-scope.***
  - Additional guides to the CA shared responsibility penalty, with examples, can be found in the shared CA-wide REFERENCES folder (**tiny.cc/ca-ref**).
- TaxSlayer automatically adds Form 3853 to the CA return if you answer "No" to "Did the Taxpayer have Full year minimum essential health care coverage for all members of the household?" during the initial return setup. It can also be added or removed later by navigating to [State Section > California Return > Health Care Shared Responsibility Tax (Form 3853)] and changing the answer to the insurance question at the top of the page.

  Note for CA returns: TaxSlayer defaults the health insurance question to "No", so forgetting to change this answer to "Yes" incorrectly assesses the penalty for insured families. Quality reviewers should always verify that the CA return correctly includes or excludes Form 3853.
- If taxpayer income is below the CA filing threshold, the penalty is $0 but Form 3853 must still be filed.
- The maximum penalty is assessed if no members of the taxpayer's household had insurance at all.
- TaxSlayer automatically handles the cases where the minimum ($0) or maximum penalty is assessed, as long as the health insurance question is answered correctly.
- Employer coverage affordability calculator: **https://www.coveredca.com/learning-center/employer-sponsored-coverage/employer-coverage-and-financial-help/**

- The exemptions listed below provide relief for some or all of the penalty if anyone in the taxpayer's household qualifies for one or more of them.
    - ***Tip:*** Before entering any exemptions, it's useful to generate a PDF of the CA return to see Form 3853: use the printer icon on the State Section page. If the checkbox in part II at the bottom of page 1 of the form is checked, then TaxSlayer has determined that the taxpayer is exempt from the penalty and there's no need to do any more work in this section of the return.
- **Exemptions.** After verifying that Form 3853 shows a penalty is due, determine if any exemptions in this table are applicable for any part of the year. Exemptions are determined on a monthly basis, and except for C (short coverage gap) can be applied to multiple discrete periods.

Coverage Exemption	**Exemption Code on 3853**
Individual has coverage for at least one day of the month	Z
Individual has a certificate issued by Covered California conferring an exemption for: • General hardship • Members of certain religious sects • Coverage considered unaffordable based on projected income	 K L M
Short coverage gap of 3 months or less. Only the first gap of the year can be used, and it can't be greater than 3 months total, including the final months of the prior year. Example: if the coverage gap ran from November 2023 to February 2024, then January and February do not qualify for the exemption on the 2024 tax return since the entire gap is four months. This does not apply if the gap extends into the following tax year. In the example above, November and December would still qualify for the exemption on the 2023 return.	C
Citizens living abroad and certain noncitizens — ***return is out-of-scope if not filing a full-year resident return for California.*** • A U.S. citizen or a resident alien who was physically present in a foreign country or countries for at least 330 full days during any period of 12 consecutive months; • A U.S. citizen who was a bona fide resident of a foreign country or countries for an uninterrupted period that includes the entire tax year; • A bona fide resident of a U.S. territory; or • An individual who is not a citizen or national of the United States and is not lawfully present in the United States for that month.	D
Nonresident of California/Part-year resident of another state – ***in-scope only for depedents***	E
Members of a healthcare sharing ministry	F
Members of Indian tribes eligible for services through an Indian healthcare provider or the Indian Health Service.	G
Incarceration	H
Member of applicable household born or adopted during the year. Member of applicable household died during the year. ***Note:*** these two codes are only used when filing Form 3853 for other reasons. If everyone in the household had health insurance for all months they were alive, don't file Form 3853. These codes are to create an exemption and avoid penalty for any months the individual was not alive or not a member of the household.	I J
Certain Medi-Cal (Medicaid) programs that are not minimum essential coverage are exempt from the ISR penalty – some Medi-Cal programs are restricted in scope or don't provide coverage until the client pays a share of the cost.	N
Coverage considered unaffordable – employer coverage for an individual that costs more than 7.97% of the household's income is considered unaffordable.	A
Aggregate coverage considered unaffordable – if two or more members of the household have employer offers of coverage and the total cost is greater than 7.97% of the household's income, coverage is considered unaffordable.	B

Enter any exemptions that apply in [State Section > California Return > Health Care Shared Responsibility Tax (Form 3853) > Part III – Coverage Exemptions]. Add an exemption record for each household member, *even if that person has no exemptions*, and select the relevant choices for the year or for each month.

- If exemption records were created for the household, then Shared Responsibility Payment records must also be created and completed for each person in the household in [State Section > California Return > Health Care Shared Responsibility Tax (Form 3853) > Shared Responsibility Payment]. If any dependents had a California filing requirement because their income exceeded their filing threshold, enter their income in this screen. Don't enter income for dependents whose income is below the filing threshold if they filed a return only to claim a refund of CA tax withholding. See 2023 Instructions for California Form 3853 Health Coverage Exemptions and Individual Shared Responsibility Penalty for more details on filing requirements.

CA-ONLY VOLUNTARY CONTRIBUTIONS

- California allows the taxpayer to make contributions to any special funds listed on CA Form 540, page 4.
- Unlike giving $3 to the Presidential Election Campaign Fund, a CA contribution increases the amount due or decreases the amount of the refund.
- If the taxpayer wants to donate (commonly when they're receiving a refund of just a few dollars), then from the **California State Return** menu, go to the **Voluntary Contributions** page. Donations may be deducted on next year's Schedule A.

STATE TAX WITHHELD

- CA taxes withheld from Form W-2, W-2G, 1099-DIV, 1099-G, 1099-INT, 1099-OID, 1099-R, and 1099-MISC appear on CA Form 540, page 3, line 71, if entered on the respective pages in the Federal Section.
    - Enter any 1099-B state withholding on the **Payments - Other State Withholding** page [Federal Section > Payments & Estimates > Other State Withholdings]. TaxSlayer includes the amount on this page on Schedule A Line 5a, and on CA Form 540, page 3, line 71.
      Note: You must ***also*** enter this amount on [State Section > Payments > Withholdings from Form 1099].
        - Select the appropriate form from the dropdown menu.
- If there was state tax withheld from more than one type of form 1099, not including 1099-Rs, then the state tax return must be **paper-filed**.
    - E-filing a CA return which has withholding from two or more types of 1099 forms, other than 1099-Rs, results in a CA reject (reject code CA 41).
- ***Note:*** CA tax withheld on a state-only form (such as a CA Form 593, Real Estate Withholding Statement, entered in the State Section, as described in the section Sale of Home, page **52**), appears on CA Form 540, page 3, line 73.

STATE ESTIMATED TAX PAYMENTS

- These are payments the taxpayer **has made** using CA Form 540-ES for the CURRENT tax year, plus any overpayment amount from the prior year that was credited toward estimated taxes for the current year.
    - ***Note:*** See the section CA Estimated Tax Payments (CA Form 540-ES), page **120**, if payment vouchers are needed for NEXT year's estimated tax payments.
- Go to the **Payments – State Estimated Payments** page [Federal Section > Payments & Estimates > State Estimated Payments] to enter any payments based on taxpayer information (actual amounts paid) and, if applicable, the prior year's tax return.
    - All payments listed on this TaxSlayer page *that are within the tax year* are carried to Schedule A line 5a.

BALANCE DUE

- Most taxpayers pay the balance due by mailing a check, together with a payment voucher form (Form 1040-V, for federal; CA Form 3582, for CA), to the IRS and/or FTB (addresses on page **iv**). But taxpayers can pay in other ways: by providing information on their tax return for direct debit (taking money directly from a bank account), or by various direct pay options, which include paying by credit card.
    - See pages **Pub 4012** pages K-24 to K-26 for detailed information on the various payment options.
    - In this manual, direct debit is discussed on page **117**; direct pay is discussed on page **117**.
- If a taxpayer cannot pay at all, or cannot pay in full, see the "Unable to Pay/Late Filing" section, page **130**.

UNDERPAYMENT PENALTIES

- Calculating estimated penalties is ***out-of-scope***. Tax-Aide policy is that any penalties must be calculated by and billed by federal and state tax authorities.
- If the taxpayer owes more than $1,000 on their federal return, the taxpayer may – depending on a variety of factors - be billed by the IRS for the underpayment.
  - Inform the taxpayer of a potential penalty or penalties, that the penalty or penalties won't be on the return, and that the tax authorities *may* send them a bill for the penalty amount(s).
  - If large amounts are due, you should talk to the taxpayer about adjusting withholding on wages, pensions, Social Security, and other recurring payments, and/or making or increasing quarterly estimated payments. See page **119** for further discussion on this.
- ***Note for CA returns:*** For CA, the threshold for *potential* penalties is owing more than $500.

Federal Penalty

- When you start the E-file section, if the taxpayer owes more than $1,000, you'll see a warning that includes "You may be subject to an estimated tax penalty." The warning also includes information on how to get to the TaxSlayer page to enter information for Form 2210, to calculate the penalty. *Do not enter information for Form 2210; it is **out-of-scope**.*
- The federal penalty – if Form 2210 is filled out by mistake – shows on Form 1040 Line 38.
  - To remove the amount on Line 38, enter "2210" in the search box, which takes you to the **Underpayment of Estimated Tax** page. Put $1 in the "Prior year's tax" field, set the payment date to 6-30-2024, and click "Continue."

CA Penalty

- Don't enter any information in the **Underpayment of Estimated Tax, Form 5805** page, in the State Section.
- The CA penalty – if CA Form 5805 is filled out by mistake – shows on line 113 of the Form 540 (on page 5).
  - If the page is mistakenly filled out, go to the page (State Section > Miscellaneous Forms) and change the answer to the first question to "No,"

DIRECT DEBIT

- When a taxpayer has a federal or state balance due, they may pay by a direct debit from their bank account.
- Payment information is entered on the E-file section, in the **Bank Account** page – see page **121** for details.
  - ***Note:*** To print federal direct-debit details, print either:
    - Direct Debit print set, page 1.
    - The client summary page, which is page 3 of the full return (printed from within the return).
- The taxpayer can revoke (cancel) their federal direct debit by contacting the U.S. Treasury Financial Agent at 888-353-4537, an automated system. However, the call must be made no later than 11:59 p.m. Eastern Time two business days prior to the scheduled payment date.
  - ***Note for CA returns:*** A scheduled direct debit on an e-filed California state tax return can be cancelled; follow the instructions on **CA Form 8455**.
- **Returns (regular and amended) e-filed after the <u>regular</u> filing deadline:** for these returns, IRS computers are programmed to do direct debit immediately upon processing the return.
  - ***Warning:*** this happens even if the filing deadline has been extended due to a federally declared emergency.

DIRECT PAY

- <u>Federal</u>: After Tax-Aide has e-filed a return, the taxpayer can go to **IRS.gov/Payments** to pay a balance due on that return, or to make a quarterly estimated payment.
  - One option is "Pay Directly from Your Bank Account"; there is no fee. (This the same as direct debit.)
  - Another option is "Pay with Your Debit or Credit Card." Processing fees are charged (by third parties).
    - For credit cards, the fee is approximately 2% of the payment. The exact percentage varies by processing company and appears on the IRS page where the taxpayer would make the payment.
- <u>CA</u>: The taxpayer can go to **ftb.ca.gov** to see a similar range of options (click "Pay").

REFUND DUE

Note: if a taxpayer's refund will be offset to pay a past debt to the IRS and this causes an economic hardship for the taxpayer, the site coordinator should refer the taxpayer to the IRS Taxpayer Advocate Service (TAS), at 1-877-777-4778, *before* the taxpayer's return is e-filed.

DIRECT DEPOSIT

- Specifying what should be done with a federal and/or state refund is done in the E-file section of TaxSlayer, on the **Bank Account** page, as described on page **121**.
  - A taxpayer's federal refund can be deposited directly to one or more taxpayer bank accounts, which gets the refund to the taxpayer at least one week earlier than if the taxpayer is mailed a paper check.
    - Venmo (and presumably similar services) provides taxpayers with a routing number and account number; these are for an FDIC-insured bank with which Venmo is a partner.
    - Paper returns *can* request that a refund be paid using direct deposit.
    - Amended federal returns that are e-filed *can* include direct deposit for a refund.
  - The taxpayer is **not** notified by the IRS when the refund has been deposited but can check online at **irs.gov/refunds** [click "Check Your Refund"].
- ***Note for CA returns:*** **For a CA refund:**
  - TaxSlayer uses the **first-listed bank account** in the **Bank Account** page of the E-file section.
    - In TaxSlayer, the CA refund cannot be split between two or more bank accounts.
    - Paper returns, including amended returns, *can* request that a refund be direct deposited.
  - The taxpayer **won't** be notified by the FTB when a refund has been deposited, but can check online at **ftb.ca.gov/refund/.**
  - If the FTB identifies a correctible problem with a tax return, such as an error in estimated tax payments made during the year, it automatically corrects the return and – when direct deposit has been requested – will still do direct deposit.
    - A notice of the correction will be sent to the taxpayer via mail, which may arrive *after* the direct deposit has occurred. The FTB has requested that taxpayers *not* call about a refund, if different from expected, until they have received a notice from the FTB (or, of course, until a reasonable period – a week or more – has occurred after the deposit occurred, and no notice has been received).

APPLICATION OF OVERPAYMENTS TO NEXT YEAR'S TAX RETURN

Federal

- A refund can be applied to next year's tax return. This is **not recommended** for our clientele:
  - If the taxpayer doesn't bring a prior year paper return, or the current year return has no Carryforward, there's a good chance the taxpayer won't remember that an amount was applied, or how much.
  - If there was any change to the return – either by the IRS or by an amended return, the amount on the printed Form 1040, Page 2, as being applied, will probably have been affected. The taxpayer may not remember such a change.
- If the taxpayer insists, proceed as follows:
  - Go to the **Payment Apply Refund** page [Federal Section > Payments & Estimates > Apply Overpayment to Next Year's Taxes] to enter the amount to apply to next year, which can be less than the full refund.

California

- To apply some or all of a state refund to next year's state tax return, go to the **Apply your State Refund to your 20xx tax return** page [State Section > Payments > ....]
  - *This is not recommended*, as discussed in the preceding paragraph.

INJURED SPOUSE CLAIM

- If there is a refund due (because of withholding or estimates paid by the taxpayer) and that refund will be offset by debts to the IRS of the spouse, debts that originated before marriage, the taxpayer may request that a Form 8379, Injured Spouse Allocation, be filed with the return.
- ***CA policy:*** Because Form 8379 requires income-splitting, it makes the return ***out-of-scope***, because California is a community property state.
- ***Note for CA returns:*** CA has no equivalent to the federal "injured spouse" allocation.

ESTIMATED TAX PAYMENTS FOR NEXT YEAR

FEDERAL ESTIMATED TAX PAYMENTS

- If a taxpayer expects a balance due of $1,000 or more for next year's (2025) tax return, and won't otherwise have paid at least 90% of the tax due, then they risk having the IRS assess a penalty for underpayment. To avoid this, there are four options:
  - Increase withholding from their paychecks using **Form W-4**, normally available from their employer, but which can be printed from the irs.gov website if necessary.
    - ***Note:*** the IRS has an online tool to help complete this form, at **https://apps.irs.gov/app/tax-withholding-estimator**.
  - Increase withholding from their periodic (ongoing) retirement income using **Form W-4P**, which can be completed online and then printed.
    - ***Note:*** **Form W-4R** is for non-periodic payments, and is required if the taxpayer wants to change the mandatory (default) withholding of 10%.
  - Increase withholding from federal payments (such as Social Security) using **Form W-4V**, which can be completed online, and then printed.
    - ***Note:*** Form W-4V offers only four federal withholding options: 7%, 10%, 12%, and 22%. State tax withholding is not available.
  - **Make (or increase) quarterly estimated payments, as described in this section.**
- To determine the quarterly amount for estimated tax payments (normally these are set to be equal), which show on the quarterly Form 1040-ES:
  - If no substantial change in income is expected for the next calendar year, compared to the current tax return, the current return can be used as the basis for determining the quarterly amounts.
  - If a substantial change in income, filing status, dependents, or credits is expected in the coming year, or has already happened by the time the current return is prepared, there are **four options** that calculate estimated payments:
    - Use the **Tax Withholding Estimator** [link is in TaxSlayer, on the Main Menu page, at the bottom of the left navigation bar].
    - Use the Estimated Tax Worksheet with MFJ/MFS Comparison at **cotaxaide.org/tools/**.
    - Print the Estimated Tax Worksheet, from the **instructions for Form 1040-ES**, and fill it out with the taxpayer.
    - Use the 1040 Estimated Payments Calculator in TaxSlayer. Go to [Federal Section > Payments & Estimates > 1040 Estimated Payments Calculator]. Data from the current return is in the left-hand column. Enter the numbers for next year in the right-hand column, then click Continue to display the amount to enter for each payment on the vouchers screen.
  - The taxpayer owes no underpayment penalty if the taxes withheld were at least 100% of what was owed (Line 24, Total Tax, on Form 1040).
    - ***Note:*** For 2024 returns where the AGI is over $150,000 ($75,000 if MFS), the threshold is 110%.
- Once the desired quarterly amounts have been calculated, go to the **Estimated Payments for Next Year** page [Federal Section > Payments & Estimates > Vouchers for Next Year's Estimated Payments] and enter the amounts.
  - Four 1040-ES forms print as part of the PDF for the tax return.
    - Make sure the taxpayer understands that it's not *required*, when making the quarterly payment, to pay *exactly* what's printed. If the taxpayer is mailing the 1040-ES, the payment can be for a different amount. The taxpayer may cross out the incorrect printed amount on the form and write in the actual amount being paid.
- Quarterly payments can be made in several different ways, although paying by check, through the mail, is the most common.
  - A quarterly estimated-tax payment should be mailed separately from mailing the 1040-V payment voucher or the federal tax return (addresses on page **iv**).
  - Taxpayers may also make estimated tax payments by direct debit from their bank account (using Electronic Federal Tax Payment System, **EFTPS.gov**), or by other methods such as a credit card (for which there is an additional fee). Options are described at **IRS.gov/payments**.

CA ESTIMATED TAX PAYMENTS (CA FORM 540-ES)

- If a taxpayer expects a balance due of $500 or more on next year's (2025) California tax return, they should:
  - Increase withholding from their paychecks (**Form DE 4** is available online and from their employer).
  - Increase withholding from their retirement income (Form DE 4P at **edd.ca.gov/pdf_pub_ctr/de4p.pdf** can be completed online, then printed).
    - ***Note:*** State tax can't be withheld from Social Security or unemployment payments.
  - If withholding is unavailable, make estimated payments to avoid penalties.
- CA estimated-payment requirements are slightly different from the IRS requirements, but are generally close enough that the same procedures can be used to estimate the tax.
  - If the current tax return and next year's are expected to be about the same, use the current CA Form 540 to determine how much in estimated payments should be made next year.
  - If a substantial change in income, filing status, dependents, or credits is expected in the coming year, or has already happened by the time the current return is being prepared, consider using the California Estimated Tax Worksheet in the **instructions for CA Form 540-ES**.
- A taxpayer must pay at least the following to avoid a FTB penalty (for paying the bulk of estimated taxes *later* in the tax year than they should be). For a tax year, those amounts are:
  - 30 percent first quarter (due mid-April)
  - 40 percent second quarter (due mid-June)
  - 0 percent third quarter (due mid-September)
  - 30 percent fourth quarter (due mid-January of next calendar year).
- Although the stated amount for the third quarter is 0%, CA Form 540-ES *does* include a form to be mailed in the third quarter, and TaxSlayer *does* print the third quarter form even when the dollar amount entered in TaxSlayer for that quarter is zero. This CA Payment 3 should be ignored.
- To create CA 540-ES vouchers, go to the **Estimated Payment Vouchers, Form 540ES** page **[**State Section > Miscellaneous Forms > ...] and enter dollar amounts for the first, second, and fourth quarters.
  - Use the required percentages (30-40-0-30) to allocate the desired total amount estimated payments.
- The 540-ES forms print as part of the PDF for the tax return.
  - Make sure the taxpayer understands that it is not *required*, when mailing in a Form 540-ES, to pay *exactly* what is on the printed page. They can make a payment in a different amount; if they do, they should simply line through the printed amount on Form 1040-ES and write in the actual amount being paid.
  - Taxpayers can also pay by direct debit from a bank account (no fee) or credit card (additional fee). See all options and instructions at **ftb.ca.gov/pay**.

E-FILE SECTION

- In TaxSlayer, the E-file section is the final section in preparing a return. It must be completed for **all** returns, including paper returns.
- The description below is for a **preparer** going through the E-file section. For actions to be taken in the E-file section by the **reviewer**, see the Quality Review section, page **124**.

WARNINGS AND ERRORS

Warnings Page

- If there are Notes for the return (see page **8**), they'll show on the **Warnings Concerning Your Federal Return** page.
  - Notes may require action; all of them should be reviewed.
- Also listed on this first page are TaxSlayer-determined *warnings*, generally for missing information.
  - TaxSlayer normally provides a link to click, to go to a page where the problem can be fixed. Normally these warnings are fixed before quality review begins.
  - Warnings usually won't prevent a return from being e-filed.
- If there are no notes or warnings, the **Warnings** page won't be shown.

Errors Page

- If TaxSlayer has identified *errors* on the return, this page will be shown, and will list errors.
  - Clicking "Visit" usually takes you to the page where you can correct a listed error.

  - o Errors that aren't corrected prevent the E-file section from being finished.
- If there are no errors, the **Errors** page won't be shown.

STANDARD E-FILE PAGES

- There are a number of standard pages in the E-file section, with a progress bar across the top. (One page, **Bank Account**, is visible only if needed.)
- Clicking "Continue" at the bottom of a page saves the information entered in that page.
- Clicking a circle or heading in the progress line at the top of the page(s) takes you to that page.
- At any time, you can return to the main part of the return by clicking something in the left navigation bar, but if you do, anything entered since the last "Continue" was clicked won't be saved.

Return Details page

Select how the federal and state returns will be filed (E-file or paper) and how the refund or payment will be handled (paper check, direct deposit, direct debit).

  - o "E-File: Mail Payment" includes *any* payment option other than direct debit from a bank account that is specified in the return. (Taxpayer options for paying an amount due are discussed in the Balance Due section, page **116**.)
  - o [Workaround] *If the taxpayer is neither getting a refund from nor owes money to the IRS,* select "E-File: Mail Payment" if the return is to be filed electronically; otherwise select "Paper Return".
  - o ***Note for CA returns:*** If the taxpayer has a balance due and will pay via a direct debit from a bank account, the printed return should automatically include CA Form 8455, California e-file Payment Record for Individuals. When printed, check this form to make sure it has a dollar amount on it; if not, enter that manually.
- Checking the "Only transmit the state return(s)" box results in e-filing *only* the state return - the federal return **won't** be transmitted to the IRS.
  - o This is typically used when the federal return has been accepted but the state return rejected. After making corrections, the state return can be electronically filed by checking this box and using the "Save and Transmit Return" button on the **Submission Page**, if having ERO capabilities.
  - o ***Note:*** This also can be used when the federal return has been rejected because of identity theft – often whoever committed the theft did not file a state return, or (possibly) filed the state return in another state. (E-filing the state return means that the taxpayer doesn't have to paper file that return, and speeds up any refund.)
  - o ***Warning:*** if you are not the LC or ERO, don't check this box without prior approval.
- There's no reason to change the default PINs for Form 8879s.
- Optional questions (click if you want this to be visible):
  - o Third party designee information: This is only used when the taxpayer is designating someone who can speak to the IRS on their behalf.
    - ▪ This is a very limited authorization, not a power of attorney, and the taxpayer must still sign the return or Form 8879 themselves.
      - ▫ You or any other counselor or volunteer may <u>**never**</u> be a third-party designee.
    - ▪ If an elderly taxpayer is accompanied by their adult child and the taxpayer seems to depend on the child for understanding interview questions, or if there are other issues, then the taxpayer might be asked if they would like to designate someone for this limited purpose.
      - ▫ If they agree, they must provide a name, phone number, and PIN, which authorizes the named third party (say, their adult child) to discuss the return with the IRS.
    - ▪ Third Party Designee information appears on Form 1040 (except amended returns) just above the signature line. An authorization expires one year from the due date of the tax return.

Fee Summary Page

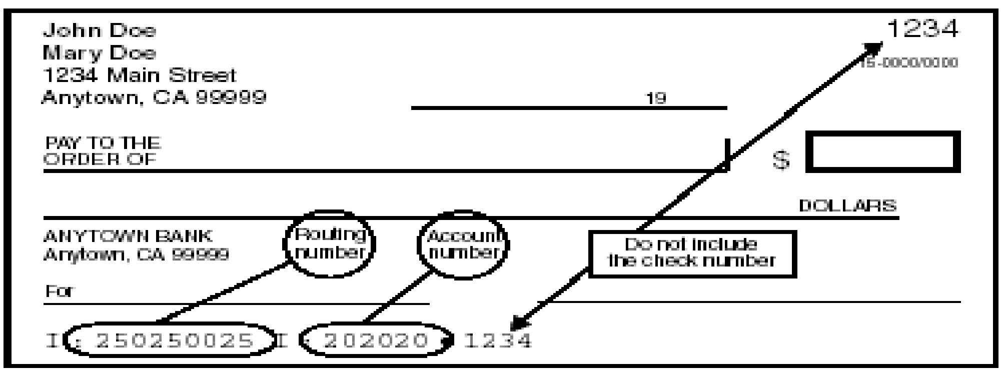
- This page is not relevant to Tax-Aide – either skip it, or click "Continue" to go to the next page.

Bank Account Page

- ***Note:*** This page won't show in the progress bar at the top of the E-file section, and won't be accessible unless the **Return Details** page specifies a direct deposit or direct debit for the federal and/or state returns.
- On this page, the bank account information is normally taken from a **check** that the taxpayer has with them.
  - o Encourage taxpayers who don't use checks to ask their bank for a letter of account verification. The same information, from a website or mobile app on the taxpayer's mobile phone, is also acceptable.

- The taxpayer doesn't have to void the check or even remove it from their checkbook.
- It is *not* acceptable to have the taxpayer provide direct deposit information by calling a site or a counselor, because if an error is later discovered, it's impossible to prove who was at fault.
- If the taxpayer wants to use the account information from the prior year's return, then it's acceptable to put the non-verified account information on the return, **if the preparer does the following:**
  - Advises the taxpayer that the account information on the return is at their own risk, and if the funds do not arrive in their account, there is no way to trace or replace the funds.
  - Has the taxpayer initial next to the account information on the printed return.

- Specifics:
  - Entering a bank name isn't required.
  - Multiple bank accounts **can** be entered in TaxSlayer; they show on Form 8888, Allocation of Refund.
    - The **state** refund or payment (if done electronically) uses the **first account** listed. (In TaxSlayer, a state refund or payment can never be split between multiple accounts.)
    - Use the "Pull Refund" button if the entire refund amount is to go into the first account that is entered (which for most returns is the *only* account entered).
  - For each bank account, enter the 9-digit Routing/Transit number (which is always on the left side of the MICR encoded line on checks) and the account number.
    - Never use a deposit slip – the routing number for deposit slips is often different from the routing number for checks.
    - Omit spaces, dashes, and special symbols.
  - DO NOT enter the check (sequence) number, which matches the check number on the upper right corner of the check
    - The check number may appear **before** the account number, though it normally follows the account number.



  - *New: As of Jan. 1 2025, paper savings bonds are no longer issued, and savings bonds in any form can no longer be purchased with a tax refund.*
    - All bonds are accessed by the taxpayer through a https://www.treasurydirect.gov account associated with the primary SSN on the return.
    - Taxpayers can check the status of their prior bonds via Treasury Retail Securities, 1-800-245-2804.
  - If there is a "Direct Debit Information" area, the "Requested Payment Date" field must be the IRS tax deadline **or earlier.** The phone number – required – is that of the taxpayer; it autofills from the phone number entered in the Basic Information section.
    - ***Warning:*** TaxSlayer includes direct debit information for the federal return in a form – the Client Form Listing Summary – that is usually *not printed and therefore not given to the taxpayer*. To provide documentation for the direct debit, generate the Quality Review PDF and print **only** the page (usually page 3) which includes the direct debit information.

State ID License Page

- ***CA process note:*** Do **not** enter or select anything on this page; it isn't required.

Taxpayer Consent Page

- There are three consent forms in the Intake Booklet, responses to which must be entered in TaxSlayer.
  - ***If the taxpayer doesn't consent, then s/he should NOT SIGN that particular consent form.***

        - After the tax preparer has confirmed that the taxpayer does not consent (as opposed to the taxpayer not understanding the consent form), the tax preparer should write "**NO**" or **"DECLINE"** on the consent form. This makes it clear to the quality reviewer that the taxpayer has not consented.
    - **For MFJ returns**, both taxpayer and spouse must agree (sign) a given consent form for it to take effect.
        - This means that if only one of the two is present during the preparation of the tax return, you or another counselor must *see* the signed consent form and enter that information in TaxSlayer, when the taxpayer or spouse returns with the Intake Booklet.
    - Page 5 (not numbered) of the Intake Booklet is "How to Use this Intake Booklet". It provides good summaries of the three consent forms. If the taxpayer has questions about a consent form, this page may provide them with answers.
- The three consent forms are:
    - Consent to Disclose Tax Return Information to VITA/TCE Tax Preparation Sites [**Consent 1**]
        - If consent is given, **Carryforward** information from the current tax return will be available to *any* Tax-Aide or other TCE site, as well as *any* VITA site, when starting next year's tax return. The full, filed tax return will remain accessible *only at the site where it was prepared.*
        - If consent is *not* given, Carryforward information will be available only at the site where that tax return was prepared.
    - Consent to Disclose/Use Information to AARP Foundation [**Consent 2**]
        - This consent allows a very limited number of AARP Foundation staff to create statistical reports from taxpayer information stored on TaxSlayer servers. The focus of the statistical reports is the diversity information on two pages of the Intake Booklet.
    - Consent for AARP Foundation to use select tax return information to provide you with additional information about other free AARP Foundation programs or services [**Consent 3**]
        - Note: the taxpayer *won't* be contacted about anything other than **free** AARP services if they consent.
- If, for each of the three consent forms, the taxpayer has either signed (to consent) or the consent form is clearly marked as "No" or "Decline", then you should enter this information in TaxSlayer without further discussion with the taxpayer.
- PINs and dates
    - If the taxpayer **declines** a request for a consent, then **you don't need to enter a PIN or a consent date in TaxSlayer**.
    - PINs are arbitrary; entering the same digit five times is the fastest way to enter one. *Don't ask the taxpayer for a PIN.*
    - The fastest way to enter the date is to use the calendar. (The current date is highlighted.)
    - For MFJ returns, a consent/authorization requires two PINs (they can be the same) and two dates.

Custom Questions Page

- This page has four types of questions:
    - The first nine questions are specified by the IRS, a sponsor of the Tax-Aide program. The answers to the first eight questions are in the Intake Booklet.
        - The taxpayer has the absolute right to refuse to provide answers to these questions.
        - If the return is MFJ, answer "Yes" to question 9 even if only one spouse was present ("Was the taxpayer physically present during the entire return preparation and quality review process?").
        - Otherwise, IRS questions do **not** require tax preparers to make a choice for each question; if the taxpayer doesn't provide answers, you may skip those questions.
    - Questions starting with TA01 are specified by AARP Foundation; these pull information from 2 later pages of the Intake Booklet. (The IRS is not legally able to share the responses to these questions, so the AARP Foundation must ask them separately.)
        - For returns other than MFJ, spousal questions should be answered "No spouse" if that is an option; if it is not, no answer may be required.
        - The taxpayer also has the right to refuse to provide answers to these questions.
    - Questions TA10 and TA11 are also specified by AARP Foundation, but **should be answered by the preparer, not by asking the taxpayer –** the information is on the **Bank Account** page.
    - *Custom questions*, set up at the district or site level.
        - For example, a district might ask the identity of the quality reviewer for the return, with the answer selected from the initials (or first name and last initial) of the site's counselors.

Submission Page

- The final step in the E-file section is the **Submission Page**.
  - o ***Note:*** If you see a message at the top of the page like "You can't e-file", that means **you**, the counselor, haven't been given permission to **transmit** returns to the IRS. The return itself *can* be e-filed by your ERO.
- Electronic signatures: Tax-Aide does not use these.
- Printing: If you're the **preparer**, you normally wouldn't print the return until it's been quality reviewed.
- Sharing tax documents: The Customer Portal is for taxpayers who have uploaded their tax documents, and the return is being prepared virtually; no physical Tax-Aide site is involved.
- Return status tags: Select whatever return tag(s) are appropriate.
  - o Keep in mind that TaxSlayer treats the return tags as *text*, not as something that causes any action. For example, if you select the "Ready to E-file" (or similar) tag, this does *not* put the return into the transmittal queue. Similarly, a tag like "Signature required" *won't* prevent a return from being e-filed.
    - ▪ Tags are simply a way of communicating – to other counselors – what is going on with a return. They help LCs and EROs to sort and find specific returns on the **Client Search** page.
    - ▪ Marking a return "Complete" is the *only* way to put a return into the transmittal queue. Thus the "Ready to E-file" tag(s) are a waste of time and add no further information to the LC or ERO.
  - o More than one return tag can be selected, though normally only one is.
  - o "Signature Needed" (or similar) should be selected if this is a MFJ return with only one taxpayer present.
- The final actions of a **preparer** <u>within</u> TaxSlayer, <u>prior to quality review</u>:
  - o Click "Mark tax return ready for review" to change the status of the return on the **Client Search (Office Client List)** page to "Review Pending." This puts the return in the "Return Reviews" section (accessible to all counselors whose security template includes review functionality).
  - o Click "Save and Exit Return."

<u>FINAL STEPS IN TAX RETURN PREPARATION</u>

<u>EXITING A RETURN BEFORE COMPLETION</u>

- If you stop working on a return before completing it – for example, the taxpayer needs to come back with a missing tax document, then:
  - o Create a note (page **8**) about the status; if documents are missing, indicate which documents are needed.
  - o After exiting the return, set a **tag** (see page **8**) to indicate that the taxpayer needs to return with more information, or that the taxpayer left, or something else, if appropriate. (The exact tag depends on the choices defined by your district or local site.)
  - o Add an explanation of the status of this return to your Activity Reporting log.
- ***Note:*** *Until you are logged out or you open another return, the return you worked on is <u>locked</u> and cannot be opened by another user for 30 minutes.*

<u>QUALITY REVIEW</u>

- The quality review process is described starting on **Pub 4012** page K-15 and in the second half of **Pub 5101, Intake/Interview & Quality Review Training**. Other relevant IRS publications are **Pub 5353, Intake/Interview & Quality Review Policy** (fact sheet)**, Publication 5310, VITA/TCE Tax Return Quality Review Job Aid**, and **Pub 5299, VITA/TCE Quality Review Refresher**.
- Every Tax-Aide return **must** be quality reviewed by another counselor.
  - o If the return requires additional certification, **both** the preparer and reviewer must be so certified.
  - o The taxpayer should be present to observe the quality review and answer any questions.
  - o Quality review of the information entered in TaxSlayer is best done on screen rather than from printouts.
- In TaxSlayer, the preparer should have checked "Mark tax return ready for review" on the **Submission Page** of the E-file section and exited the return. Checking that box places the return in a separate section on the main page called "Review Returns."
  - o If you don't see that section of the main page, then the security profile for your login doesn't include the ability to approve returns – to act in the QR role. That's unusual – it means your assigned security profile doesn't include "Review Returns."

- The reviewer must examine the Intake Booklet and the taxpayer's supporting documents, comparing them to the information on the return, to check for the accuracy and completeness of what was entered. That may be done using one or a combination of the following three approaches, depending on the nature of the return:
  - (1) Review all TaxSlayer pages where the preparer entered information.
    - For Basic Information, this is up to four pages.
    - For the Federal Section, this can be done very quickly using the items that appear in the left navigation bar when it is fully expanded vertically. For example, clicking on "Retirement Income" takes you immediately to where 1099-Rs have been entered in TaxSlayer.
    - In the State section, the only way to get to the pages where information was entered, if any, is through the menu system (look for buttons labeled "Edit").
  - (2) From the **Calculation Summary** page, compare information on various lines of Form 1040 to the documents provided by the taxpayer, checking individual TaxSlayer pages as needed.
    - This approach can't cover information entered in the State section; one of the other two approaches must be used for State section data entries, if any.
    - Early in the tax preparation season, the Calculation Summary can be wrong – some entries don't post, and many entries are misaligned. In that case, generate a PDF of the return.
  - (3) Review the PDF of the "Quality Review" print set for the return (**Pub 4012** page K-16), comparing it to documents provided by the taxpayer.
    - The PDF includes *images* of forms like the W-2 as well as copies of federal schedules.
    - A "Quality Review" print set is available on the final page of E-file section, **Submission** and also from the **Client Search (Office Client List)** page.
- If any changes to the tax return are needed, discuss these with the preparer unless they're very minor.
  - If you make minor changes, you *still* should let the preparer know, so that they are less likely to make the same mistake in the future.
- The last part of the quality review is to go through the pages in the E-File Section, as discussed on page **120**.
  - Pay particular attention to the information on the **Warnings** page if one appears.
    - Make sure that existing notes are still needed and accurate. Add notes or return tags as necessary (such as a tag for paper-filing).
  - In the Customer Questions section, if the local site has set up a custom question to record the quality reviewer, make sure this is answered correctly.
  - On the final section of the E-file section, the Submission Page section:
    - Verify that any return tags selected are correct. It is *not* necessary to select a return tag for "Ready to Efile", because that function is now covered by marking the return "Complete".
      - If a second signature is needed for a MFJ return, make sure that a return tag has been selected which says "Awaiting signature" (or similar).
      - If the site uses return tags to indicate who has done the quality review, then check the appropriate tag – such as "PatS-reviewer".
    - If the QR process, *including all discussions with the taxpayer,* is complete, and the return needs no changes, click "Approved" (in the "Transmit Return" area of this E-file page).
      - If the only thing needed to e-file the return is the signatures of a spouse who isn't present, then the return should be approved.
    - Determine if the "Mark tax return as complete" box should be checked.
      - It should be checked if this is a paper return, including a paper amended return.
      - It should be checked if the return is to be e-filed and all needed signatures can or will be obtained immediately after the return is printed. (With a MFJ return, if the taxpayer or spouse is not present, then *do not* check this box.)
    - **If the "Mark tax return as complete" box is incorrectly checked,** it can be **unchecked** only by preparers who have that authority. If the box was checked in error, and you can't uncheck it, **notify your LC immediately**.
- Final steps:
  - Print the return for the taxpayer (alternatively, this could be done by the preparer).
    - For detailed information about printing a return, see the Printing Returns section, page **126**.
    - If the return is going to be paper filed, see also the Printing section, page **129**.
  - Click "Save & Exit"
  - Enter reviewer initials on the preparer's Activity Log, or on the Site Activity Log.

REVIEW RETURNS WITH THE TAXPAYER

- Either the preparer or the quality reviewer must review the return with the taxpayer to the extent needed or requested to ensure taxpayer understanding.
  - Part of the review is to point out to the taxpayer that the accuracy and completeness of the return is the taxpayer's responsibility, as stated on the Forms 8879 (federal and state), and on the Tax Record Envelope.
- This review can be done either from the computer screen OR by using a printed return.
  - Decide which works best for you and the taxpayer
  - For more complex returns, such as those with many documents, it may be easier to work from a printed copy – see "Printing Returns", immediately below.
- If the prior year's return is available, it can be very helpful to review the differences with the taxpayer.
  - TaxSlayer has a "Prior Year Comparison" feature, which compares the current tax year return to *any* prior year tax return which has been done at the same site. This is a very limited comparison, of ten lines on the tax return, not a complete line-by-line match. It's available from the **Calculation Summary** page (click Summary/Print on the left navigation bar), and in the "Helpful Tools" section of the pulldown menu under the taxpayer's name (upper right of the screen).
- If the taxpayer had a significant change in the amount owed or amount refunded between the prior and current tax years, the three most likely sources of that change are:
  - <u>The taxpayer's status or income or expenses</u> changed significantly.
    - If taxable income increased significantly, then the taxpayer may have now be in the 22% marginal federal tax rate. [For 2024, for single and MFS filers, that rate starts at $47,150; for HoH returns it starts at $63,100; for MFJ/QSS returns it starts at $94,300.]
  - <u>Withholding differences</u>: The taxpayer may have submitted a W-4 to change federal withholding, or instructed a pension trustee to change withholding, or taken an IRA distribution in a different amount than the prior year, and/or with a different tax withholding percentage.
- While it is difficult to predict exactly when a taxpayer will receive a refund, IRS guidance in previous years has been that most filers should receive their refund within 21 days of e-filing, and sooner than that if the refund is being sent electronically to a bank account (direct deposit).

PRINTING RETURNS

- For MFJ returns, the taxpayer copy of a return <u>will</u> be printed and given to the taxpayer or spouse when one is missing. The absent taxpayer or spouse <u>must</u> have the opportunity to review the printed return before signing the Form 8879s, as well as the consent forms in the Intake Booklet.
- When you start the print process in TaxSlayer, a PDF file will be created and displayed in a separate window or area of the screen.
- There are three places where a PDF can be created; *only the first two let you pick a better print set*:
  - Within the return, in the Submission Page section of the E-file section
    - *This is the best place to print a return, because of the full choice of print sets.*
  - On the **Client Search (Office Client List)** page (accessible via the main menu), by clicking on the printer icon for a return (to the left of the "Tools" drop-down menu).
  - Within the return, the "Preview Return" option at the top of the screen.
    - What is produced is the "20xx Taxpayer Copy Print" set, which has a large number of pages normally not given to a taxpayer; this is **not recommended.**
- No matter which PDF is created, it can be scrolled through to see what will print. The PDF, on the screen, can also be used in reviewing the return with the taxpayer.
- In the resulting print dialog, either print the entire file (normal), or select specific pages to be printed (unusual)
  - If you work at more than one Tax-Aide site, or are using a personal computer, **make sure that the printer listed in the print dialog is the correct one.**
    - If, after you expect printing to begin, it does not, one of the most common causes is having specified the wrong printer [if this happens repeatedly, *change the default printer*; if necessary, get another counselor to assist].
    - Another reason why something might not print is a printer problem: out of paper, out of ink, or a paper jam.

- If you are printing a return that will be paper filed, see the additional information in the Printing section [part of "Paper Returns"], page **129** below.
- ***Note:*** It is a violation of Tax-Aide policy to save a PDF file created in the printing process, or to give that file to a taxpayer in electronic form.

Printing Individual Schedules and Forms

- If you need to print just one specific federal schedule or form, there are two options:
  - Print from a TaxSlayer menu - there are five schedules and nine forms that can be printed individually, provided that an entry has been made on the related schedule or form.
  - Create a PDF for the entire return, and then specify, in the printer dialog, that you want printed only the page which has the schedule or form that you need.
    - If for some reason a specific form is part of the return, but is not included in the standard print set, look for a more comprehensive PDF that you can generate (such as "Quality Review"); the needed page may be part of that PDF, and you can print just the needed page.

Printing Blank Forms

- A blank tax form may be printed for a taxpayer who is coming to the site only for advice or assistance with a return that he or she is manually preparing.
- TaxSlayer doesn't have an internal process to print blank forms; instead, get them from the Internet:
  - Federal forms are at **irs.gov/forms-instructions**, which you can get to by clicking "Print Blank IRS Forms" from either the Main Menu page or the **Client Search (Office Client List)** page.
    - You can use the search box on that IRS page, but it's better to click "List All Current Forms and Instructions" and use the search box on *that* page.
  - ***Note for CA returns:*** CA forms are at **ftb.ca.gov/forms/search/** .

E-FILING: SIGNATURES

- The taxpayer's signature and (if married) the spouse's signature are required for all tax returns.
- ***Note:*** If you expect to see two Form 8879s (federal and state) when you print the return, but only see one, it is probably because one of the two return types was erroneously set to *paper*. [A paper return doesn't require a Form 8879.] If so, *correct the return* and print the missing Form 8879.

Married Filing Jointly

- If a return is MFJ and only one taxpayer is present, make sure that return is marked to indicate that a second signature is still needed, and that the return should be held, not e-filed, until that second signature is received.
  - Add a return tag (see page **8**) which says that a signature is needed to complete the return; you may also want to add a note.
  - In the comments column of the Site Activity Log, note, for the return, that a signature is required before the return is e-filed.
- Print the return; then:
  - Have the taxpayer who is present sign Form 8879, IRS *e-file* Signature Authorization, and CA Form 8879, California e-file Signature Authorization for Individuals.
  - Make it clear to the taxpayer that the return won't be e-filed until a Tax-Aide volunteer at the site has witnessed that the signatures of both taxpayers are on both forms, but that we do not keep these forms. **Also remind the taxpayer that we'll need to see the Intake Booklet again, to enter any consents.**
  - Per *Policy and Procedures Manual of Tax-Aide*, for MFJ returns, "LC or Site Coordinator discretion is needed if only one taxpayer is present …; taxpayer and spouse must still sign the IRS Form 8879. State Coordinators may set a statewide policy regarding joint return signatures."
    - **When both taxpayers are not present, the spouse who is present will receive the 8879s [along with the taxpayer copy of the tax returns that were prepared, per split-state policy].**
    - ***Make sure the taxpayer knows that returns cannot be electronically filed until 8879s are completed and brought back to the site to confirm they were properly signed.***
  - State, district, or local (site) policy may require one of the following:
    - Both taxpayers come to the site, together, with picture identification and the 8879s, signed by both.
    - The taxpayer who is not present at the preparation of the return comes to the site, with picture identification and the 8879s signed by both (or signs the 8879s in the presence of a counselor).

        - The taxpayer who was present at the preparation of the return to come back to the site, with picture identification of their spouse, and the 8879s, signed by both.
    - Instruct the taxpayer to follow the site policy regarding the signature of their spouse on the federal and CA 8879 forms, so the return can be filed electronically.
- ***Note***: As an alternative, the taxpayer can be given a printed copy of the return to take home, get the spousal signature, and mail.
- ***Note:*** A married taxpayer can sign for a spouse when injury or disease prevents the spouse from **physically** being able to sign. LC approval is required.

Rejected Returns

- If a return is rejected and then dollar amounts are changed, new 8879 signatures are required if the any of the following are true, per **Pub 1345**:
    - "Total income" or AGI changed by more than $50.
    - "Total tax," "Federal income tax withheld," "Refund", or "Amount you owe" changed by more than $14.

Deceased Person - Signature Requirements

- A surviving spouse signs the return and add "as surviving spouse" after their name.
- If there is no surviving spouse, an executor or administrator signs their own name with their title, typically "Executor". Such authority is based on:
    - Copy of the will appointing the executor if there is one
    - Other authorizing document, such as a court appointment
    - If there is no document, the term "executor" includes anyone in actual or constructive possession of any property of the decedent – see **Pub 559, Survivors, Executors, and Administrators.**
- Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer, must be included if the return is filed by other than a surviving spouse **and** there is a refund due. (For details, see the section Other Personal Information, beginning page **18**.)

Power of Attorney (POA)

- If an agent is signing the return for a **living** taxpayer, a Power of Attorney (POA) is required; this may be a Form 2848, Power of Attorney and Declaration of Representative, or another format.
    - The POA must either be (a) signed by the taxpayer, and notarized, or (b) issued by a court.
    - The POA must state explicitly that the representative is authorized to sign tax returns.
    - POAs may be used for signing tax returns only in the case of disease or illness of the taxpayer.
    - ***Note:*** A Power of Attorney expires when a person dies.
- Confirm the identity of the agent (photo ID) and add a note in TaxSlayer (page **8**) stating that signature was done via POA.
    - The note should include the name and ID information, such as driver license number of the agent, the date of expiration of the POA, contact information for the agent, and any other relevant information.
    - If the return is being e-filed, the agent must sign Form 8879s.
    - If the return is mailed to the IRS, then a copy of the POA must be attached to the Form 1040.
- The taxpayer should keep a copy of the POA with their tax return in case the IRS asks for documentation.

PAPER RETURNS

Starting Paper Returns

- When a paper return is required because the return cannot be e-filed, the federal and state return types must be set to a paper option, in the Return Type section of the Fee Summary .
- The Site Activity Log should be annotated to indicate a paper return, and the reason why.
- The reason why the return is being paper-filed should have already been entered in a note; if one doesn't exist, create one.
- ***Note for CA returns:*** Early in the tax season, Form 540s and/or supporting forms may be watermarked by TaxSlayer as "**Do Not Mail**". That means that the *printed version* of the watermarked form *has not been approved by the Franchise Tax Board* and **should not be mailed to the FTB.** The taxpayer **should not be given a second set of state forms for mailing.** Instead, arrangements should be made with the taxpayer to receive a return to be mailed once the "Do Not Mail" watermark no longer appears.

- On paper-filed returns, many non-dollar fields are not required, because paper tax forms will be attached to the return. However, unless you are an expert on paper-filed returns, it may be easier just to complete the forms in TaxSlayer as if the return will be e-filed.
- In cases where the IRS rejected a return because the taxpayer's primary/secondary/dependent SSN was used on another return that has already been filed, **Form 14039, Identity Theft Affidavit**, must be included with the paper return. (This form is available online, not in TaxSlayer.)
  - More information can be found on **Pub 4012** page P-5, "IP PIN Guidance for Identity Theft Victims."
  - ***Note for CA returns:*** If a Form 14039 has been prepared for the IRS, that form can also be submitted with the paper CA 540. If only the CA return has been affected by identity theft, then **CA Form 3552, Identity Theft Affidavit** , available online, should be prepared, to be filed with the paper CA return.

Printing Paper Returns

- General instructions for printing are on page **126**.
- Print two copies of the PDF, one to be mailed, one for the taxpayer.
  - As noted above, this may require using two different print sets.
- ***Warning:*** If the taxpayer asked for direct deposit of a refund, make sure the bank routing number and account number have not been X-ed out on Form 1040. If they have, then it's recommended that the taxpayer attach a check to the paper return, marked "VOID – bank information for direct deposit", with the routing number and account number circled prominently.
- ***Note for CA returns:*** A paper return for CA requires a copy of the federal return, including schedules, to be attached **if** the federal return includes any Form 1040 schedule other than A or B. This probably requires printing selected pages from the PDF of the return.

Signing and Collating

- The **taxpayer(s)** must sign the first page of the IRS 1040 AND the last page of CA Form 540 for the returns being mailed.
  - If the return involves a deceased taxpayer, see **Pub 4012** page K-19, "Return Signature."
- Federal – collate according to Attachment Sequence No., at the top right of each supporting form for Form 1040.
  - This is normally the sequence that forms will be printed; you normally don't need to rearrange the pages.
- CA – collate according to numerical / alpha sequence, followed by the federal return, *if required* (as noted above, a paper return for CA requires a copy of the federal return, including schedules, to be attached **if** the federal return includes any Form 1040 schedule other than A or B).
- Attach to the first page of 1040 and 540 returns:
  - Form W-2s (Fed – paper Form W-2s; **CA – use machine-readable pages printed by TaxSlayer, if in the print set, instead of attaching paper Form W-2s**)
  - Form W-2Gs, if tax was withheld (Fed / CA, respectively)
  - Form 1099-Rs, if tax was withheld (Fed / CA, respectively)
  - Any other forms showing tax withheld
- Note: CA Form 3519, the payment voucher, is **not** used with paper returns.

Mailing Paper Returns

- Instruct the taxpayer to mail the returns with any payment vouchers and checks, but **separately** from any payments of quarterly estimated tax.
- Mailing addresses are on page iv **above** (exception: if there is a W-7 form, the return is mailed to the address in the next section).

Paper Returns that Include a Form W-7

- The taxpayer must complete and sign the W-7(s) that are printed with the paper return, and submit them together with required documents.
  - Reminder: In TaxSlayer, the page is at Federal Section > Miscellaneous Forms > **Application for ITIN (Form W-7)** [not reachable via the search box].
  - In TaxSlayer, the first page for W-7 information (asking the reason for filing the W-7) **must** be completed to avoid an error message. It's possible that the taxpayer had on hand all information needed to complete the W-7 in TaxSlayer.

    - If one or more fields on the form are blank because a question(s) wasn't answered in TaxSlayer, remind the taxpayer that Form W-7 is incomplete. Tell the taxpayer they must fill in these fields manually before submitting the Form W-7 with the tax return.
- Cross-out on each 1040 page and supporting schedule and documents, the temporary SSN/ITIN entered by TaxSlayer (typically 000-00-0001).
- If the taxpayer has a tax return with multiple Forms W-7, or multiple returns with one Form W-7, these forms should be staggered and stapled together to show the entire package as a family pack. This prevents separation of the forms/returns that could increase processing time.
- The taxpayer must submit the paper return with the W-7 and required documentation, either by mail or in person.
  - By mail: IRS, ITIN Operation
PO Box 149342
Austin, TX 78714-9342
  - An advantage of applying in person is that documentation required to be submitted with the application can be returned immediately, and not lost in the mail. There are two options:
    - At a Taxpayer Assistance Center where in-person document review is provided. These locations are listed at **irs.gov/help/tac-locations-where-in-person-document-verification-is-provided**; note that they operate by appointment only. (This link is also on page 4 of the Form W-7 instructions.)
    - With an IRS-authorized Acceptance Agent [some of these are free; some charge a fee]. A list of agents can be found at **irs.gov/individuals/international-taxpayers/acceptance-agent-program**
- For the state return, which also must be paper filed, the taxpayer has two choices:
  - If the taxpayer does not have tax due to the state, s/he can hold the state return until they receive their official ITIN letters, which may take 6-8 weeks.
    - Once they have their ITIN cards, they can record the ITINs on the state return and mail it in.
  - Alternatively, "Applied For" can be written in the SSN field, and the state return mailed immediately.
    - The taxpayer should contact the FTB (1-800-852-5711) once the ITIN is received, to make sure the tax return is properly processed.

UNABLE TO PAY/LATE FILING

- Returns prepared by Tax-Aide during the filing season are always filed by the spring deadline, except for returns prepared by authorized sites that are open year-round.
  - It is important for taxpayers to understand that *whether or not they can pay in full, it is **always** better for them to file their taxes on time.* Timely filing eliminates late-filing penalties, and any amount that can be paid on time reduces IRS interest charges.
- TaxSlayer automatically prints a payment voucher for the full payment due. The taxpayer can always change the dollar amount on the voucher. (Best is to line through the original amount, and write in the amount that is being mailed in.)
  - If they can't pay in full by the spring filing deadline, inform the taxpayer of the payment options **below.**
- ***Note for CA returns:*** Because CA taxes due are usually much smaller than federal taxes due, the taxpayer may want to pay CA in full, if possible, and owe more money to the IRS. That way, the taxpayer is dealing with only one creditor, not two. (Interest rates are similar, if not identical.)

UNABLE TO PAY - FEDERAL

- For federal taxes, more information can be found in **Pub 594, The IRS Collection Process.**
- **Pub 4012** pages K-25 and K-26 describe options for a taxpayer who is unable to pay in full.

Pay Within Six Months (Short-Term)

- If the full payment can be made **within 180 days** (by mid-October), the first step is for the taxpayer to pay as much as possible by the April deadline.
- The second step is for the taxpayer to contact the IRS at 800-829-1040 [best to call *after* the April deadline] or go online at **irs.gov/payments/online-payment-agreement-application** [must create an online account] and request a **Short-term Payment Agreement** of 30, 60, 90, 120, 150, or 180 days.
  - This agreement does not have fees. By contrast, an installment agreement (see below), which is longer-term, *does* have fees.
  - A short-term agreement stops the placement of the account into collection status.

- If this option is feasible, discuss with the taxpayer they'll make payments.
  - If the taxpayer expects to pay by mailing checks, print as many payment vouchers (bottom of **Form 1040-V** page 1) as the taxpayer wants, or
    - Printing multiple copies of the 1040-V in the PDF of the taxpayer's return is preferable because this has taxpayer information. After printing these copies, line through the dollar amount on each form.
  - If the taxpayer prefers to pay directly, by credit card or from their bank account, direct the taxpayer to **irs.gov/Payments**; this also discusses how to pay by cash.
- The taxpayer owes interest at the federal rate, which changes quarterly. (For 2024 the rate was 7% annually, compounded daily, for the first six months, but 8% for the last six months; 2025 rate is 7%.)

Pay by Credit Card

- At **irs.gov/Payments**, with the option "Pay with Your Debit or Credit Card", the taxpayer can pay some or all of their balance due using a credit card.
  - Processing fees are charged (and paid to third parties). For credit cards, the fee is approximately 2% of the payment; the exact fee varies by processing company.
  - Taxpayers can pay less than the full amount by credit card, as part of a short-term agreement (see above) or an installment agreement (see below).

Pay on an Installment Agreement

- An installment agreement should be considered only if the taxpayer can't pay their balance within six months.
  - The taxpayer can choose the monthly due date and payment amount. The taxpayer may arrange for direct debit from a bank account, on a recurring basis, or may pay in any of the ways (including cash) described at **irs.gov/Payments**.
  - Taxpayers owes interest and a late-payment penalty of 0.25% of the balance due each month.
- There is a one-time set-up fee, *unless the agreement is initiated as part of an e-filed tax return (see next paragraph)*.
  - $31 if the agreement is done online, with payments to be made by direct debit from a bank account.
  - $107 if the agreement is done by phone or in person, but with payments to be made by direct debit from a bank account.
  - $149 if the agreement is done online, with payments to be made by check.
  - $225 if the agreement is done by phone or in person, with payments to be made by check.
  - $43, regardless of how the agreement is made or how payments are made, by filing **Form 13844** (not available on TaxSlayer), which is for low-income households, defined as those below 250% of the federal poverty line (page H-24 of **Pub 4012** has poverty line amounts for various-sized households).
- To request an *initial* installment agreement, the taxpayer has four choices:
  - (1) With the tax return: go to the **Form 9465 - Installment Agreement Request** page [Federal Section > Miscellaneous Forms > Installment Agreement].
    - The IRS adds the set-up fee amount to the amount owed from the tax return, in calculating the total balance due; the fee is not collected if Form 9465 is electronically filed as part of the tax return.
    - The "amount of payment being made with this request" must equal the direct debit amount in **Bank Account** page of the E-file section.
    - If the monthly amount that the taxpayer can pay is less than 1/72nd of the amount owed, then the taxpayer must file **Form 433-F, Collection Information Statement**, with the return. TaxSlayer does not include this form, so it must be printed and filled out separately, and the return must be **paper filed.**
  - (2) Online at **irs.gov/payments/online-payment-agreement-application**. This is the lowest-cost way to request installment payments, other than including the form with an e-filed tax return.
  - (3) By mailing a **Form 9465** to the IRS (to be sent to the IRS address where paper returns are sent; see page **iv**).
  - (4) By phone (1-800-829-1040) or in person at an IRS office (call 844-545-5640 to schedule an appointment [best to call *after* the spring filing deadline].
- While on an installment agreement, the taxpayer may amend the agreement, including adding additional years, if necessary, on irs.gov, or by calling the IRS; the fee for restructuring is $89.

Other Options

On rare occasions, a taxpayer has had serious problems with the IRS or is very deeply in debt. In that case, one or more of the following may be appropriate.

- An **offer in compromise** is an agreement between a taxpayer and the IRS that settles a tax debt for less than the full amount owed, because paying the full amount would cause a financial hardship, even when paying through installment payments. The **Form 656 Booklet** explains how the process works. The IRS website has an **Offer In Compromise Pre-Qualifier online tool** that does **not** require any personally-identifiable information to determine if the taxpayer appears eligible for this option.
- **Low Income Tax Clinics** such as Legal Aid Society provide pro bono representation on behalf of low-income taxpayers in tax disputes with the IRS, including audits, appeals, collection matters, and federal tax litigation.
  - Generally, the taxpayer's income must be below 250% of the Federal Poverty Line, and the amount in dispute must be less than $50,000.
- The **IRS Taxpayer Advocate Service** can help taxpayers who have tried to resolve their tax problem through normal IRS channels and have gotten nowhere, or believe an IRS procedure isn't working as it should, or need to have the IRS move faster than normal because of a financial difficulty, such as getting a refund.

UNABLE TO PAY - CALIFORNIA

- The range of options for a taxpayer who owes money is shown at **ftb.ca.gov** (click "Pay"); it is similar to the options offered by the federal government. The fee to pay by credit card is 2.3%.
- If the taxpayer wants to make installment payments, that can be done for a $34 filing fee, in any of three ways:
  - Online, at **ftb.ca.gov/pay/payment-plans/**
  - By calling 1-800-689-4776
  - By mailing **FTB Form 3567**, separately from the CA tax return
    - The form is not available in TaxSlayer.

LATE FILING

- If no tax is due, or if the taxpayer is due a refund, there is no penalty for failure to file a tax return.
  - However, if a taxpayer with a filing requirement fails to file, the IRS may hold up refunds from following years until the taxpayer is current with their tax filings.

Penalties

- The **federa**l penalties and interest charges if taxes are owed are:
  - Failure to file penalty: 5% per month of the unpaid tax, for up to five months.
    - Reduced by the amount of the "failure to pay" penalty (see below).
    - However, if the return is filed more than 60 days after the due date, the minimum penalty is $435, for tax year 2022, or the full amount of the tax due, whichever is less.
    - A taxpayer can submit **Form 1127, Application for Extension of Time for Payment of Tax Due to Undue Hardship** (not available on TaxSlayer). If the application is approved, the IRS waives the late penalty charges for up to six months.
  - Penalty for late payment ("failure to pay"): The penalty is generally 0.5% per month of the taxpayer's unpaid tax, up to a maximum penalty of 25% of the unpaid tax.
    - ***Note:*** If both the failure to file and late payment penalties apply, the maximum amount charged for the two penalties is 5% per month.
  - Interest on the amount past due ("underpayment"); [see **Unable To Pay – Federal: Pay Within 6 Months** 2 pages prior].
- Penalties for failure to file on time, and failure to pay, can be waived under certain circumstances, under the IRS first time penalty abatement program. For details, see the Prior Year Returns section, page **133**.
- ***Note for CA returns:*** The **California** penalties and interest charges if taxes are owed are:
  - Late filing penalty: For TY2024, the penalty is 8% of the unpaid tax due for every month that the return is late, up to a maximum penalty of 25% of the unpaid tax.
    - However, if the tax return is filed more than 60 days late, the **minimum** penalty for late filing is $135 or 100 percent of the unpaid tax, whichever is less.

- o <u>Underpayment penalty</u>: The penalty is 8% of the unpaid tax plus 1/2 to 1% each month, to a maximum of 25 percent of the total unpaid tax.
- o <u>Interest</u> from the original due date of the return to the date that payment is received.
    - The interest rate varies; it is compounded daily and the rate is adjusted every six months.
    - The CA 2024 interest rate is 7% for the first 6 months, 8% for the last 6 months.
- ***Note for CA returns:*** In 2022, California enacted a late-filing penalty-abatement program for individuals beginning with tax year 2022. This can be used once in a lifetime. Consider the penalty size before requesting abatement.

Deadlines for Claiming Refunds

- For federal taxes, the deadline for claiming refunds is three years from the date the return was *due*.
- ***Note for CA returns:*** The deadline for claiming CA refunds is four years from the return's due date.
    - o ***Note:*** Effective with the 2022 tax season, returns for **four** prior years are in-scope.

Prolonged Failure to File and Pay Taxes

- Unlike the three-year deadline for refunds (four-year for CA), there's no limit to how far back the IRS can go in assessing taxes for non-filed returns where taxes were due.
- Repeated failures to file could result in criminal charges, with a maximum $25,000 fine and one year in prison for each year of non-filing.

OTHER RETURNS AND FILINGS

SUPERSEDING RETURNS

- A superseding return is one filed *after* the originally filed return but *before* the due date, including extensions. So, for example, if a return is e-filed on February 5, and the taxpayer discovers a missing form a week later, the IRS lets the taxpayer to file a superseding (replacement) return on (say) February 12. In this example, *legally* the IRS disregards the original return.
    - o A superseding return requires Form 1040-X and is otherwise similar to an amended return, except the words "SUPERSEDING RETURN" should appear at the top of Form 1040 page 1, and Form 1040 and all schedules and other required forms are included as part of the return.
    - o A superseding return is particularly useful if the taxpayer owed money on the original return, but owes less on the superseding return. That's because an amended return (the other alternative) wouldn't be processed by the IRS until at least several months later. [This assumes that paper-filed superseding returns get priority, which they almost certainly do *if* e-filed.]
    - o **The IRS allows superseding returns to be e-filed**, but TaxSlayer has no plans to implement this.

PRIOR YEAR RETURNS

Counselors who prepare or quality review a prior year return must have been certified for the year of that return.

Only returns for the three (federal) **or four** (CA) **prior years may be prepared by Tax-Aide. Taxpayers needing even older returns must use a paid preparer (but note that they <u>must</u> file ONLY if there's a balance due or in response to an IRS request; they aren't eligible to get a refund).**

- Taxpayers who want to file prior returns are often missing tax forms. In such case, the taxpayer can request a Wage and Income Transcript from the IRS. The request can be done in one of four ways: online, by mail, by phone, or in-person at an IRS office.
    - o <u>Online</u>:
        - **IRS: requires an account through ID.me)** go to **www.irs.gov/individuals/get-transcript.**
            - ***Note:*** To prevent identity theft, transcripts obtained online show only the last four digits of each EIN. If the taxpayer has prior year and/or subsequent year documents with full EINs, then this "masked" transcript suffices. Otherwise, another approach should be used.
        - **Social Security Administration:** If the taxpayer has an SSA account, *and has not yet filed for SS benefits,* they can see W-2 information through that account. This is primarily useful for getting full EINs, since the W-2 information is quite incomplete.

    - When the taxpayer goes to their Earnings Record, online, that page should include "Not sure if you need to request a correction? Take a closer look."
  - In-person, at an IRS Tax Assistance Center. (Call 844-545-5640 for an appointment.) Ask for an *unmasked* transcript, "needed to file a tax return".
  - By phone: Call 800-908-9946. Ask for an *unmasked* transcript, "needed to file a tax return"; allow 5 to 10 business days to receive the transcript.
  - By mail: The appropriate transcript to request is listed as **number 8** on **Form 4506-T, Request for Transcript of Tax Return**. It is unclear whether the IRS provides an unmasked transcript in response as the default. If an unmasked transcript is needed (usually), the taxpayer should write "Unmasked" next to the checkbox for item number 8, and "Unmasked transcript needed for tax return preparation" at the top of the form.
  - ***Note for CA returns:*** IRS transcripts don't include CA-specific information, which is primarily state tax withholding. If the taxpayer needs this information, they can obtain it by creating an online MyFTB account (**ftb.ca.gov/myftb/**), or by calling the FTB at 800-852-5711; the FTB agent will look up the information and send the taxpayer a copy.
    - ***Note:*** Establishing an online account requires an email address, and the FTB mails the taxpayer a PIN, which can take up to 10 days.
    - An alternative is to just file a CA return and let the FTB computers automatically make the adjustment for CA withholding. The FTB then mails a letter to the taxpayer explaining what corrections were made.
  - Complete W-2s *are* available from the Social Security Administration, but at a fee of $90 for each year since the taxpayer is requesting these for a reason unrelated to Social Security matters.
- Taxpayers with newly issued SSNs or ITINs can't claim certain credits if/when they file a prior year return, or an amended return for a prior year. See **Pub 4012** page M-10, "Prior Year Returns," for details.
- If multiple prior year returns are needed, prepare *and QR* the *oldest* year first, so that data Carryforward can be used, sequentially, for the other years.
  - If you've completed a prior year, then try to start the next tax year, but get a message from TaxSlayer that the SSN is in use or that the SSN already exists, two possible workarounds to clear the error message are:
    - Log off TaxSlayer, close the browser, reopen the browser, and log back in.
    - Submit (transmit) the e-file for the prior year.
- Use the *correct prior year* Intake Booklet for prior year returns; the taxpayer should ignore consents #2 and #3 [treat as "Decline"].
  - If the taxpayer is having returns done for multiple years, IRS policy is that the taxpayer *must* complete an Intake Booklet for each year.
  - Data analysis by the IRS and the AARP Foundation won't include any responses to questions for prior tax years. Accordingly, there's **no need to ask, or enter, responses** to the demographic questions for prior year returns. (TaxSlayer software should no longer *require* answering these questions.)
- View and download federal forms and instructions for prior years at **irs.gov/forms-instructions.**
  - ***Note for CA tax preparers:*** prior-year versions of this manual can be found at the shared CA-wide REFERENCES folder (**tiny.cc/ca-ref**).
- To start a prior year return in TaxSlayer, use the "Change Tax Year" pull-down menu (upper right) to select the desired year, then click "Select", to the right of "Start New Tax Return."
  - The IRS allows registered preparers to e-file returns for the current tax year and the two previous tax years, so those returns can be e-filed until November of the current year, when IRS e-filing stops.
- When doing a prior year return, always ask if the taxpayer filed a Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, to delay tax filing for up to six months. If yes, ask the taxpayer if a payment was made when the Form 4868 was filed, and **if so, how much was paid.**
  - If the taxpayer knows the amount, see section Schedule 3, Line 10 - Amount Paid with Request for Extension to File, page **103**.
- In the E-file section, *all questions are optional and should be skipped.* (Statistical reports related to these questions are generated after the tax season ends, and are not run again.)
- If the taxpayer owes money, *and can pay the amount due*, they may be eligible for the **IRS First Time Penalty Abatement program**, which gives a waiver for penalties that would otherwise be assessed for failure to file and for failure to pay.

  - Before assisting the taxpayer with such a waiver, consider whether these penalties are likely to be significant – see page 132. For example, if the taxpayer owes $50, and is filing 10 months late, the two penalties combined would be less than $60.
  - Requesting such a waiver should only be done when the taxpayer meets *all* the following criteria:
    - For the three tax years prior to the tax year for which a waiver is being requested, the taxpayer either didn't have to file a return or did file a return and had no penalty assessed for that return.
    - The taxpayer is up to date on filing all tax returns, or – if this is a current year return being filed after the usual IRS deadline – has filed an extension and is still within the extension period.
    - The taxpayer has paid or has arranged to pay (with a short-term payment agreement, as discussed on page **130**, or an installment agreement, page **131**), the tax due on the return.
      - If an installment agreement is in place, payments must be current.
  - The written request should include all relevant information in the request (taxpayer name, identification number, tax year), and should clearly state that the taxpayer meets the criteria for the First Time Penalty Abatement Program. The written statement should also include a detailed explanation of any reasonable cause for failing to pay or file, if there is such a cause - the IRS might decide that while the waiver criteria have not been met, but the reasonable cause is sufficient to justify waiving the penalties.
  - The written request for a waiver should be mailed to the IRS service center where the taxpayer is required to file paper returns.
    - If a paper return is being filed, the request can accompany that return, as long as payment in full (for everything *except* penalties) also accompanies the paper return. (Payment can be as a check or direct debit information.)
- ***Note for CA returns***: Taxpayers are **not** eligible for the $600 Golden State Stimulus (GSS) payment or any MCTR payment if they missed the prior-year filing deadline.
- ***Note for CA returns:*** California has a four-year statute of limitations for refunds – taxpayers can get a refund even if filing *up to* four years after the filing deadline. The federal limit is **three** years.

AMENDED RETURNS

Preparer and quality reviewer must have been certified for the year of the amended return. **Only returns for the current tax year and three** (federal) **or four** (CA) **prior years may be amended by Tax-Aide.** (Policy and Procedures Manual, section 4.4.5) **Taxpayers must use a paid preparer if they need to amend returns older than that.**

- The **deadline for getting a refund** by filing an amended federal return is generally the **later** of (a) three years from the date the tax return was filed (if filed timely), or (b) two years after the date the taxpayer paid the tax on the originally-filed tax return.
  - ***Note for CA returns:*** The statute of limitations for getting a refund is generally four years after the regular filing deadline, or four years after filing the original tax return, whichever is later, *if* the tax return was filed on time. (**FTB Claim for Refund**)
- Per page 85 of **Pub 5683, VITA/TCE Handbook for Partners and Site Coordinators**, Tax-Aide sites may prepare an amended return for a taxpayer even if they didn't prepare the original return.
  - The original return *can* be out-of-scope if the amendment brings it back into scope.
- An **adjustment letter** (CP2000) is not automatically a reason to amend a return.
  - If there are no changes other than those proposed by the IRS, the taxpayer only needs to tell the IRS that they accept the proposed changes; no 1040-X is needed.
  - ***Note for CA returns:*** Even if the federal adjustment proposed is correct and acceptable to the taxpayer, a CA amended return may be necessary so the CA information agrees with the IRS-adjusted 1040.
- ***CA policy:*** If a taxpayer discovers **$200 or less of missed income** after filing, *don't amend the return.* Instead, the taxpayer should wait for a letter from the IRS. (As noted above, the taxpayer may have the option of simply accepting the IRS calculation of how much additional tax is owed, as stated on an adjustment letter from the IRS, and mailing a check for that amount.)
- **Do not file an amended return until the IRS has had time to process the original return.**
  - If the taxpayer has filed a return showing a refund, an amended return should not be e-filed until that refund is received.
    - The taxpayer *should* cash the refund check. (If the taxpayer expects to have to repay some or all of that refund, they shouldn't spend it, of course.)

  - o If no refund is due and the return was e-filed, the amended return can be prepared at any time but *should not be e-filed* until at least four weeks after the date that the original return was e-filed, to give the IRS time to fully process the original return.
  - o Exception: If tax is due with an amended return, file the amended return by the tax filing deadline.
- Taxpayers with newly issued SSNs or ITINs cannot retroactively claim certain credits if/when they file an amended return, or a return for a prior year. See **Pub 4012** page M-10, "Prior Year Returns", for details.
- ***Note for CA returns:*** When amending a federal return, it's best to start with the assumption that the related CA return also needs to be amended.
  - o Use the TaxSlayer refund monitor to determine if the CA refund amount changes as you modify the federal return. If not, then an amended CA return isn't needed.
  - o ***New in 2025:*** TaxSlayer supports e-filing amended state returns.
- If a taxpayer is mailing multiple years' amended returns, mail each amended paper return separately.
- An amended federal return **can be e-filed**, **if** the original return was e-filed, and only for years where the IRS and/or CA is accepting regular e-filed returns. Otherwise, the amended return **must be paper filed**.
  - o If the original return wasn't prepared at your site, see **Pub 4012** page M-9.
    - ▪ **You can e-file an amended return not originally prepared at your site**, *if* the original return was e-filed.
- Taxpayers can track the status of their amended tax return three weeks after they file, by going to **irs.gov/filing/Where's-My-Amended-Return**. This tool can track an amended return for the current year and up to three prior years.

Process

- The first 6 or 7 pages of **Pub 4012** tab M discuss how to amend a previously filed federal tax return. The recommended steps in the process are listed below.
  - o ***Note:*** *If* you mistakenly tell TaxSlayer that you want an amended return, you can undo that: on the **Amended Tax Return – Form 1040X** menu, select "Delete Amended Return".
- ***Note for CA returns:*** Amending a CA return is a different process, because Form 540X has been discontinued. Instead, after data entry (discussed below in detail), the result is a revised Form 540 (at the top of the form, the box for "Amended" is checked), plus a CA Schedule X, California Explanation of Amended Return Changes.

Step 1: Start with the Original Return

- If the original return was created in TaxSlayer *at your site,* you can open it and amend it.
  - o To generate a copy of the return *as accepted by the IRS and by CA computers, even if the return has been changed:*
    - ▪ From the **Client Search (Office Client List)** page, find the taxpayer's return [make sure you have the right year].
    - ▪ From the Tools drop-down list, select "Client Status." *Note: This only works if you've been given access to the Client Status feature in your site permissions.*
    - ▪ In the section of the page showing transmissions, you'll see print icons on the far right for the federal and state transmissions.
  - o If you have access to the original return, but the taxpayer doesn't have a printed copy, *print a copy*. It isn't needed for filing, but it's helpful for the QR process and the taxpayer should keep a copy of the original return.
- If you *don't have access* to the original return, the taxpayer must provide a printed copy of the return as filed and any correspondence from the IRS showing adjustments they have made.
  - o Start a new return in the correct year, which *usually won't be the current year.*
    - ▪ From the Main Menu, use "Change Tax Year" (upper right) to select a prior year.
    - ▪ Enter the corrected return based on all information the taxpayer provides. **It isn't necessary to recreate the original** (erroneous) **return** before entering corrected information.
- You need to paper-file an amended return only (a) if it's a current-year amended return **and** the original return was paper-filed, or (b) an amended return has already been e-filed (the IRS allows three e-filed amended returns, but TaxSlayer only handles one), or (c) it's older than the prior 2 years. Otherwise, e-filing is better.

- For amended federal returns that will be mailed, see **Pub 4012** page M-9, "Original Return Not Created by the Site Preparing the Amended Return", for suggestions on consolidating information to minimize TaxSlayer input.

Step 2: Create the Federal Amended Return

- From inside the return, click "20xx Amended Return" on the left navigation bar. TaxSlayer asks if you want to complete an amended return. Click the "Get Started" button to open the menu page **Amended Tax Return - Form 1040X.**
- Click "Original Federal Return Information."
  - o If the original return was e-filed at your site, TaxSlayer automatically fills in the original amounts using the data transmitted to the IRS, *except for the amount paid or amount refunded.*
  - o If the original return wasn't e-filed at your site, enter the dollar amounts from the taxpayer's Form 1040 into TaxSlayer.
  - o **It is critical** to **enter** either the amount the taxpayer paid ("Amount of tax paid with original return plus additional tax paid after it was filed"), or the amount refunded ("Overpayment, if any, as shown on original return or as previously adjusted by the IRS"), in order for the figures at the bottom of Form 1040-X page 1 to be correct when the 1040-X is created.
  - o **If the IRS adjusted the return**, then **change the (summary) amounts of the original return to account for the IRS adjustment.** (This is adjusting column A on the Form 1040-X.)
  - o When all the required information has been entered, click "Continue."

Step 3: Make Changes to the Original or Adjusted Return

- **If the IRS adjusted the return**, then before proceeding with the amendment, update the return, print it, and mark the printed return, at the top, "Revised by the IRS". (This sets the return to match what will be in column A on Form 1040-X.)
- If you are amending a return that was created at your site, make all necessary changes to the return, based on the new information from the taxpayer.
- If you are amending a return that was <u>not</u> created at your site, there should be no additional changes needed since you created the correct return in Step 1 above.
- ***Note:*** TaxSlayer has no way to revert changes that you make, should you want to go back to the original version of the return. As you make changes, the only place where the information on the original (filed) tax return is available is the taxpayer's *printed copy*, unless (see Step 1, above) a copy of the e-filed return is available via Client Status.

Step 4: Explain Changes

- Click "Explain Changes", enter text, and click "Continue."
  - o The explanation entered in TaxSlayer appears on Form 1040-X page 2.
  - o The explanation should contain line numbers and/or schedule information; such as: "Line 1: A missing W-2 was added to the return" or "Sch A line 1: Amount of medical and dental expenses was increased."
  - o Note that the maximum number of characters that can be entered is 100.

Step 5: Create the State Amended Return, IF NEEDED

- ***Note for CA returns:*** It's possible that a change in the federal tax return won't affect the balance due or the refund amount on the state return, particularly if the refund amount was originally zero. If the state refund amount, or amount owed, hasn't changed [compare the refund monitor to the amount on the original state return], then **don't** prepare a state amended return.
- **CONCEPTUALLY,** California takes a very different approach to its amended return from the IRS's.
  - o **California basically says "Send us a revised Form 540 and a cover sheet (Schedule X) that states the difference in the amount owed, or to be refunded."** That's all; there is no (complicated) three-column form, as with a federal amended return.
- If you *do* need to amend the CA return, and you're not at the **Amended Tax Return - Form 1040X** page, click "20xx Amended Return" in the left navigation bar.
- The TaxSlayer interface for amending state returns varies from year to year. The following text describes the 2023 software which was streamlined a bit from earlier versions. *Note:* If you are amending older returns, you may find some variations in the questions or the order that they are asked.
- Click "Amend State Return(s)."
  - o Click "Amend State". This adds "Amended Return" to the bottom of the **California Return** page.

- From the main state menu, use the regular menu items, such as "Credits", to edit any state-specific information *that has changed*. (This is uncommon; normally all changes will have already been made in the Federal section.)
- After making any needed changes to state-specific information, scroll down on the main menu of the State Section to the line "Amended Return". Click "Begin".
  - *If you clicked the edit icon, rather than "Amend State" or "Edit Amended", you may not see the "Amended Return" item at the bottom of the menu. In that case, click "Exit California Return", use the left navigation bar to go back into the amended return process, to get back to the* ***Amended State Return*** *page, where you can click "Amend State" or "Edit Amended".*
- Complete all relevant information – this is what goes on the CA Schedule X.
  - Enter either the amount **actually paid**, or the refund expected to be received *if no amended return was filed*.
  - Click "BEGIN" for Reasons for Amending. (You normally select the sixth radio button, "Error on original return".) Click "CONTINUE".
  - Click "BEGIN" for Explanation of Changes. (You can enter up to 50 characters on each of six lines.) Click "CONTINUE" twice, then "BACK" to get to where you can exit the CA return.

Step 6A: Electronically File the Amended Return

- **Federal** 1040-X amended tax returns for the current year and two prior years can (and should be) e-filed. Amended returns for three or four years ago can't be e-filed.
  - The IRS allows up to *three* e-filed amended returns for any given tax year. However, TaxSlayer supports only *one* e-filed amended return for any given tax year.
  - ***Note****:* Unfortunately, e-filed amended returns do not have priority over paper-filed amended returns, they simply reduce IRS clerical work. Thus, advise taxpayers that amended returns take several months for the IRS to process.
- Once the amended federal information has been entered in TaxSlayer, you can select Amended Return in the E-file section and proceed to enter the bank information as usual for direct deposit or direct debit.
- **Direct deposit** can be requested on an e-filed amended return, for tax years 2022 and later.
- **Direct debit** can be requested on an e-filed amended return for tax year 2022 and later. If the amended return is filed after the normal filing deadline for that tax year, IRS computers process the direct debit *immediately*.
- If the taxpayer owes additional tax and wants to pay by check, print 1040-V (from the return's PDF) for the taxpayer to accompany the check.
  - ***Warning:*** *The amount on the 1040-V is quite likely* ***wrong*** *-TaxSlayer doesn't adjust the amount for any prior taxpayer payment*. Line through the amount on the form and write in the correct amount.
- Counselors who are not EROs can only Save & Exit at this point. There is no way to mark an amended return as Ready for Review, so follow your site's procedures for having a second counselor review the amended return.
- In order to e-file an amended return, the ERO must open the return in TaxSlayer. At the bottom of the **Submission Page** in the E-file section, EROs will see a new button, "Save and Transmit Amended Return."

Step 6B: Print and Assemble any Federal Amended Return(s) to be Mailed

- Federal (again, e-filing amended federal returns is *preferred* and faster to process)
  - *For mailing by the taxpayer:* In addition to printing Form 1040-X, print any form or schedule that differs from the return as originally filed, to be attached to the amended federal.
    - **For example**, if the return is amended because the taxpayer is reporting additional expenses for their business:
      1. Federal – print and mail the following to the IRS: the 1040-X, Schedule C, and Schedule SE; and if credits such as EIC were also affected, the related forms.
      2. CA: amended 540, CA Schedule X, federal Schedule C, federal Schedule SE
  - Write "as amended" at the bottom of each page that is being re-filed as part of the amended return, except the 1040-X and the amended 540.
- *For taxpayers:*
  - Give the taxpayer a copy of all pages being mailed to the IRS or FTB; mark these at the top "**Amended" so they cannot be confused with the forms submitted with the original return**. Mark the original return "**Original—Later Amended**".

- A copy of a changed Form 1040 should be printed for the taxpayer *even if this is not being submitted to the IRS*; this should similarly be marked "**Amended – Copy.**"
- Instructions to generate a printable PDF are in the section Printing Returns, page **126**; additional information for printing paper returns is on page **129**.
- **Federal filing:** The taxpayer must **sign** and mail one copy of the 1040X with all revised supporting forms and schedules.
  - Staple to the front of the return any W-2 or W-2c that supports the changes made; also attach any Form W-2G or 1099-R involved with the change if tax was withheld on such a form.
  - Assemble any needed schedules and forms behind Form 1040X in order of the "Attachment Sequence No." shown in the upper-right corner of the schedule or form (again, these are schedules and forms *that support the change*, not all schedules and forms in the original return).
  - Do not send the IRS the revised Form 1040 (the taxpayer does get a copy of this, of course), even if a change appears *only* on Form 1040, because the explanation on the 1040-X should specify exactly which lines were changed, and, if only lines on the 1040 were changed, the explanation should include the dollar amounts changed from and to.
  - Do not include a 1040-V, payment voucher. If TaxSlayer includes the payment voucher in the PDF, either don't print it, or – if printed – shred it or give it to the taxpayer to be shredded (clearly marked, or torn, to indicate it is not to be used).
  - If the amended return is the result of a letter or notice from the IRS, mail the amended return with a copy of the letter or notice enclosed, to the address shown on the letter; else, mail the amended return to the address on page **iv**.

Step 6C: Print and Assemble any California Amended Return(s) to be Mailed

- Print the amended 540 (easiest to do from the state section), plus CA Schedule X, California Explanation of Amended Return Changes (two copies of each – one to mail, one as a taxpayer copy).
- Also print or include (one copy, to be mailed):
  - Documents supporting the changes discussed on the federal Schedule X, such as corrected or previously missing W-2, 1099s, and K-1s
  - Any federal (1040) schedules that have changed
  - A copy of the federal Form 1040 (amended version), **only if** something changed.
- The taxpayer(s) must **sign** (page 5) and mail to the FTB one copy of the amended 540, together with the documents listed immediately above. If amending a return originally filed at your site, you must **manually correct TaxSlayer's printed date** on the signature page (because it's the date of the *original* return).
- If the amended return is the result of a letter or notice from the FTB, mail the amended return with a copy of the letter to the address shown on the letter; else, mail the amended return to the address on page **iv**.

Checking the Status of an Amended Return

- A mailed amended return can take up to 3 weeks to show in the IRS system. Full processing takes at least 16 weeks; six months or longer is unfortunately not unusual.
  - ***Note:*** Any payment accompanying an amended return *is deposited immediately upon receipt*, and the payment therefore shows up in the taxpayer's account quite quickly.
- Taxpayers can check the status of a federal amended return by calling 866-464-2050, or online at **irs.gov/filing/wheres-my-amended-return.**
- ***Note for CA returns:*** There is no online way to check the status.
  - The **FTB estimates** that amended returns take 4 to 6 months to process.

Same-Year Amendments Involving Payments

- If a current year tax return is amended before the end of the tax season, the original return showed that the taxpayer owed money, *and* the taxpayer has *not* submitted a payment for the original return, then:
- The amended return should *not* show the taxpayer as having paid the original amount due.
- If the taxpayer still owes, they should pay the *corrected/amended* amount due, not the original amount due. (If the taxpayer is now due a refund, they should pay *nothing*.)
- If/when contacted by the IRS for what appears to be an underpayment, the taxpayer should respond to the letter by sending the IRS a copy of the amended return, stating that they paid (or did not pay, if due a refund) based on that amended return. This response *should* result in the taxpayer case being closed once the amended return is processed and accepted.

REQUEST FOR EXTENSION OF TIME TO FILE

- The taxpayer **must** understand that any tax liability (which must be estimated) must be paid to the IRS and/or CA by the spring filing deadline, otherwise interest and/or a penalty will accrue. An extension doesn't avoid penalties for underpayment of taxes.
  - There's no point in filing an extension if no payment will be made with the extension request: if the taxpayer owes money when (finally) filing, but does not pay anything with the extension, then the IRS is likely to treat the matter as a late filing, disregarding the extension request. And if the taxpayer owes no money or is getting a refund, there's no point in requesting an extension because they won't have a late-filing penalty.
- An automatic six-month extension of time to file a federal return is available to most taxpayers. There are five ways do this.
  - By making an online payment and selecting "Extension" and/or "Form 4868" as the reason for the payment, or where the payment is to be applied. There are two online payment options:
    - Payment from a bank account (EFT), at **irs.gov/payments/direct-pay**
    - Payment by a checking or debit card, at **irs.gov/payments/pay-taxes-by-credit-or-debit-card**
      - Processing fees are charged (and paid to third parties). For credit cards, the fee is approximately 2% of the payment; the exact fee varies by processing company.
  - Filing Form 4868 by phone (888-972-9829, 888-729-1040, or 888-872-9829), which **requires** making a payment by credit card or other electronic method
  - On IRS.gov, using Free File software, *regardless of income*
  - By **printing** and mailing **Form 4868,** with a check
  - Through TaxSlayer, *with approval of the LC*
    - Form 4868 should be e-filed only if the taxpayer *is expected to come back to have their full tax return filed by Tax-Aide*.
      - **If the taxpayer won't be back to do the full return, then it is much quicker to help the taxpayer use the direct payment option at irs.gov (see above), if wanting to pay by direct debit, or to use a paper Form 4868, if paying by check.**
- To prepare a Form 4868 using TaxSlayer (again, *this is not the norm)*:
  - Enter name and address information in the Basic Information section.
  - Don't enter information in the Federal or State sections unless the site is open after the April filing deadline, and the taxpayer will return to the site to complete the return.
  - Go to **Form 4868 - Application for Extension** [Federal Section > Miscellaneous Forms > Application for Extension].
  - Fill in the requested dollar amounts.
    - "Tax Liability" is an estimate of the amount that will be on Form 1040 Line 24, Total Tax, when filed. (Use Line 24 of the prior year's tax return, if available, as a starting point.}
    - "Tax Payments" is an estimate of the amount that will be on Form 1040 Lines 25d plus 26, when filed, *not including* the amount on Schedule 3 Line 9 (the amount being paid with the request for extension). As a starting point, total the amount of federal taxes withheld on available taxpayer documents, plus federal estimated tax payments made.
  - Check the box "I was out of the country" if the taxpayer *expects* to be out of the country on the regular due date.
  - After entering a dollar amount for "Amount Paid with Extension", **tab – do not click "Go to Extension Payment" or "Continue".** TaxSlayer asks "Would you like to pay your balance due electronically?"
    - If you check the box ("Yes"), TaxSlayer extends the page so that bank information can be entered.
    - If you don't check the box, the taxpayer will pay by check. [If paying with a credit or a debit card, Form 4868 *should not be prepared through TaxSlayer, as discussed above.*]
    - Click "Continue."
  - **If the taxpayer pays by direct debit**, e-file the request for extension. (If paying by check, *don't e-file*.)
    - Go to the E-file section.
    - The **Application for Extension Found** page will appear. Click "File Extension."
    - The **Submit Extension** page appears. Click "I Understand" and then "Continue."
    - On the **Review** page, enter any five-digit number for the taxpayer (and, if MFJ, do similar for the spouse), then click "Continue."

        - You'll see a page saying that the extension request has been submitted; click "Continue" to complete the process.
    - **If the taxpayer pays by check**, mail a printed copy of the Form 4868 with the check. Print this form page from the standard PDF of the return.
        - **Do not** e-file if the taxpayer will pay by check.
    - Printing any *other* pages of the return for the taxpayer is **not recommended**: the return is incomplete and won't be filed. Printing may lead the taxpayer to believe that the return was in fact e-filed.
        - If you do print any pages, write "DRAFT" should be written on each page.
- **IMPORTANT:** Regardless of how the request for an extension is made, tell the taxpayer that their federal and state tax returns must be complete and filed by October 15 to avoid penalties for late filing. If there are any Tax-Aide or VITA sites in your district or a nearby district that will be open after the April filing deadline, give that information to the taxpayer.
- ***Note for CA returns:*** CA grants an automatic extension of time to file provided that the tax is paid in full by the due date.
    - No form is needed if the taxpayer does not expect to owe any money when the CA return is filed.
    - If payment will be mailed to the FTB, **CA Form 3519** is the accompanying voucher.
    - Extension payments can also be made online: go to **FTB.ca.gov/Payment options.**
    - "Web pay" is a debit from a checking or savings account; the other option is to pay by credit card (2.3% service fee).

INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER (ITIN)

About ITINs

- Federal law requires individuals with U.S. income to pay applicable U.S. taxes, regardless of immigration status. That includes individuals who do not have SSNs.
- The ITIN is a nine-digit number beginning with 9 and a fourth digit of 7 or 8, created for use on tax returns by those taxpayers who do not currently qualify for (or have) a Social Security number.
- *Taxpayers must file a request to be issued an ITIN; ITINs are not automatically issued.*
- An ITIN will be issued to individuals who have a valid filing requirement, who file to claim a refund of taxes withheld, or if needed on the tax return of another individual (such as a parent or spouse).
- Having an ITIN does NOT:
    - Authorize work in the U.S. or establish immigration status
    - Create eligibility for Social Security benefits OR the Earned Income Tax Credit or (for a dependent) the Child Tax Credit (beginning with tax year 2018)
    - Provide valid identification outside the tax system
- More information on ITINs can be found at **irs.gov/individuals/individual-taxpayer-identification-number,** in Chapter 1, "Filing Information", of **Pub 17**, and in **Pub 1915, Understanding Your IRS Individual Taxpayer Identification Number.**

Expired and Expiring ITINs

- If the IRS letter assigning an ITIN was issued prior to January 1, 2015, that **ITIN has *expired*** and needs to be renewed. (See **Pub 4012** page L-11.)
    - Also, any ITIN not used in the past three tax years is also considered expired and must be renewed.
- If the taxpayer has such an ITIN, the IRS should have sent the taxpayer **Letter 5821**.
    - If an ITIN has expired, the taxpayer must submit a Form W-7 to renew it. This can be submitted separately or *with* the *paper-filed* tax return. Both options are discussed below.
- A tax return e-filed with an expired ITIN **will** be accepted by the IRS; however, it will be processed without allowing any exemptions or credits claimed, and no refund will be issued. The IRS sends the taxpayer a notice explaining the delay in any refund and that the ITIN must be renewed.
    - Once the ITIN is renewed, any exemptions and credits will be processed, and any allowed refund issued.
    - If the ITIN is not renewed, the taxpayer may be subject to interest and penalties for any tax owed as a result of disallowed exemptions and credits.

When the Taxpayer Obtains a Valid SSN and Previously Filed Using an ITIN

- Prepare the current year return using the new, valid SSN and e-file the return.
- If it benefits the taxpayer, amend prior-year returns that were filed using an ITIN.

- The reason stated on *1040X Page 2* should include "Previous return filed with ITIN _______" as well as a description of what else has changed.
- ***Note:*** Taxpayers with newly issued SSNs or ITINs cannot retroactively claim certain credits when they file an amended return, or a return for a prior year. See **Pub 4012** page M-9, "Prior Year Returns", for details.

When the Taxpayer is Applying for an ITIN

- It generally takes 4 to 6 weeks to receive an ITIN, but 8 to 10 weeks if requested during the filing season.
- Form W-7 Submitted with a Tax Return
  - Preparation of Form W-7, Application for IRS Individual Taxpayer Identification Number, when the form is going to be filed with the tax return (which must be paper-filed), *is* in-scope.
  - The process of completing a W-7 in TaxSlayer is described in two places in the sections above: Social Security Number (for the taxpayer), page **11**; Spouse Social Security Number, page **17**.
  - The process of printing a Form W-7 to be filed with the tax return is described in the section Paper Returns that Include a Form W-7, page **129**.
- Form W-7 Submitted Separately
  - Preparation of Form W-7 as a **separate document**, not part of a tax return, is ***out-of-scope***. However, it is acceptable to print a blank W-7 to give to the taxpayer; the taxpayer is responsible for completing it.
    - A blank Form W-7, Application for IRS Individual Taxpayer Identification Number, and instructions, can be found **on the IRS.gov website**.
  - See the section above, Paper Returns that Include a Form W-7, page **129**, for how to submit Form W-7.

SHUTDOWN PROCEDURES

Site Activity Log

- Each physical site must complete a site activity log each workday, to track what happened for each taxpayer coming to the site, whether that resulted in a completed return or simply answering a taxpayer's question.
  - Tracking paper returns and Q&A is needed for sites to properly report activity on the Portal, data the AARP Foundations uses for IRS grants.
  - Tracking returns through all stages helps ensure that everything needed is done
  - The site ERO must know which returns are ready to be e-filed.
- Sites must use the site activity log in the Portal [Libraries > Tax-Aide: Service Delivery Models]. This is a spreadsheet; sites can modify *parts* of it to fit what the site does and doesn't do.

End-of-Day Process

- As a counselor, you should have **no taxpayer documents** at the end of the day, including anything that was printed at the site with Personally Identifiable Information such as SSN, phone, or address, or tax return information that can be obviously associated with a taxpayer.
  - Document Inventory Checklists (DIC, at drop-off sites) are the one exception to this rule; those are kept until the end of the year, as proof that all tax documents were returned to taxpayers.

Shutdown Procedures for AARP Foundation Chromebooks

- Log out of TaxSlayer by clicking the **Log out** link at upper right, at the **Main Menu**.

Follow proper procedures for shutting down your laptop – don't just unplug the power and close the lid! Not fully shutting down can prevent your laptop from getting important security updates, cause the battery to run down to zero, and add extra start-up time the next time you use your computer.

- Shut down the computer: press and hold the keyboard power button (upper right); then on the pop-up menu, select "Power off".
- Wait until the computer screen turns completely black and the power switch goes dark before pulling the plug and closing the laptop. If ALL keyboard lights don't go out, the shutdown wasn't done properly.

GLOSSARY

ACA	Patient Protection and Affordable Care Act
ACTC	Additional child tax credit
AGI	Adjusted gross income
AOC	American Opportunity Credit, formerly HOPE education credit
APTC	Advance premium tax credit (part of the ACA) - – federal subsidies paid *during the year* for those buying insurance through a Marketplace such as Covered California
CASDI	California state disability insurance (Schedule A deduction; state tax)
CTC	Child tax credit
EIC / EITC	Earned income credit / Earned income tax credit
EIN / FEIN	Employer (tax) identification number - federal ID for processing employer payroll information
ERO	Electronic Return Originator - the person responsible for e-filing tax returns
FinCEN	Financial Crimes Enforcement Network, a bureau of the US Treasury Dept.
FTB	Franchise Tax Board – California governmental unit that handles the CA state income tax
HoH	Head of household (filing status)
HSA	Health savings account
ITIN	Individual taxpayer identification number – for those without an SSN
LC	Local Coordinator (the Tax-Aide volunteer responsible for one or more tax preparation sites)
LTC	Long-term care (insurance)
MAGI	Modified adjusted gross income. *This is calculated differently depending on what the MAGI figure is being used for; see individual sections*.
MFJ	Married filing jointly (filing status)
MFS	Married filing separately (filing status)
MSA	Archer Medical Savings Account (out of scope)
NTTC	National Tax Training Committee – a Tax-Aide committee of volunteers responsible for issuing tax training and reference materials for Tax-Aide
OPM	Office of Personnel Management - the federal agency which pays government pensions
PTC	Premium tax credit (ACA) – the federal subsidy for those buying insurance through an exchange
QSS	Qualifying Surviving Spouse (was QW, Qualifying Widow/er) (filing status)
SDI	Same as CASDI
SEHI	Self-Employed Health Insurance
SS / SSN	Social Security [Administration] / Social Security number
TCE	Tax Counseling for the Elderly – the IRS program in which Tax-Aide is the largest, but not the only participant
VI / VP / VPDI	Voluntary Insurance / Voluntary Payment / Voluntary Payment Disability Insurance - NONE of which are deductible (on Schedule A) as a state tax
VITA	Voluntary Income Tax Assistance Program – free tax preparation for low-income taxpayers by various community organizations, such as United Way. Has an income cap (varies by organization and state); for 2024 returns, typically is $67,000 or less.

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