



Advanced Income

Advanced Income

- Tip Income
- Self-Employment Income
- Cash/check/digital assets, or other property or services for any work performed not reported on Forms W-2 or 1099
- Income (or loss) from the sale or exchange of stocks / bonds
- Retirement income or payments
- Cancellation of Debt
- Medicare Waiver Payments



Tip Income

Tip Income

- Self-employed taxpayers who receive tips, such as hair stylists and manicurists, should include their tips in gross receipts on Schedule C.
- If taxpayers have jobs in which tips are normally received (e.g., waiter/waitress, bellhop, or motel/hotel housekeeper), be sure to ask about any tips they may have received.
- All tip income is taxable, whether or not it is reported to the employer.
- If individuals receive more than \$20 per month in tips at one job and report their tip income to their employer, the tips will be included in Boxes 1 and 7 on Form W-2.

Allocated Tips

- To ensure that everyone reports their fair share of income from tips, some employers have tip allocation programs.
- If an employee reports tips to the employer that were less than the designated share based on the employer's formula, the employer reports the difference as "allocated tips" and includes it on the employee's Form W-2.
- Allocated tips are shown separately in Form W-2, Box 8. Social Security and Medicare taxes are not withheld on allocated tips. Allocated tips are not included in the amount in Form W-2, Box 1.
- Explain to the taxpayers that unless they kept a written and reliable record of tips actually received at that job, the allocated tips must be included in Form 1040 as wages.

Unreported Tips

- An individual is not required to report tip income to their employer if it is \$20 or less per month. Since these tips are subject to federal income tax, ask taxpayers if they have any tip income that was not reported to their employer.
- Other Tips:
 - Non Cash tips (e.g., tickets or passes) do not have to be reported to the employer, but must be included as taxable income at their fair market value.
 - Tips of less than \$20 per month or non cash tips are not subject to Social Security and Medicare taxes.
 - If tips of more than \$20 a month were not reported to the employer, the taxpayer must also pay Social Security and Medicare taxes.



Self-Employment / Business Income

- **1099-NEC & Self Employment Worksheet is included in your folder.**

Business Income

- Business income information may come from the following:
 - Forms 1099-NEC, Nonemployee Compensation
 - Forms 1099-K, Payment Card and Third Party Network Transactions
 - Form W-2, Wage and Tax statement with statutory employee checked in Box 13
 - Cash / checks from side jobs
 - Taxpayer's books and records

Self-Employment Income (Form 1099-NEC)

<input type="checkbox"/> CORRECTED (if checked)		Nonemployee Compensation		
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. DELICIOUS DELIVERIES 123 LILAC AVENUE YOUR CITY, YOUR STATE, ZIP			OMB No. 1545-0116 Form 1099-NEC	
PAYER'S TIN 63-400XXXX	RECIPIENT'S TIN 605-00-XXXX	1 Nonemployee compensation \$ 1,000	Copy B For Recipient This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
RECIPIENT'S name JOANNE OAK Street address (including apt. no.) 159 ARCHER AVENUE City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/> 3 		
Account number (see instructions)		4 Federal income tax withheld \$		
		5 State tax withheld \$		6 State/Payer's state no. ----- \$
Form 1099-NEC (keep for your records)		www.irs.gov/Form1099NEC	Department of the Treasury - Internal Revenue Service	

Self-Employment Income (Form 1099-K)

<input type="checkbox"/> CORRECTED (if checked)			
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. Delicious Deliveries 123 LILAC AVENUE YOUR CITY, YOUR STATE, ZIP		FILER'S TIN 63-400XXXX	OMB No. 1545-2205
		PAYEE'S TIN 605-00-XXXX	
Check to indicate if FILER is a (an): Payment settlement entity (PSE) <input type="checkbox"/> Electronic Payment Facilitator (EPF)/Other third party <input checked="" type="checkbox"/>		1a Gross amount of payment card/third party network transactions \$ 7,492.00	Form 1099-K Payment Card and Third Party Network Transactions
		1b Card Not Present transactions \$	
Check to indicate transactions reported are: Payment card <input type="checkbox"/> Third party network <input checked="" type="checkbox"/>		2 Merchant category code	Copy B For Payee This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
3 Number of payment transactions 325		4 Federal income tax withheld \$	
PAYEE'S name JOANNE OAK Street address (including apt. no.) 159 ARCHER AVENUE City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP		5a January \$ 785.00	
PSE'S name and telephone number		5b February \$ 800.00	
		5c March \$ 700.00	
Account number (see instructions)		5d April \$ 600.00	
		5e May \$ 550.00	
6 State		5f June \$ 400.00	
		5g July \$ 500.00	
7 State identification no.		5h August \$ 378.00	
		5i September \$ 700.00	
8 State income tax withheld \$ ----- \$		5j October \$ 800.00	
		5k November \$ 600.00	
Form 1099-K (Keep for your records)		www.irs.gov/Form1099K	Department of the Treasury - Internal Revenue Service

Business Income

- Based on your interview and the completion of the taxpayer's intake and interview sheet, you may discover that the taxpayer or spouse had business income from being self-employed or working as an independent contractor.
 - Taxpayers are self-employed if they carry on an unincorporated trade or business as a sole proprietor or independent contractor.
 - A taxpayer does not have to conduct regular full-time business activities to be self-employed. Having a part time business in addition to a regular job or business may be self-employment.
 - These taxpayers may not have income statements for their business income and expenses.
 - The information to prepare their tax return comes from their records.
 - An activity qualifies as a business if the primary purpose for engaging in the activity is for income or profit and the taxpayer is involved in the activity with continuity and regularity.

Business Income

Cash Income

- Some taxpayers may indicate that they received cash income for self-employment activity. This income must be reported, unless excluded by law.

Form 1099-NEC, Nonemployee Compensation

- Taxpayers who are independent contractors should receive Form 1099-NEC showing the income they earned from payers who are required to file Forms 1099. The amount from Form(s) 1099-NEC, along with any other business income payments, are reported on their tax return.
- Subcontractors or individuals who receive less than \$600 may not receive Form 1099-NEC, but still must report all their income.

Form 1099-K, Payment Card and Third Party Network Transactions

- Form 1099-K is used by third-party networks (such as Visa, Mastercard, or others) to report transactions processed for taxpayers, including those who use their automobiles for hire or ride share services such as Uber, Lyft, Sidecar, etc.
- Taxpayers may not receive the Form 1099-K if the amount is less than \$20,000, but the amount received must still be reported.

Schedule C

- Form 1040, Schedule C, is used to report income from a business operated or a profession practiced as a sole proprietor.
- Schedule C shows the income and expenses and the net income amount is carried to Form 1040.
- The net profit or loss will be reported on Form 1040. The net profit will also need to be shown on Schedule SE in order to calculate the self-employment tax.
- More than one Schedule C can be prepared if the taxpayers have more than one business or to report each spouse's share of the business if it is jointly operated and filing a joint return.
- Need to know what type of business the client was running for business code selection.

Schedule C: Scope of Service

We can assist taxpayers who have returns that require Schedule C with certain limits:

- Have less than \$35,000 in business expenses
- Use the cash method of accounting
- Have **no** inventory at any time during the year
- Did not have a net loss from the business
- Have **no** employees during the year and did not pay contract labor for services
- Are not required to file Form 4562, Depreciation and Amortization, for this business (**depreciation and the election to expense business assets are out of scope**)
- Do **not** deduct expenses for business use of a home (Out of scope)

Schedule C: Expenses

- Taxpayers deduct the costs of running their business.
- These costs are known as business expenses.
- To be deductible, a business expense must be both ordinary and necessary.
 - An ordinary expense is one that is common and accepted in the taxpayer's industry.
 - A necessary expense is one that is helpful and appropriate for the taxpayer's trade or business.
- All ordinary and necessary expenses incurred in a self employed taxpayer's business must be reported.

Schedule C: Expenses

Expenses that are in scope:

- Advertising
 - Advertising expenses are the costs associated with promoting the business through various means including internet ads, newspapers, magazines, billboards, racing sponsors, and television spots.
- Car and Truck Expenses
 - Vehicle expenses can be calculated using actual expenses or the standard mileage rate.
 - Actual vehicle expenses include: gas, oil, repairs, tires, insurance, registration fees, licenses, and depreciation (or lease payments) attributable to the portion of the total miles driven that are business miles.
 - If the taxpayers have used actual expenses in the past, or wish to use actual expenses in the current year, they are **out of scope**.
 - For the standard mileage deduction, the current standard mileage rate is multiplied by the number of business miles.
 - Self-employed taxpayers can also deduct the business part of interest on a car loan, state and local personal property tax on the car, parking fees, and tolls, whether or not they claim the standard mileage rate.
 - For-hire drivers may have other deductible car expenses such as cellular service, fees, and ride-sharing insurance in addition to using the standard mileage rate.

Schedule C: Expenses

Expenses that are in scope:

- Commissions and Fees
 - Commissions or fees are paid to both individuals and businesses.
 - If payments to a single individual are \$600 or more, the taxpayer must report the payments on Form 1099-MISC or Form 1099-NEC.
 - In this case, the taxpayer's return is **out of scope** for the VITA/TCE programs.
- Insurance
 - Insurance policies and coverage are deductible for the business operation. This includes property and business liability insurance.
 - If the standard mileage rate is used, no deduction is allowed for regular automobile insurance premiums.
 - A for-hire driver's cost of extra liability coverage can be added to the standard mileage rate if separate from the main policy.
 - Health insurance for the sole proprietor and his or her family is not deductible as a business expense on Schedule C.

Schedule C: Expenses

Expenses that are in scope:

- Other Interest
 - This category can include interest paid on business operating loans, but not mortgage interest.
 - Business interest includes the business portion of interest on a car loan – it can be added to the standard mileage rate.
- Legal and Professional Services
 - Expenses included on this line are fees paid to professionals, such as attorneys, accountants, appraisers, and engineers.
 - Legal fees paid to acquire business assets are not deductible. These costs are added to the basis of the property.
 - Some accountant fees and attorney fees may be for personal services (e.g., tax returns, wills, or estates) and are not deductible as business expenses.
 - Payments over \$600 may require a Form 1099-MISC or 1099-NEC to be filed, which makes the return out of scope.

Schedule C: Expenses

Expenses that are in scope:

- Office Expense
 - Office expense generally includes supplies such as pens, paper, and postage.
- Rent or Lease - Vehicle, Machinery, and Equipment
 - This category includes rental fees for cars, trucks, vans, machinery, equipment, and other personal property.
 - Vehicle leases of more than 30 days are out of scope.
 - If the taxpayer uses the standard mileage rate method for business miles of a leased vehicle, the return remains in scope.
- Repairs and Maintenance
 - Repairs on equipment, office space, and buildings are some possible expenditures reflected in this category.
- Supplies
 - Supplies expense includes costs for general operating supplies not associated with the cost of goods sold.

Schedule C: Expenses

Expenses that are in scope:

- Business Meal Expenses
 - A business owner can deduct a percentage, generally 50%, of the actual cost of a meal if the following conditions are met:
 - The meal expense was an ordinary and necessary expense in carrying on the taxpayer's trade or business;
 - The expense was not lavish or extravagant under the circumstances;
 - The taxpayer was present at the meal;
 - The meal was provided to a current or potential business customer, client, consultant, or similar business contact; and
 - In the case of food or beverages provided during or at an entertainment event, the food and beverages were purchased separately from the entertainment, or the cost of the food and beverages was stated separately from the cost of the entertainment on one or more bills, invoices, or receipts.
 - A temporary exception allows a 100% deduction for food or beverages from restaurants.

Schedule C: Expenses

Expenses that are in scope:

- Taxes and Licenses
 - Taxpayers can deduct taxes and license fees paid in the operation of their business.
 - Examples include:
 - State and local sales taxes imposed on the taxpayer as the seller of goods or services
 - Real estate and personal property taxes on business assets
 - Certain licenses and regulatory fees
- Travel Expenses
 - Travel expenses are the ordinary and necessary expenses of traveling away from home for business.
- Utilities
 - Utilities typically consist of normal electric, gas, water, and telephone expenses incurred for the business.
 - There should be no deduction for personal expenses or expenses for a home office in this category.

Schedule C: Expenses

Expenses that are in scope:

- Other Expenses:
 - Taxpayers may also be able to deduct other ordinary and necessary business expenses not deducted elsewhere on Schedule C.
 - Taxpayers can deduct the cost of their education expenses (including certain related travel) related to the trade or business.
 - Taxpayers must be able to show the education maintains or improves skills required in their trade or business, or that it is required by law or regulations, for keeping license to practice, status, or job.

1099-NEC & Schedule C Worksheet

- A fillable/printable worksheet was created to help walkthrough the Schedule C portion of TaxSlayer and ensure all necessary questions were asked for entering and QR purposes.

AccountingAidSociety

We use taxes to build relationships.
And relationships to build futures.

1099-NEC & Schedule C Worksheet

Complete if client has 1099-NEC Non-Employee Compensation or Other Self Employment Income

1. Does the client have a 1099-NEC?	<input type="checkbox"/> Yes <input type="checkbox"/> No
2. Did the client work for someone or do they own their own business?	<input type="checkbox"/> Worked for someone / Independent Contractor <input type="checkbox"/> Owned their own business
3. If they owned their own business, do they have an IRS EIN number?	<input type="checkbox"/> No <input type="checkbox"/> Yes; Enter Business Info Below: EIN Number: _____ Company Name: _____ Company Address: _____
4. What is the company business code? (See List Below)	Business Code: _____
5. Did client have cash income / tips?	<input type="checkbox"/> No <input type="checkbox"/> Yes; Total Amount: _____
6. Did client have expenses?	<input type="checkbox"/> No <input type="checkbox"/> Yes (List Below)
Expenses:	

- Please complete this worksheet with your client if they have self employment income

Gig Economy: Rideshare

Taxpayers use their own vehicles, or rented vehicles, to provide rides to others

Most of them are connected with companies like Uber or Lyft

The drivers are independent contractors

They will receive:

Form 1099-NEC if income is \$600 or more (For non-ride related earnings)

Form 1099-K if gross payments exceed \$20,000 (Reports gross ride earnings)

Most companies issue them to all drivers (easier bookkeeping)

The amount on the 1099-NEC is not included on the 1099-K

Cash tips (not reported by any payment service)

Rideshare: Form 1099-K

- Reporting requirements for **Form 1099-K**: Form 1099-K will be issued when amounts received from a third party payment service entity or network exceeded \$20,000, and there were more than 200 such transactions involved.
 - Beginning in 2024, the number of transactions is not a factor, and the dollar amount is \$5,000. So you can expect to see many more of these forms, particularly if you have many Schedule C filers.

Rideshare: Form 1099-K

Taxpayers will receive Form 1099-K, Payment Card and Third-Party Network Transactions by January 31st if, in the prior calendar year, they received payments:

- From payment card transactions (e.g., debit, credit, or stored-value cards), **AND/OR**
- In settlement of third-party payment network transactions above the minimum reporting thresholds as follows:
 - For returns for calendar years prior to 2023:
 - Gross payments that exceed \$20,000, AND
 - More than 200 such transactions

Rideshare: Mileage

Tax returns with Ridesharing require close attention to mileage and expenses

- Business Miles:
 - 67¢ per for 2024.
 - *Do not include personal miles!*
 - Include only these categories:
 - Cruising miles (for example, driving to the stadium to await the exiting crowd)
 - Miles between rides
 - Passenger miles
- If taxpayer uses their home as their business office, the miles from home to first passenger pick up and the miles from last passenger drop off to home may be deducted. Business use of home is **out of scope**.
- Miles are tracked differently by different companies (Uber vs Lyft, etc.)
- Rentals or leases of equipment (including vehicles) for more than 30 days are **Out of Scope**. If the taxpayer uses the standard mileage rate method for business miles of a leased vehicle, the return remains in scope.

Rideshare: Mileage

Lyft	Uber
<ul style="list-style-type: none">● Tracks mileage from the time the driver signs on as Available, until they sign off again.● So Personal Miles and commuting miles must be subtracted to yield Business Miles	<ul style="list-style-type: none">● Tracks mileage from the time there is a “ping” (somebody needs a ride), until the passenger exits the vehicle.<ul style="list-style-type: none">■ Commuting miles must be subtracted for the first ride● Does not keep track of the following types of deductible miles.<ul style="list-style-type: none">■ Miles between rides■ Cruising miles<p>The client may NOT add them back in, unless they have very rigorous proof.</p><p>For example, from an automatic mileage-tracking app with departure and destinations listed.</p>

ENCOURAGE DRIVERS TO KEEP LOGS OF THEIR MILEAGE

Sample Rideshare Document

2020 summary



Here's a summary of your earnings and rides for 2020. Thanks for driving with Lyft!

If you received over \$20,000 in gross ride earnings you will also receive a 1099-K by January, 31st 2021

If you received over \$600 in non-ride related earnings you will also receive a 1099-NEC by January 31st, NaN

Your driving totals	249	2983.37
	Rides	Online miles

Gross earnings

Ride payments	\$3,391.26
Non-ride earnings	\$64.73

Expenses

Lyft platform fees	\$948.09
Service fees	\$702.70
Third-party fees	\$20.00
Express Pay fees	\$2.00
Express Drive rental fees	\$1,425.50

Rideshare: Mileage

Allowed in the VITA/TCE world

Fees and commissions already deducted by the company

Additional insurance policy premiums (required by Uber and Lyft and some others)

Parking and tolls

Car detailing (in addition to what's done when not ridesharing)

Snacks, beverages, and other amenities for passengers

Signage (for example, magnetic stickers)

Car-lease payments, for leases no more than 30 days. (Otherwise Out Of Scope)

Self-Employment (SE) Taxes

- Self-employment (SE) tax is Social Security and Medicare taxes collected primarily from individuals who work for themselves.
- Since taxes are not withheld from independent contractors' pay, it is the taxpayer's responsibility to pay income and SE tax.
- Taxpayers should make quarterly estimated tax payments during the year to pay these taxes.
- The self-employment tax rate on net earnings is 15.3% (12.4% Social Security tax plus 2.9% Medicare tax).
- The software automatically transfers the appropriate information from Schedule C to Schedule SE and calculates the self-employment tax and the adjustment for the deductible part of the self employment tax.



Qualified Business Income Deduction

Qualified Business Income Deduction

Qualified business income (QBI) is the net amount of qualified items of income, gain, deduction, and loss from any qualified trade or business

- Only items included in taxable income are counted
- Items such as capital gains and losses, certain dividends and interest income are excluded
- If an individual has more than one trade or business, the QBI is calculated for each trade or business and then the amounts are netted
- If negative total QBI, then the QBI deduction is zero -- and the return is probably Out of Scope due to a total Schedule C loss

Note that TaxSlayer does all these calculations automatically!

Qualified Business Income Deduction

Calculation:

- The deduction for qualified business income will be the lesser of:
 - 20% of qualified business income (for example, it is the net profit reported on a Schedule C plus 20% of qualified real estate investment trust (REIT) section 199A dividends), or
 - 20% of taxable income (equals adjusted gross income minus the applicable standard or itemized deduction) minus net capital gains and qualified dividends. See Form 8995 instructions for more details.
- Qualified business income is reduced by the deductible part of the SE tax, the SE health insurance deduction and by contributions to qualified retirement plans
 - The deduction is claimed on Form 1040 and can be taken in addition to the standard deduction or itemized deductions.
- The 20% deductions for sole proprietors and qualified REIT Section 199A dividends are in scope;
 - However, taxpayers with a qualified business net loss carryforward from a prior year or publicly traded partnership are **Out of Scope**.

Qualified Business Income Deduction

For our clients, this can be a deduction from total income of up to 20% of the Schedule C net profit or 20% of taxable income, whichever is lower

- It does not affect:
 - AGI, but it can reduce Federal taxable income.
 - Calculations on Schedule C and Schedule SE. Taxpayers still have to pay SE tax on the full self-employment net earnings.
- Deduction is calculated on Form 8995 or 8995-A. TaxSlayer transfers the net profit to this form.

Form 1040, page 1

Income					
1a	Total amount from Form(s) W-2, box 1 (see instructions)			1a	
b	Household employee wages not reported on Form(s) W-2			1b	
c	Tip income not reported on line 1a (see instructions)			1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)			1d	
e	Taxable dependent care benefits from Form 2441, line 26			1e	
f	Employer-provided adoption benefits from Form 8839, line 29			1f	
g	Wages from Form 8919, line 6			1g	
h	Other earned income (see instructions)			1h	
i	Nontaxable combat pay election (see instructions)		1i		
z	Add lines 1a through 1h			1z	
2a	Tax-exempt interest	2a		b	Taxable interest
3a	Qualified dividends	3a		b	Ordinary dividends
4a	IRA distributions	4a		b	Taxable amount
5a	Pensions and annuities	5a		b	Taxable amount
6a	Social security benefits	6a		b	Taxable amount
c	If you elect to use the lump-sum election method, check here (see instructions)		<input type="checkbox"/>		
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here		<input type="checkbox"/>	7	
8	Other income from Schedule 1, line 10			8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income			9	
10	Adjustments to income from Schedule 1, line 26			10	
11	Subtract line 10 from line 9. This is your adjusted gross income			11	
12	Standard deduction or itemized deductions (from Schedule A)			12	
13	Qualified business income deduction from Form 8995 or Form 8995-A			13	
14	Add lines 12 and 13			14	
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income			15	

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

Attach Sch. B if required.

Standard Deduction for—

- Single or Married filing separately: \$12,950
- Married filing jointly or Qualifying surviving spouse: \$25,900
- Head of household: \$19,400

• If you checked any box under **Standard Deduction**, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320R Form **1040** (2022)



Digital Assets

Digital Assets

Taxpayers who have transactions using Bitcoins or other Digital Assets:

- Any transactions of Digital Assets is Out of Scope (OOS) unless the taxpayer's purchases of Digital Assets is made with real currency.
 - Digital Assets purchased with Digital Assets > OOS
 - Digital Assets purchased with real currency > In Scope
 - Any sale transactions of Digital Assets > OOS

(Note: Taxpayers who can check “No” to the digital asset question on Form 1040 are in scope.)



Income from Sale of Stocks / Bonds

Income from Sale of Stocks / Bonds (Form 1099-B)

FORM 1099-B* Proceeds from Broker and Barter Exchange Transactions

Copy B for Recipient OMB NO. 1545-0715

Short-term transactions for which basis is reported to the IRS

Report on Form 8949 with Box A checked and/or Schedule D, Part I

(This Label is a Substitute for Boxes 1c & 6)

8 Description, **1d** Stock or Other Symbol, CUSIP (IRS Form 1099-B box numbers are shown below in bold type)

Action	1b Date Acquired	1c Date sold disposed	1a Quantity Sold	1d Proceeds	1e Cost or Other Basis	Gain / Loss (-)	1g Wash Sale Loss Disallowed	4 Federal Income Tax Withheld	14 State Tax	15 State Tax Withheld
Iowa Co. Common Stock										
Sale	01/08/2022	10/30/2022	200.000	1,750.00	2,500.00	(750.00)				
TOTALS				1,750.00	2,500.00					

FORM 1099-B* Proceeds from Broker and Barter Exchange Transactions

Copy B for Recipient OMB NO. 1545-0715

Long-term transactions for which basis is not reported to the IRS

Report on Form 8949 with Box E checked and/or Schedule D, Part II

(This Label is a Substitute for Boxes 1c & 6)

8 Description, **1d** Stock or Other Symbol, CUSIP (IRS Form 1099-B box numbers are shown below in bold type)

Action	1b Date Acquired	1c Date sold disposed	1a Quantity Sold	1d Proceeds	1e Cost or Other Basis	Gain / Loss (-)	1g Wash Sale Loss Disallowed	4 Federal Income Tax Withheld	14 State Tax	15 State Tax Withheld
Iowa Co. Common Stock										
Sale	10/12/2008	11/01/2022	200.000	4,000.00	1,900.00	2,100.00				
TOTALS				4,000.00	1,900.00					

Income from Sale of Stocks / Bonds (Form 1099-B)

- Sale of stock, mutual funds, and the sale of a personal residence are in scope. If the taxpayer has sold any other assets, refer them to a professional tax preparer.
- Form 1099-B reports proceeds from the sale of a stock or mutual fund.
- Brokerage firms report sales of securities, the acquisition cost, the dates of sale and acquisition, if there is a wash sale adjustment, and whether the cost basis was reported to the IRS on Form 1099-B.
- If the taxpayer sold a capital asset, Form 8949 and Schedule D must be completed and attached.

Income from Sale of Stocks / Bonds (Form 1099-B)

To report capital gain or loss, you will need to identify:

- Cost-Basis:
 - Taxpayers will have cost-basis totals either from their own brokerage firm or the Form 1099-B which will be used to complete the Form 8949.
- Holding period:
 - Short-term property is held one year or less
 - Long-term property is held more than one year
- Both are generally reported on Form 1099-B



Income from Sale of Main Home

Income from Sale of Main Home (Form 1099-S)

- The taxpayer may be eligible to exclude all or part of the gain from their taxable income.
- The sale of real estate other than a home used as a residence is **out of scope** of the VITA/TCE programs.
- Taxpayers must report the sale of a home if ANY of the following is true:
 - The taxpayer does not meet the ownership test
 - The taxpayer does not meet the use test
 - During the two-year period ending on the date of the sale, the taxpayer has excluded the gain from the sale of another home
 - The taxpayer has a gain and does not qualify to exclude all of it
 - The taxpayer has a gain and chooses not to exclude it
 - The taxpayer received Form 1099-S

Exclusion for Sale of Main Home

- Taxpayers who sold their main home may be able to exclude gain up to a maximum of \$250,000 (\$500,000 for married taxpayers who file a joint return or for certain surviving spouses).
- Generally, if the taxpayer can exclude all of the gain, it is not necessary to report the sale.
- If the taxpayer has gain that cannot be excluded, it is taxable and reported on the return.
- A loss on the sale cannot be deducted, however, the taxpayer may be required to report it.
- Only gain from the sale of a taxpayer's main home may be excluded from the taxpayer's income.
 - A taxpayer's "main" home is where they live most of the time. It does not have to be a traditional house; for example, it may be a houseboat, mobile home, cooperative apartment, or condominium, but it must have cooking, sleeping, and bathroom facilities.
 - The taxpayer's main home may also be a rented house or apartment.
 - Taxpayers with more than one home cannot choose which home to designate as their main home.

Ownership and Use Tests

- To claim the exclusion on the gain from the sale of a home, the taxpayer must meet the ownership and use tests. This means that during the five-year period ending on the date of the sale, taxpayers must have:
 - Owned the home for at least two years (the ownership test), and
 - Lived in the home as their main home for at least two years (the use test)
- The required two years of ownership/use do not have to be continuous.
- Taxpayers meet the tests if they can show that they owned and lived in the property as their main home for either a total of 24 full months or 730 days (365 x 2) during the five-year period ending on the date of sale.
 - Short, temporary absences are counted as periods of use even if the property is rented during those absences.
- Ownership and use tests can be met during different two-year periods.
- However, a taxpayer must meet both tests during the five-year period ending on the date of the sale.



Retirement Income

Retirement Income (Form 1099-R)

<input type="checkbox"/> CORRECTED (if checked)						
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. HOUSTON STATE BANK 1200 MAIDEN LANE YOUR CITY, YOUR STATE, ZIP			1 Gross distribution \$ \$6,000.00		OMB No. 1545-0119 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
			2a Taxable amount \$ \$6,000.00			
			2b Taxable amount not determined <input type="checkbox"/> Total distribution <input type="checkbox"/>		Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the IRS.	
PAYER'S TIN 38-2XXXXXX	RECIPIENT'S TIN 141-00-XXXX		3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$ \$1,200.00		
RECIPIENT'S name MONICA MONTGOMERY Street address (including apt. no.) 178 PACKER DRIVE City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP			5 Employee contributions/ Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$	
			7 Distribution code(s) 1	IRA/ SEP/ SIMPLE <input checked="" type="checkbox"/>	8 Other \$ %	
			9a Your percentage of total distribution %		9b Total employee contributions \$	
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 FATCA filing requirement <input type="checkbox"/>	14 State tax withheld \$		15 State/Payer's state no.	16 State distribution \$
Account number (see instructions)			13 Date of payment	17 Local tax withheld \$	18 Name of locality	19 Local distribution \$

Form **1099-R**

www.irs.gov/Form1099R

Department of the Treasury - Internal Revenue Service

Retirement Income (Form 1099-R)

- Retirement income can include Social Security benefits as well as benefits from annuities, retirement or profit sharing plans, insurance contracts, IRAs, etc.
- Social Security benefits are covered elsewhere in this presentation
- Taxpayers receive the following forms reporting their retirement income:
 - **Form 1099-R** – Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
 - **Form CSA 1099-R** – Statement of Annuity Paid (civil service retirement payments)
 - **Form CSF 1099-R** – Statement of Survivor Annuity Paid
 - **Form RRB 1099-R** – Annuities or Pensions by the Railroad Retirement Board
 - If Form 1099-R is for an IRA-type distribution, it will be indicated in Box 7.
- Retirement income may be fully or partially taxable

Retirement Income (Form 1099-R)

How do I find the taxable portion of pensions and annuities?

- Fully Taxable Pensions and Annuities
 - In general, pension or annuity payments are fully taxable, if the following are true:
 - Taxpayers did not pay any part of the cost of their pensions or annuities
 - Employers did not withhold part of the cost from the taxpayer's pay while they worked
 - Employers withheld part of the cost from the taxpayer's before-tax pay while they worked

Retirement Income (Form 1099-R)

How do I find the taxable portion of pensions and annuities?

- Partially Taxable Pensions and Annuities
 - There are two methods used to figure the taxable portion of each pension or annuity payment, the General Rule and the Simplified Method
 - Unless an exception applies, retirees must use the **Simplified Method** for annuity payments from a qualified plan. A qualified plan is established by an employer to provide retirement benefits for employees and their beneficiaries.
 - If a taxpayer tells you they have been using the **General Rule** to figure the taxable portion for past years, the return is **out of scope**.

Retirement Income: Simplified Method

What is the Simplified Method?

- The Simplified Method is used to calculate the tax-free portion of each pension or annuity payment.
- The *Simplified Method Worksheet* calculates the taxpayer's cost basis for each monthly payment.
- You may need to use the Simplified Method to calculate the taxable amount of the distribution if:
 - Box 2a is zero or blank and an amount is shown in Box 9b.
 - Box 1 and 2a contain the same amount and Taxable amount not determined box is marked.
- To ensure the taxable portion of the pension is calculated correctly, the age of the taxpayer(s) at the annuity start date, not their age for the tax year, must be used when determining the total number of expected monthly payments.

Retirement Income: Simplified Method

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. MAPLE ENTERPRISES 225 ONEIDA AVENUE YOUR CITY, YOUR STATE, ZIP		1 Gross distribution \$ 19,350.00		OMB No. 1545-0119 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
PAYER'S TIN 41-200XXXX		RECIPIENT'S TIN 417-00-XXXX		2a Taxable amount \$ 14,500.00			Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the IRS.
RECIPIENT'S name EMILY LINCOLN Street address (including apt. no.) 135 DISCOVER AVENUE City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP		3 Capital gain (included in box 2a) \$		4 Federal income tax withheld \$ 1,935.00			
5 Employee contributions/ Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$		7 Distribution code(s) 7			
8 Other \$		9a Your percentage of total distribution %		9b Total employee contributions \$ 14,500.00			
10 Amount allocable to IRR within 5 years \$		11 1st year of desig. Roth contrib.	12 FATCA filing requirement <input type="checkbox"/>	14 State tax withheld \$		15 State/Payer's state no.	16 State distribution \$
Account number (see instructions)		13 Date of payment	17 Local tax withheld \$		18 Name of locality		19 Local distribution \$

Retirement Income: Simplified Method

What is needed to do the Simplified Method?

1. Plan Cost at annuity start date (total employee contributions **shown in box 9b** of Form 1099-R)
2. Starting date of annuity
3. Whether it's a joint or survivor annuity
4. Taxpayer's age at start date (and spouse's age if joint/survivor annuity)
5. Number of months paid in 2024

Form CSF 1099-R

Office of Personnel Management Retirement Operations P.O. Box 45 Boyers, PA 16017-0045		Statement of Survivor Annuity Paid Copy C - For annuitant's records. This information is being furnished to the U.S. Internal Revenue		OMB No. 1545-0119 Form 1099-R Distributions From Pensions, Annuities, Redemption or Pre- Sharing Plans, IRAs, Insurance Contracts, etc.	
PAYER's Federal Identification	Recipient's ID No. (Survivor)	Account number (Retirement Claim No.) CS F7152555W		1. Gross distribution 18684.00	
5. Employee Contributions/ Designated ROTH Contributions or Insurance Premiums 3127.83	Paid To			2a. Taxable amount UNKNOWN	
7. Distribution Code(s) 4-DEATH-BENEFIT				4. Federal Income Tax Withheld NONE	
9b. Total Employee Contributions 11440.00			12. State tax withheld NONE	13. State/Payer's state no.	
			12. State tax withheld NONE	13. State/Payer's state no.	

Calculating the Age of the Recipient at Start Date

Example:

Joe elected a joint/survivor annuity when he retired and started receiving his pension on July 1, 2015.

Joe was born March 5, 1950.

His wife, Mary, was born on July 23, 1953.

Joe's birthday had passed, so his age was $2015-1950=65$ years old

Mary's age would have been $2015-1953=62$, but since her birthday had not passed yet, we must use 61.

The sum of ages = 126 years.

To ensure the taxable portion of the pension is calculated correctly, the age of the taxpayer(s) at the annuity start date, not their age for the tax year, must be used when determining the total number of expected monthly payments.

Early Distributions

- An early distribution is a withdrawal from a retirement fund by a taxpayer who is under age 59½.
- Early distributions can be subject to an additional 10% tax.
- The additional tax applies to the taxable portion of the distribution or payment.
- Certain early distributions are not subject to the early distribution tax.
 - When the distribution code on Form 1099-R is 1, the taxpayer will not be subject to the additional 10% tax if an exception applies.
 - If the distribution code is 2, 3, or 4, the taxpayer does not have to pay the additional tax.

Distribution Codes

Box 7 Distribution Codes	Explanation
1	Early distribution, no known exception <ul style="list-style-type: none">• A 10% additional tax will be applied unless the taxpayer qualifies for an exception
2	Early distribution, exception applies <ul style="list-style-type: none">• If the IRA/SEP/SIMPLE box IS checked, ask the taxpayer if any non-deductible contributions were made. If so, the return is Out of Scope.

Distribution Codes

Box 7 Distribution Codes	Explanation
3	<p>Disability</p> <ul style="list-style-type: none">● If the taxpayer is under the minimum retirement age for the company he retired from, then check the box under Rollover or Disability that says, “Check here to report as wages on the Form 1040.”● If the taxpayer has reached the minimum retirement age during the tax year, the amount reported as wages and the amount reported as taxable pension have to be calculated based on the number of days before and after reaching the minimum retirement age.<ul style="list-style-type: none">○ Beginning on the day after minimum retirement age is reached, payments received are taxable as a pension or annuity.

Distribution Codes

Box 7 Distribution Codes	Explanation
4	<p>Death</p> <ul style="list-style-type: none">• For a survivor's benefit or an inherited IRA.• If it's an inherited IRA and the original owner had a basis, the survivor takes over that basis (Out of Scope).
6	<p>Section 1035 Exchange</p> <ul style="list-style-type: none">• Tax-free exchange of life insurance, annuity, qualified long-term insurance, or endowment contract. It is not reported on a tax return.
7	<p>Normal Distribution</p> <ul style="list-style-type: none">• If the IRA/SEP/SIMPLE box IS checked, ask the taxpayer if any non-deductible contributions were made. If so, the return is Out of Scope.
B (rarely seen)	<p>Designated Roth account distribution</p> <ul style="list-style-type: none">• Code B is for a distribution from a designated Roth account.• This code is in scope only if taxable amount has been determined.

Distribution Codes

Box 7 Distribution Codes	Explanation
D (rarely seen)	Annuity payments from nonqualified annuities <ul style="list-style-type: none">• Used for a distribution from a private annuity in conjunction with the regular code.• If the taxpayer has AGI over a threshold amount (\$200,000 for a single taxpayer or HoH; \$250,000 MFJ or QW; \$125,000 MFS), then this code means the return is Out of Scope. If
F (rarely seen)	Charitable gift annuity <ul style="list-style-type: none">• Used for the annuity payments from a charitable gift annuity.
G (rarely seen)	Direct rollover of distribution and direct payment <ul style="list-style-type: none">• For a direct rollover from a qualified plan to an eligible retirement plan.
H (rarely seen)	Direct rollover of a designated Roth account distribution to a Roth IRA <ul style="list-style-type: none">• For a direct rollover of a distribution from a designated Roth account to a Roth IRA.

Distribution Codes

Box 7 Distribution Codes	Explanation
L (rarely seen)	Loans treated as deemed distributions <ul style="list-style-type: none">• Code L is for loans treated as deemed distributions.• This code could possibly be combined with codes 1, 4, or B.
M (rarely seen)	Qualified plan loan offset <ul style="list-style-type: none">• Code M is used for a qualified plan loan offset distribution due to plan termination or severance from employment.• The taxpayer has until the due date, including extensions, to rollover any of the amount. It is always used with another code 1,2,4,7 or B.• Treat the distribution based on the other code.

Distribution Codes

Box 7 Distribution Codes	Explanation
Q (rarely seen)	Qualified distribution from a Roth IRA <ul style="list-style-type: none">• This distribution isn't taxable.• Box 2a should be blank.• TaxSlayer enters the distribution amount on Form 1040 on the IRAs, pensions, and annuities line.• No further action is needed.
S (rarely seen)	Early distribution from a SIMPLE IRA in the first 2 years, no known exception <ul style="list-style-type: none">• A 25% additional tax will be applied unless the taxpayer qualifies for an exception
W (rarely seen)	Charges or payments for purchasing qualified long-term care insurance contracts under combined arrangements <ul style="list-style-type: none">• This distribution is excludable from gross income. It is not entered on the tax return.
5, 8, 9, A, E, J, K, N, P, R, T, U	OUT OF SCOPE

Minimum Distributions

- To avoid an additional tax for excess accumulation, participants in retirement plans must begin taking a Required Minimum Distribution (RMD) by a specified date.
 - That date is April 1 of the calendar year following the year in which the taxpayers either reached age 72 (70½ if the taxpayer reaches 70½ before January 1, 2020), or retired, whichever is later.
- After the starting year for RMDs, taxpayers must receive the minimum distribution for each year by December 31 of that year.
- If a taxpayer's 70th birthday is July 1, 2019 or later, the taxpayer does not have to take withdrawals until reaching age 72.
- For those who were age 70½ or younger on Jan. 1, 2020, their first RMD is not due until April 1 of the year after they turn age 72.

Tax-Favorable Treatment of COVID-Related Retirement

- No coronavirus-related distributions in 2024. Taxpayers will use Form 8915-F, Qualified Disaster Retirement Plan Distributions and Repayments, to report repayments of all or a portion of the 2020 coronavirus-related distribution in 2024.
- Distributions received in 2020 that were qualified coronavirus-related distributions are included in income in equal amounts over 3 years (tax years 2020, 2021 and 2022). Taxpayers could elect to include the entire distribution in income in 2020.
- Taxpayers could not make or change this election after the due date (including extensions) for their 2020 tax return.

Repayments

- A qualified individual who received a coronavirus-related distribution eligible for tax-free rollover treatment is permitted to repay any portion of the distribution to the same plan or another eligible retirement plan (such as an IRA) within 3 years from the day after the date of distribution. Not all coronavirus-related distributions qualify for repayment.
- These amounts **cannot** be repaid:
 - Any coronavirus-related distribution paid to a qualified individual as a beneficiary of an employee or IRA owner
 - Any distribution (other than from an IRA) that is one of a series of substantially equal periodic payments made (at least annually) for:
 - A period of 10 years or more,
 - The individual's life or life expectancy, or
 - The joint lives or joint life expectancies of the individual and the individual's beneficiary.
- Repayments made in 2023 after the due date of the 2022 return and within the 3 year period will result in an excess repayment, since there is no income to report. The excess repayment will need to be carried back via an amended return.



Cancellation of Debt

Cancellation of Debt

- A debt includes any indebtedness for which a taxpayer is liable or which attaches to the taxpayer's property, such as auto loans, credit card debt, medical care, professional services, mortgages, and home equity loans.
- Generally, if a debt for which a taxpayer is personally liable is canceled or forgiven, the taxpayer must include the canceled amount in income.
 - The lender will issue Form 1099-C, Cancellation of Debt

Form 1099-C, Cancellation of Debt

CORRECTED (if checked)

CREDITOR'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. ADAMS BANK 1254 ORANGE AVENUE YOUR CITY, YOUR STATE, ZIP		1 Date of identifiable event 08/25/	OMB No. 1545-1424 Form 1099-C	Cancellation of Debt
		2 Amount of debt discharged \$ 850.00		
		3 Interest, if included in box 2 \$		
CREDITOR'S TIN 31-700XXXX		DEBTOR'S TIN 416-00-XXXX		
DEBTOR'S name ROBERT LINCOLN Street address (including apt. no.) 135 DISCOVER AVENUE City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP		4 Debt description CREDIT CARD		Copy B For Debtor This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
Account number (see instructions)		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>	6 Identifiable event code	
		7 Fair market value of property \$		

Form **1099-C**

(keep for your records)

www.irs.gov/Form1099C

Department of the Treasury - Internal Revenue Service

Cancellation of Debt

- This is only in scope for:
 - Nonbusiness credit card debt cancellation,
 - Discharge of qualified principal residence indebtedness, and
 - Discharge of certain student loan debt in 2021 through 2025.
- Generally, if a taxpayer receives Form 1099-C for canceled credit card debt and was **solvent** (assets greater than liabilities) immediately before the debt was canceled, all the canceled debt will be included on the tax return as other income.
- If the taxpayer had nonbusiness credit card debt canceled, all or part of the debt may be excluded if the cancellation occurred in bankruptcy, or if the taxpayer was **insolvent** (assets is less than one's liabilities) immediately before the cancellation.
 - These situations are **out of scope**.

Cancellation of Debt

- Lenders and creditors are required to issue Form 1099-C if they cancel a debt of \$600 or more.
 - If the debt canceled is less than \$600, some lenders or creditors may send a letter or some other form of notification to the taxpayer.
 - Generally, taxpayers must include all canceled amounts (even if less than \$600) in income.
 - Interest on a cancellation of debt (1099-C) is Out of Scope.
- Sometimes, Form 1099-C will show an interest amount in Box 3. Because only **nonbusiness** credit card debt income is in scope, any interest on the account would not have been deductible. The amount shown in Box 3 is included in Box 2; therefore, the full amount shown in Box 2 should be reported as other income.

Discharge of Qualified Principal Residence Indebtedness

- Taxpayers may exclude from income certain debt forgiven or canceled on their principal residence.
 - If the canceled debt qualifies for exclusion from gross income, the debtor may be required to reduce tax attributes (certain credits, losses, and basis of assets) by the amount excluded.
- A principal residence is generally the home where the taxpayer lives most of the time.
 - A taxpayer can have only one principal residence at a time.

Discharge of Qualified Principal Residence Indebtedness

- Qualified principal residence indebtedness includes:
 - Any debt incurred in acquiring, constructing, or substantially improving a principal residence that is secured by the principal residence
 - Any debt secured by the principal residence resulting from the refinancing of debt incurred to acquire, construct, or substantially improve a principal residence, but only to the extent that the amount of debt does not exceed the amount of the refinanced indebtedness

Discharge of Qualified Principal Residence Indebtedness

- Exclusion Limit:
 - The maximum amount that can be treated as qualified principal residence indebtedness for discharges after 2020 and through 2025 is \$750,000 (\$375,000 in the case of a married individual filing a separate return).
 - The maximum amount a taxpayer can treat as qualified principal residence indebtedness for debt discharged after 2006 and before 2021 is \$2 million (\$1 million if married filing separately).
 - Canceled qualified principal residence indebtedness cannot be excluded from income if the cancellation was for services performed for the lender or on account of any factor not directly related to a decline in the value of the residence or the taxpayer's financial condition.

Foreclosure / Abandonment

- If a property was taken by the lender (foreclosure) or given up by the borrower (abandonment), the lender usually sends the taxpayer Form 1099-A, Acquisition or Abandonment of Secured Property.
 - Form 1099-A will have information needed to determine the gain or loss due to the foreclosure or abandonment.
 - If the debt is canceled, the taxpayer will receive Form 1099-C, Cancellation of Debt.
- If foreclosure/ abandonment and debt cancellation occur in the same calendar year, the lender may issue only Form 1099-C, including the information that would be reported on Form 1099-A.

Foreclosures and Capital Gain or Loss

- Figure the gain or loss from a foreclosure or repossession the same way as the gain or loss from a sale.
 - The gain is the difference between the amount realized and the adjusted basis of the transferred property (amount realized minus adjusted basis).
 - The loss is the difference between the adjusted basis in the transferred property and the amount realized (adjusted basis minus amount realized).
- Generally, the amount realized on a foreclosure is considered to be the selling price. But this selling price depends, in part, on whether the debt was recourse debt or nonrecourse debt.
 - In addition, the taxpayer may also have ordinary income from the cancellation of debt.
- Generally, the taxpayer's gain or loss from a foreclosure or abandonment is reported on Form 8949 and Schedule D.

Foreclosures and Capital Gain or Loss

- If the taxpayer is personally liable for the debt (recourse debt), and the amount of outstanding debt (mortgage) is more than the home's FMV, the difference is treated as cancellation of debt income.
 - If the canceled debt qualifies as excludable from gross income, the exclusion is reported on Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (And Section 1082 Basis Adjustment)
 - Otherwise, the canceled debt is reportable as ordinary income on Form 1040, Schedule 1 and is beyond the scope of VITA/TCE.

Student Loan Forgiveness

- An exclusion from gross income is available for student loan forgiveness after 2020 and before 2026 for most forgiven student loans.
- If eligible for the exclusion, the lender should not issue Form 1099-C.



Medicaid Waiver Payments

Medicaid Waiver Payments

- Medicaid waiver payments involve certain payments to individual care providers for the care of eligible individuals under a state Medicaid Home and Community-Based Services waiver program described in section 1915(c) of the Social Security Act (Medicaid Waiver payments)
- Section 1915(c) of the Act enables individuals who otherwise would require care in a hospital, nursing facility, or intermediate care facility to receive care in the individual care provider's home
- In 2014, the IRS issued Notice 2014-7 that provides that these Medicaid waiver payments will be treated as difficulty of care payments excludable from gross income
- In 2019, there was a tax law change that allowed the taxpayer to choose to include qualified Medicaid waiver payments in the calculation of earned income for purposes of the EIC and ACTC

Medicaid Waiver Payments

- **The issue:** The key is determining if the payments for care of an eligible individual in the provider's home were in fact paid under a Medicaid Waiver Program
 - Certain Michigan programs appear to specifically involve Medicaid waivers, but these are limited in number (see table on next slide)
 - Note that Michigan Department of Health and Human Services (MDHHS) is **not** listed in the table.

Medicaid Waiver Payments

Medicaid Waiver Section 1915(c)	Agency	Home Based Services for:
Mi Choice	Area Agency on Aging	Elderly & Disabled
Mi Choice-MC (managed care)	Area Agency on Aging	Elderly & Disabled
MI HealthLink	Aetna Better Health of Michigan, Inc.	Elderly & Disabled
	AmeriHealth Caritas VIP Care Plus	Elderly & Disabled
	Michigan Complete Health	Elderly & Disabled
	HAP Midwest Health Link	Elderly & Disabled
	Meridian Complete	Elderly & Disabled
	Molina Healthcare, Inc.	Elderly & Disabled
	UP Health Plan MI HealthLink	Elderly & Disabled
Children's Waiver Program	Community Mental Health	Children under age 21
Children with Serious Emotional Disturbances	Community Mental Health	Children under age 21
Children's Home & Community Based Services	Community Mental Health	Children under age 18
Habilitation Supports Waiver	Community Mental Health	Beneficiaries with Dev. Disabilities

You may assume that W-2s issued to home care providers by the Michigan employers/agencies listed in this table are Medicaid waiver payments and are not taxable.

Medicaid Waiver Payments

- If a taxpayer has a W-2 or income from an agency not listed in the table, the taxpayer must provide written evidence from the payer that the payments are under a Medicaid Waiver Program before we will exclude the payments on the tax return.
- Michigan Department of Health and Human Services (MDHHS) is not listed in the table.
 - We are not aware that the MDHHS Home Help Program is a qualified Medicaid Waiver Program.
 - These are typically the payments reported on a W-2 where the person being cared for is listed as the employer.
 - This is an example where the taxpayer would need to provide written proof (from MDHHS) that these payments are under a qualified Medicaid Waiver Program before we will exclude the payments.

Medicaid Waiver Payments

- If it's determined the taxpayer has qualified Medicaid waiver payments reported on Form W-2 that may be excluded from gross income, follow the instructions in Tab D of Publication 4012. Tab N has instructions for other reporting scenarios.
- For purposes of including the excluded income in the calculation of earned income for the EIC and ACTC, try both scenarios – including and not including the income for the earned income calculation – to determine which one results in the higher earned income credit and/or additional child tax credit.



Income (or loss) from Rental Property

Income (or loss) from Rental Property

OUT OF SCOPE!

Rental income is in scope for VITA volunteers with a military certification, but only for military families or individuals renting their primary residence due to a permanent change of duty station.