

# WELCOME TO

# AccountingAidSociety

Tax Masters Series  
Session One:  
Tax Law Refreshers

October 19, 2023  
5:30 p.m. to 8 p.m.

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

Instructors: Chelsea Vitale, Maysaa Rahal, Kathy Holka, Lamis Alnajjar

# Tax Masters, Session 1, October 19, 2023

## AGENDA

Welcome and Introductions

Agency Updates

Tax Law Refreshers

Residential Energy Credits

First-Time Homebuyer Credit and Repayment

Education Credits

Going Over the Tax Return with the Client

Medicaid Waiver Payments

Questions

# Accounting Aid Society SINCE 1972

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

Welcome and Introductions

# Meet Your Presenters

- Matt Hetherwick, Director of Individual Tax Program
- Maysaa Rahal, VITA Program Manager
- Chelsea Vitale, VITA Program Manager
- Kathy Holka, Senior Tax Policy Analyst
- Lamis Alnajjar, Site Coordinator

# Important Dates & Info

- Thursday, 10/26: Virtual Q&A session
- Tuesday, 11/7: Virtual Q&A session
- Thursday, 11/9: Tax Masters #2
- Saturday, 11/11: Volunteer Kickoff Event
- Tuesday, 11/21: Virtual Q&A session
- Tuesday, 12/12: Virtual Returning Basic Training
- Thursday, 12/14: Virtual Q&A session
- Saturday, 12/16: Certification Advancement Training (Returning Basic to Advanced)
- Tuesday, 12/19: Virtual Returning Advanced Training
- Thursday, 1/4/24: Virtual Q&A session
- Saturday, 1/13/24: Site Coordinator Meeting

# Agency Updates

- More access, more availability!
  - Cody Rouge Neighborhood
  - Western Wayne County
  - Ypsilanti
  - Mobile team to support senior homes and ad-hoc events

# Accounting AidSociety SINCE **1972**

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**Tax Law Refreshers**



## Residential Energy Credits



# Residential Energy Credits

- **Two types** of Residential Energy Credits available for taxpayers who purchase qualified energy efficient improvements for their home:
  - **Residential Clean Energy Credit**
    - Prior to tax year 2022, this was previously named the residential energy efficient property credit
    - Claimed on Form 5695, Residential Energy Credits, Part I, *which is out of scope for VITA*
  - **Energy Efficient Home Improvement Credit**
    - Prior to tax year 2022, this was previously named the nonbusiness energy property credit
    - Claimed on Form 5695, Residential Energy Credits, Part II

# Inflation Reduction Act of 2022

- The Inflation Reduction Act of 2022 (IRA) amended the credits for residential energy property and energy efficient home improvements
  - Residential Clean Energy Credit
    - The IRA extended the credit through 2034, modified the applicable credit percentage rates for 2033 and 2034, and added battery storage technology as an eligible expenditure
    - The credit applies for property placed in service in 2022 through 2034

# Inflation Reduction Act of 2022

- Energy Efficient Home Improvement Credit
  - The IRA increased the credit for tax years after 2022
  - Beginning with tax year 2023, the amount of the credit is 30% of amounts paid for certain qualified expenditures
  - Beginning January 1, 2023, there is no longer a \$500 lifetime credit limit (or \$200 limit for windows)
  - There are limits on the annual credit allowed and on the amount of credit for certain types of expenditures
  - The credit is allowed for qualifying property placed in service in tax years 2023 through 2032

# Who Can Claim the Credits?

- Who can claim the residential energy credits?
  - Homeowners who improve their primary residence will find the most opportunities to claim a credit for qualifying expenses
  - Renters may also be able to claim credits, as well as owners of second homes used as residences (more information later in the presentation)
  - The credits are never available for improvements made to homes that aren't used as a residence

# Residential Energy Credits

- Both of the residential energy credits are **nonrefundable credits**
- The credit amounts from Form 5695 are reported on Form 1040, Schedule 3, Additional Credits and Payments, lines 5a and 5b
- The amount of the credit a taxpayer may claim is a percentage of the total expenses in the year of installation
- Form 13614-C, Intake/Interview & Quality Review Sheet
  - The taxpayer is asked about purchasing and installing energy-efficient home items in Part V, Life Events, on page 2 of the intake sheet
- Advanced certification required

# Residential Energy Credits (cont.)

- Improvements must meet the clean energy or energy efficient requirements
- To qualify, they must be new systems and materials, not used
- Home must be located in the United States
- Timing of the credit – Credit must be claimed for the tax year when the improvement is installed, not purchased
- When calculating the credit, taxpayers may need to subtract subsidies, rebates, or other financial incentives from qualified property expenses because they're considered a purchase price adjustment
- Adjusted basis of the home is reduced by the amount of any credit allowed

# Residential Energy Credits – Prior Years

- For improvements installed in **2022 or earlier**, see previous versions of Form 5695 and the corresponding instructions
- Be mindful of the \$500 lifetime credit limit (and \$200 limit for windows) for the Energy Efficient Home Improvement Credit for prior years
  - The credit has been in place since 2006; therefore, it is likely that many taxpayers would have reached the \$500 credit limit (and/or \$200 limit for windows) in any given tax year through 12/31/2022
- This presentation primarily addresses the residential energy credit rules for tax years 2023-2032, and more specifically the rules for the Energy Efficient Home Improvement Credit

# Residential Clean Energy Credit

- The first type of Residential Energy Credit, the **Residential Clean Energy Credit**, is:
  - Out of scope for VITA. Claimed on Part I of Form 5695, Residential Energy Credits.
- The following expenses may qualify for the credit if the requirements are met:
  - Solar electric property costs (solar panels)
  - Solar water heating property costs (solar water heaters)
  - Small wind energy property costs (wind turbines)
  - Geothermal heat pump property costs
  - Battery storage technology costs
  - Fuel cell property costs



# Residential Clean Energy Credit (cont.)

- May claim 30% on the sum of the cost for the first five items plus 30% of fuel cell property costs (reduced percentages in tax years 2033 & 2034)
- No annual maximum or lifetime limit
- May claim the credit for qualifying expenses incurred for either an existing home or a newly constructed home
- Unused amounts can be carried forward to reduce tax liability in future tax years

- The information provided for the Residential Clean Energy Credit is for awareness only
- During the intake/interview, taxpayers with expenses for this credit should be referred to a professional tax preparer

# Energy Efficient Home Improvement Credit

- The second type of Residential Energy Credit, the **Energy Efficient Home Improvement Credit**, is:
  - In scope for VITA and is claimed on Part II of Form 5695, Residential Energy Credits.
- Advanced certification required
- Through December 31, 2022, the credit is a \$500 lifetime credit
- For tax years after 2022, there is no longer a lifetime credit limit
- May claim the credit only for qualifying expenses incurred for an existing home or for an addition to or renovation of an existing home
- Unused credit amounts cannot be carried forward to future tax years

# Energy Efficient Home Improvement Credit

## These Expenses May Qualify if they Meet the Requirements

Type of Expense (Form 5695, Part II, Section A)	Credit Available for 2022	Credit Available for 2023-2032
<p>Building envelope components:</p> <ul style="list-style-type: none"> <li>● Insulation or air sealing material or system</li> <li>● Exterior doors</li> <li>● Metal and asphalt roofs</li> <li>● Exterior windows and skylights</li> </ul>	<ul style="list-style-type: none"> <li>● 10% of total cost for all components</li> </ul> <p>(Up to a lifetime maximum of \$500 for all energy efficient home improvements, \$200 for windows)</p>	<ul style="list-style-type: none"> <li>● 30% of cost</li> <li>● 30% of cost, up to \$250 per door and \$500 total</li> <li>● N/A</li> <li>● 30% of cost, up to \$600</li> </ul>

Component must reasonably be expected to last for at least 5 years; do not include labor costs.

# Energy Efficient Home Improvement Credit

## These Expenses May Qualify if they Meet the Requirements

Type of Expense (Form 5695, Part II, Section B)	Credit Available for 2022	Credit Available for 2023-2032
<p>Residential energy property:</p> <ul style="list-style-type: none"><li>● Central air conditioners</li><li>● Natural gas, propane, or oil water heaters</li><li>● Natural gas, propane, or oil furnaces and hot water boilers</li><li>● Improvements/replacement of panelboards, sub-panelboards, branch circuits, or feeders</li></ul>	<ul style="list-style-type: none"><li>● \$300 total for central air, water heaters, &amp; heat pumps</li><li>● \$150 (Up to \$500 lifetime limit for all energy efficient home improvements)</li><li>● N/A</li></ul>	<ul style="list-style-type: none"><li>● 30% of costs, including labor, up to \$600 for each item</li></ul>

# Energy Efficient Home Improvement Credit

## These Expenses May Qualify if they Meet the Requirements

Type of Expense (Form 5695, Part II, Section B)	Credit Available for 2022	Credit Available for 2023-2032
Home energy audits	<ul style="list-style-type: none"><li>• N/A</li></ul>	<ul style="list-style-type: none"><li>• 30% of cost, up to \$150</li></ul>

- A home energy audit of taxpayer's main home may qualify for a credit
- In order to qualify, the home energy audit must:
  - Include a written report and inspection that identifies the most significant and cost-effective energy efficiency improvements with respect to the home, including an estimate of the energy and cost savings with respect to such improvement, and
  - Be conducted by a home energy auditor
- Starting in 2024, additional requirements must be met

# Energy Efficient Home Improvement Credit

## These Expenses May Qualify if they Meet the Requirements

Type of Expense (Form 5695, Part II, Section B)	Credit Available for 2022	Credit Available for 2023-2032
Heat pumps and biomass stoves and biomass boilers: <ul style="list-style-type: none"><li>● Electric or natural gas heat pump water heaters</li><li>● Electric or natural gas heat pumps</li><li>● Biomass stoves and biomass boilers*</li></ul>	<ul style="list-style-type: none"><li>● \$300 total for central air, water heaters, &amp; heat pumps</li><li>● 30% of cost</li></ul>	<ul style="list-style-type: none"><li>● 30% of cost, up to \$2,000 per year</li></ul>

\* For tax year 2022, biomass stoves and boilers are treated as a Residential Clean Energy Credit with no lifetime maximum

# Energy Efficiency Requirements

- To qualify, home improvements must meet energy efficiency standards
- They must be new systems and materials, not used
- IRS provides guidance on what property qualifies for the energy credits
  - See the Form 5695 instructions, or
  - [www.irs.gov/credits-deductions/frequently-asked-questions-about-energy-efficient-home-improvements-and-residential-clean-energy-property-credits-energy-efficiency-requirements](https://www.irs.gov/credits-deductions/frequently-asked-questions-about-energy-efficient-home-improvements-and-residential-clean-energy-property-credits-energy-efficiency-requirements)
- Taxpayers generally can rely on manufacturers' certifications that their property qualifies

# Energy Efficiency Requirements (cont.)

- Not all ENERGY STAR products qualify for a tax credit. Since 2016, exterior doors, exterior windows, and skylights are only eligible for the energy efficient home improvement credit if they meet or exceed the specific requirements of the version 6.0 Energy Star program
- Manufacturers must certify that their products meet new standards and they must provide a written statement to the taxpayer, such as with the product packaging or in a printable format on the manufacturer's Website
- Taxpayers should keep a copy of the manufacturer's certification statement and receipts with their other important tax records
  - Due to the technical nature of these credits, we must see documentation



# Energy Efficient Home Improvement Credit

## Annual Maximum Credits

- For building envelope components, residential energy property, and home energy audits, the aggregate annual maximum is \$1,200
- For heat pumps, heat pump water heaters, biomass stoves, and biomass boilers, the aggregate annual maximum is \$2,000
- Thus, the maximum total yearly energy efficient home improvement credit amount may be up to \$3,200 for tax years 2023 through 2032

# Energy Efficient Home Improvement Credit

## Labor Costs

- Building envelope components – A taxpayer **may not** include labor costs for installing building envelope components (insulation, exterior doors, exterior windows and skylights)
  - If a taxpayer pays a fixed price for an energy efficient building envelope component, the taxpayer must make a reasonable allocation between the qualifying cost of the property and the non qualifying labor cost of the installation
- Residential energy property – A taxpayer **may** include labor costs for the onsite preparation, assembly, or original installation of residential energy property (central air conditioners; natural gas, propane, or oil water heaters; natural gas, propane, or oil furnaces or hot water boilers; electric or natural gas heat pumps; electric or natural gas heat pump water heaters; biomass stoves or biomass boilers; or improvements to panelboards, sub-panelboards, branch circuits, or feeders)

# Second Home

- Second Homes
  - The credits are available only for certain improvements made to second homes
    - See the instructions for each type of credit for which improvements qualify
  - The credits are never available when the improvements are made to homes not used as a residence by the taxpayer
  - For example, landlords can never use these credits for improvements made to any homes they rent out but do not use as a residence themselves

# Home Rented by the Taxpayer

- If a taxpayer is renting a home as their principal residence and makes eligible improvements, a tax credit may be available to such tenant for:
  - Residential energy property expenditures  
(central air conditioners; natural gas, propane, or oil water heaters; natural gas, propane, or oil furnaces or hot water boilers; electric or natural gas heat pumps; electric or natural gas heat pump water heaters; biomass stoves or biomass boilers; or improvements to panelboards, sub-panelboards, branch circuits, or feeders)
  - Home energy audits
- Renters cannot claim the credit for installing building envelope components (insulation, exterior doors, exterior windows and skylights)

**Note:** For tax year 2022, rentals do not qualify

# Challenging Issues

In addition to ensuring energy efficiency standards are met, there are other issues that could pose a challenge to determining the credit. The receipt/invoice from the installer may not have the following information:

- Purchase date vs installation date
  - The credit is taken in the year the improvement or energy product was installed, not purchased
  - For end-of-year purchases, be sure to find out the installation date
- Labor costs
  - Labor costs cannot be claimed for building envelope components
  - If labor costs are included in the total paid for the improvement, taxpayer must ask the installer to break out labor costs or the taxpayer must make a reasonable allocation between cost of the product and labor for installation

# Roofing Expenditures

Type of Credit and Type of Expense	Credit Available for 2022	Credit Available for 2023-2032
Energy Efficient Home Improvement Credit <ul style="list-style-type: none"><li>● Metal and asphalt roofs that meet requirements</li></ul>	<ul style="list-style-type: none"><li>● 10% of cost</li></ul>	<ul style="list-style-type: none"><li>● N/A</li></ul>
<p>Residential Clean Energy Credit</p> <ul style="list-style-type: none"><li>● In general, traditional roofing materials and structural components do not qualify for the Residential Clean Energy Property Credit because they primarily serve a roofing or structural function</li><li>● However, some solar roofing tiles and solar roofing shingles may qualify for the credit for 2022 and for 2023–2032. Out of scope for VITA.</li></ul>		

# TaxSlayer Entry

- Entry in TaxSlayer
  - Federal Section > Deductions > Credits Menu > Residential Energy Credit Form 5695
  - or Keyword: ENER

# Residential Energy Credits

Please consult the reference materials for complete instruction:

- Instructions for Form [5695](#), Residential Energy Credits
  - At the time of this presentation, 2023 Form 5695 Instructions were not available
  - A draft form of 2023 Form 5695 can be found at [irs.gov/draftforms](https://irs.gov/draftforms)
- Publication [5797](#), Home Energy Tax Credits
- [Home Energy Tax Credit](#)
- [FAQs](#)
- Energy efficient standards can be found at:  
[www.irs.gov/credits-deductions/frequently-asked-questions-about-energy-efficient-home-improvements-and-residential-clean-energy-property-credits-energy-efficiency-requirements](https://www.irs.gov/credits-deductions/frequently-asked-questions-about-energy-efficient-home-improvements-and-residential-clean-energy-property-credits-energy-efficiency-requirements)





## **First-Time Homebuyer Credit and Repayment**

# First-Time Homebuyer Credit – When Was It Claimed?

The first-time homebuyer credit is a tax credit for individuals and couples who purchase a new home after April 8, 2008, and before May 1, 2010

There are several versions of the credit depending upon when the home was purchased (see next slide)

## First-Time Homebuyer Credit – When Was It Claimed? (Cont.)

- For homes purchased in 2008, the credit, with some exceptions, must be repaid and takes the form of a \$7,500 interest-free loan.
- For homes purchased in 2009 prior to November 7, the credit is for a maximum of \$8,000 and, with some exceptions, does not have to be repaid, but it's only for new homeowners who have not owned a home in the prior three years.
- Beginning November 7, 2009, an additional category of new homebuyers, long-time residents (who owned their own homes), was added. The credit for this group is a maximum of \$6,500, which, with some exceptions, does not have to be repaid.

# Repayment of First-Time Homebuyer Credit

Taxpayers who received the First-Time Homebuyer Credit for a home purchased in 2008 (maximum \$7,500), must generally repay the credit over a 15-year period in 15 equal installments.

- Repayment period began in 2010 and ends in 2024, unless the credit hasn't been fully repaid

Entry in TaxSlayer:

- Other Taxes > Repayment of First-Time Homebuyer Credit;  
or Keyword: FIR

Use the [First-Time Homebuyer Credit Account Look-up tool](#) on IRS.gov to determine the amount of the repayment.

# Credit Claimed on A Joint Return

If the taxpayer and spouse claimed the credit on a joint return, each spouse is treated as having been allowed half of the credit for purposes of repaying the credit:

- The taxpayer and spouse's portion of the credit must be entered separately

For example: If they received \$7,500 credit on a joint tax return:

- Each spouse would be responsible for  $\frac{1}{2}$  of the credit and repayment amount. Enter \$3,750 in the credit claimed field in TaxSlayer ( $\frac{1}{2} * 7,500$ )

# Form 5405 - First-Time Homebuyer Credit and Repayment



Married Filing Joint customers are required to file two separate 5405 forms with individual repayment amounts.

## Form belongs to \*

- Taxpayer Sample  
 Spouse Sample

## Did the home stop being your primary residence during the current year? \*

- Yes  
 No

## Repayment of Credit

Check here if you purchased your home in 2008.

5



For Jointly filed tax returns, you must enter yours and your spouse's portion of the credit separately. For example, if you received the \$7500 credit on a joint tax return. Each Spouse would be responsible for 1/2 of the credit and repayment amount. Enter \$3750 in the credit received ( $1/2 * 7500$ ).

Please enter **1/2 of the full** credit amount you claimed on Form 5405 for 2008. (This amount would have been 10% of the purchase price up to either \$7,500 or \$8,000) \*

\$

Enter **1/2 of the full** amount repaid with your prior year tax returns

\$

We automatically calculate your required payment amount based on the total credit you received. If you would like to add an additional amount to what is already calculated, enter that amount here

\$

\*Click here to visit the IRS First Time Homebuyer credit account look-up tool.

# Who Must File Form 5405?

Form 5405, Repayment of the First-Time Homebuyer Credit, must be filed with the tax return if the home was purchased in 2008 and either of the following conditions is met before the 15-year period is up:

1. The taxpayer disposed of the home during the tax year
2. The home ceased to be the main home of the taxpayer

If either of these conditions is met, the taxpayer must pay all remaining installments. See exceptions later.

# Who Must File Form 5405? (Cont.)

In all other cases, the taxpayer isn't required to file Form 5405. Instead, the repayment is entered directly on Form 1040, Schedule 2.

**\*\*For example**, you aren't required to file Form 5405 for tax year 2023 if you are making an installment payment of the credit you claimed for a home you purchased in 2008, and you owned and used the home as your main home during all of 2023.



# Repayment of First-Time Homebuyer Credit

- Exceptions to repayment of the credit:
  - Condemnation or threat of condemnation  
(If the home is destroyed, or you sell the home through condemnation or under threat of condemnation to someone who isn't related to you and you don't acquire a new home within the 2-year period, the repayment is limited)
  - Transfer to spouse or ex-spouse
  - Person who claimed the credit dies  
(Unless the credit was claimed on a joint return, then surviving spouse is required to continue repaying his or her half of the credit)
  - Members of the uniformed services or Foreign Service or employees of the intelligence community may not have to repay the credit in certain circumstances

# Out of Scope for Form 5405

1. Taxpayers who claimed the credit and their home is destroyed, condemned or disposed of under threat of condemnation.
2. Taxpayers who claimed the first-time homebuyer credit may be required to repay the credit in the year of sale. The repayment is limited to the amount of gain on the sale. This situation is out of scope for VITA.

# Challenging Situations with First-Time Homebuyer

Challenging situations with First-Time Homebuyer Credit repayment:

1. Taxpayers returns that are rejected for First-Time Homebuyer while they have never purchased a home.  
(Contact Chelsea or Maysaa)
2. Taxpayers who haven't filed a tax return in a long time and have abandoned their home without repaying the First-Time Homebuyer Credit.



## Education Credits

# Education Credits

- Two education credits are available based on qualified expenses a taxpayer pays for post-secondary education:
  - American Opportunity Tax Credit (AOTC)
  - Lifetime Learning Credit
- Certain general rules apply to both of these credits, and there are also specific rules for each. To claim the credit for a dependent's education expenses, the taxpayer must claim the dependent on his return. A taxpayer cannot claim education credits if he or she:
  - Was claimed as a dependent on someone else's tax return,
  - Files MFS,
  - Has adjusted gross income above the phase out limit for his filing status
  - Has a spouse who was a nonresident alien for any part of the tax year

# American Opportunity Tax Credit (AOTC)

The American Opportunity Tax Credit (also referred to as the AOTC or AOC) allows taxpayers to claim a maximum credit of up to \$2,500 for each eligible student. The credit covers 100% of the first \$2,000 and 25% of the second \$2,000 of eligible expenses per student.

# AOTC Requirements

- The American Opportunity Tax Credit is partially refundable. Up to 40% of the credit is refundable, which means the taxpayer can receive up to \$1,000 even if no taxes are owed. Requirements for the AOTC are as follows:
  - **Degree requirement:** The student must be enrolled in a program that leads to a degree, certificate, or other recognized educational credential. Taking classes merely for fun or recreation does not qualify.
  - **Workload:** For at least one academic period of the year, the student must carry at least half of the normal full-time workload for his course of study
  - **No felony drug conviction:** The student must not have any felony convictions for possessing or distributing a controlled substance
  - **Four years of postsecondary education:** The credit can be claimed only for expenses related to a student's post-secondary education and only for a maximum of four years.

# AOTC Expenses

- Qualified education expenses must be reduced by the amount of any tax-free educational assistance received, such as Pell grants, tax-free portions of scholarships, and employer-provided educational assistance. Eligible expenses for the AOTC are:
  - Tuition
  - Required enrollment fees
  - Books, supplies, and equipment needed for a course of study
- Education expenses that do not qualify include:
  - Room and board, (even if the housing is on-campus and a condition of enrollment)
  - Any medical expenses, including student health fees, even if charged by the college
  - Other insurance costs
  - Transportation costs
  - Personal, living, or family expenses



# Lifetime Learning Credit

- The Lifetime Learning Credit is a non-refundable tax credit of 20% of qualified tuition, fees, and any amounts paid directly to the educational institution for required books, supplies and equipment, up to \$10,000, paid during the tax year.
- The maximum credit is \$2,000 per tax return, not per student. A family's maximum credit is the same regardless of the number of qualified students.

# Lifetime Learning Credit Requirements

- The requirements for the Lifetime Learning Credit differ from those for the AOTC as follows:
  - **No workload requirement:** A student is eligible no matter how few courses he takes
  - **Non-degree courses eligible:** A student qualifies if he is simply taking a course to acquire or improve job skills. There is no degree requirement.
  - **All levels of postsecondary education:** A student may be an undergraduate, graduate, or professional degree candidate. The courses can also be just for professional development.
  - **An unlimited number of years:** There is no limit on the number of years for which the credit can be claimed for each student
  - **Felony drug convictions permissible:** A student can be convicted for a felony drug conviction and still qualify

# Lifetime Learning Credit Expenses

- Qualified education expenses must be reduced by the amount of any tax-free educational assistance received, such as Pell grants, tax-free portions of scholarships, and employer-provided educational assistance. Eligible expenses for the LLC are:
  - Tuition
  - Required enrollment fees
  - Amounts paid for required books and supplies paid to the educational institution
- Education expenses that do not qualify include:
  - Room and board, (even if the housing is on-campus and a condition of enrollment)
  - Any medical expenses, including student health fees, even if charged by the college
  - Other insurance costs
  - Transportation costs
  - Personal, living, or family expenses

# Education Credit Worksheet

- A fillable/printable worksheet was created to help walk through the education credits portion of TaxSlayer and ensure all necessary questions were asked for entering and quality review purposes.

<b>Education Credit Worksheet</b>	
<i>Complete if client has a Form 1098-T or Other Education Expenses. Must have account summary from institution.</i>	
1. Is the taxpayer being claimed by someone as a dependent?	<input type="checkbox"/> No <input type="checkbox"/> Yes, stop, education credit cannot be claimed.
2. Is the taxpayer's filing status married filing separately?	<input type="checkbox"/> No <input type="checkbox"/> Yes, stop, education credit cannot be claimed.
3. Was the student over age 18, but under age 24 at the end of the tax year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4. Did the student receive a Form 1098-T from an eligible educational institution for the tax year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5. Did the student receive a Form 1098-T from this institution for the previous tax year with Box 2 filled in and Box 7 checked?	<input type="checkbox"/> Yes <input type="checkbox"/> No
6. Does the 1098-T for the current tax year have an amount in boxes 4 or 6?	<input type="checkbox"/> No <input type="checkbox"/> Yes, stop, out of scope
7. Has the Hope Scholarship Credit or American Opportunity Credit already been claimed for this student on 4 prior year tax returns, either on their return or someone that claimed them as a dependent's return?	<input type="checkbox"/> Yes <input type="checkbox"/> No
8. Was the student enrolled at least half-time?	<input type="checkbox"/> Yes <input type="checkbox"/> No
9. Did the student complete the first 4 years of post-secondary education before the tax year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
10. Was the student convicted, before the end of the tax year, of a felony for possession or distribution of a controlled substance?	<input type="checkbox"/> Yes <input type="checkbox"/> No

11. Did the student pay for books, supplies, or equipment out of their pocket?	<input type="checkbox"/> No <input type="checkbox"/> Yes; Amount: _____
12. Did scholarships or tax-free funds cover all educational expenses?	<input type="checkbox"/> Yes <input type="checkbox"/> No
13. Were room and board, insurance, medical expenses, transportation or other living expenses included in the tuition?	<input type="checkbox"/> No <input type="checkbox"/> Yes, subtract from qualified expenses
14. Did the student receive any refunds from tuition over-payments or class withdrawals?	<input type="checkbox"/> Yes <input type="checkbox"/> No
15. Which education credit is the client eligible for?	<input type="checkbox"/> AOC <input type="checkbox"/> Lifetime Learning Credit
16. What is the amount of eligible educational expenses?	Amount: _____

- Can be found by going to **AAS Resources** website, hovering over "**Resources**" in top right and clicking on "**Site Manual**"
- Tax site document tab takes you to a Google Drive link with all Tax Site Documents. Find "**Education Credit Worksheet**"

# Figuring Out The Credits

- The taxpayer or taxpayer's dependent should receive a Form 1098-T, Tuition Statement, from their post-secondary institution. If they do not have it with them, they should be able to go online to their institution account and pull it up, along with their account statement that shows all fees paid for all semesters during the tax year.

<input type="checkbox"/> CORRECTED		OMB No. 1545-1574		Tuition Statement
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number Clark University 150 Learning Drive Memphis, TN 38101		1 Payments received for qualified tuition and related expenses \$ 7,000	2022	
FILER'S employer identification no. 98-000XXXX	STUDENT'S TIN 800-00-XXXX	3	4 Adjustments made for a prior year \$	5 Scholarships or grants \$ 3,000
STUDENT'S name Sarah Pine		6 Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 includes amounts for an academic period beginning January–March 2023 <input type="checkbox"/>	
Street address (including apt. no.) 123 Main Street		8 Checked if at least half-time student <input checked="" type="checkbox"/>		Copy B For Student  This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.
City or town, state or province, country, and ZIP or foreign postal code Memphis, TN 38101		9 Checked if a graduate student <input type="checkbox"/>		
Service Provider/Acct. No. (see instr.)		10 Ins. contract reimb./refund \$		

Form 1098-T (keep for your records) www.irs.gov/Form1098T Department of the Treasury - Internal Revenue Service

- As a reminder, if an individual has one of these and there are amounts in boxes 4 and/or 6, the return is **Out of Scope**.

# Figuring Out The Credits

**Box 1 is the starting point for determining Qualified Educational Expenses (QEE)**

**Look at the Student Account Statement**

**Subtract** any expenses seen there for:

- Room and Board,
- Health insurance or medical fees,
- Transportation,
- Parking,
- Optional fees.

Then **add** amounts spent out of pocket for other QEE:

- Books and supplies
- This is almost always given as a reasonable estimate, but we should ask if the client has receipts at home for the expenses.

<b>1</b> Payments received for qualified tuition and related expenses <b>\$</b> 7,000		OMB No. 1545-1574 <b>2022</b> Form <b>1098-T</b>	<b>Tuition Statement</b>  <b>Copy B For Student</b>  This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.
<b>3</b>	<b>4</b> Adjustments made for a prior year <b>\$</b>	<b>5</b> Scholarships or grants <b>\$</b> 3,000	
<b>6</b> Adjustments to scholarships or grants for a prior year <b>\$</b>	<b>7</b> Checked if the amount in box 1 includes amounts for an academic period beginning January–March 2023 <input type="checkbox"/>		
<b>9</b> Checked if a graduate student <input type="checkbox"/>	<b>10</b> Ins. contract reimb./refund <b>\$</b>		
www.irs.gov/Form1098T		Department of the Treasury - Internal Revenue Service	

# Figuring Out The Credits

**Box 5 shows the amount of Scholarships, Grants, or Fellowships received by the student.**

In the great majority of our cases, this represents funding from a Pell Grant. These grants have no restrictions as to how they are used.

But—**always ask** if this is the case.

2022		Tuition Statement	
1	Payments received for qualified tuition and related expenses \$ 7,000	OMB No. 1545-1574	Form 1098-T
2			
3			<b>Copy B For Student</b>  This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.
4	Adjustments made for a prior year \$	5 Scholarships or grants \$ 3,000	
6	Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 includes amounts for an academic period beginning January-March 2023 <input type="checkbox"/>	
9	Checked if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund \$	

www.irs.gov/Form1098T Department of the Treasury - Internal Revenue Service

# Figuring Out The Credits

## American Opportunity Credit Scenarios

### Scenario 1: (Total qualified educational expenses - Scholarships and Grants) > \$4,000.

Enter \$4,000 for qualified education expenses and no scholarship income is reported.

Example:	Total Qualified expenses	\$13,300
1098-T Box 1: \$13,000	Less Scholarships and Grants	(\$8,000)
Scholarships and grants: \$8,000	Total	\$5,300
Books: \$300	Qualified education expenses for AOTC	\$4,000*

\*\$5,300 > \$4,000, therefore only \$4,000 go towards AOTC. No taxable scholarship income to report.

### Scenario 2 : 0 < (Qualified educational expenses-scholarships) < \$4,000

#### Option 1:

- Qualified Education Expenses used for AOTC = Total qualified education expenses- scholarships and grants
- No scholarship income to report.

#### Option 2:

- Qualified Education Expenses used for AOTC = QEE up to \$4,000.
- Taxable scholarship= AOTC Amount - (total qualified education expenses- scholarships and grants)

- To help figure out the amount of eligible expenses and taxable scholarships, use the **American Opportunity Credit Scenarios Step-by-Step** that can be found on the AAS Resources website under “**Step-by-Step Guides**”
- For this, you’ll use the information in boxes 1 and 5 of Form 1098-T, the student’s account statement, and book/supply purchase records
- If the student is only eligible for the Lifetime Learning Credit, this worksheet can still be used, you’d just replace all “\$4,000” entries on the sheet with \$10,000 since that is the maximum amount of expenses for the LLC.





## **Going Over the Tax Return with the Client**

# Going over the Tax Return with the Client

## Quality Review Sheet for Sara Oak

### Sara Oak Tax Return

- Once the tax return is complete, before the review, print a copy of the client quality review sheet and have them review all their information.
  - Also print last page of MI 1040 to check bank information if no federal refund.
  - Have client initial Michigan intake sheet verifying they've checked their basic information.

# Going over the Tax Return with the Client (Cont.)

- When you print a client copy, you should:
  - Confirm that the last page of the tax return relates to that return and that you have the correct taxpayer SSN, to avoid giving the taxpayer you are working with paperwork that belongs to a another taxpayer.
  - Ensure that nothing is missing from the return in case the printer runs out of paper

# Going over the Tax Return with the Client (Cont.)

- Go over every single page of the tax return – federal, state and city and make sure only the taxpayer information is included; we share a printer at most sites so be aware that another taxpayer's information could be on the printer when you pick up the tax return for your taxpayer
- Before they sign the return, make sure you notify the clients that they are **RESPONSIBLE** for all of the information on the tax return.
- If there is tax due on the return, be sure you hand them the payment vouchers with a labeled envelope, and explain how, when, and where to send the payment.



## Medicaid Waiver Payments

# Medicaid Waiver Payments

From Notice 2014-7, “a person’s ‘home’ is where he resides.”

- In 2014, the IRS issued Notice 2014-7, providing guidance on the federal income tax treatment of **certain payments to individual care providers** for the care of eligible individuals **under a state Medicaid Home and Community-Based Services waiver program**
- The program 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**
  - From Notice 2014-7, “a person’s ‘home’ is where he resides.”

# Medicaid Waiver Payments (cont.)

- Notice 2014-7 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 earned income credit and the refundable portion of the child tax credit
- Although payments are exempt from federal tax, the provider may receive a Form W-2 or other information document that includes the income

# Determining Qualified Medicaid Waiver Payments

- Key to properly dealing with this issue 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
  - Accounting Aid is aware of certain Michigan programs that appear to specifically involve Medicaid waivers, but these are limited in number (see table on a subsequent slide)
  - We recognize that other programs might qualify for similar treatment, but we are not equipped to determine if payments received by providers under any other programs qualify for exclusion



# Determining Qualified Medicaid Waiver Payments

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

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

# Determining Qualified Medicaid Waiver Payments

- For other payments to home care providers not listed in the table on the previous slide:
  - If the taxpayer can provide evidence such as a written statement from the payer that the payments are under a Medicaid Waiver Program, we will exclude them
  - If not, we will include the payments in gross income and if the taxpayer does not agree they can seek other assistance to file their tax return

# Determining Qualified Medicaid Waiver Payments

- Note that Michigan Department of Health and Human Services (MDHHS) is *not* listed in the table
  - The MDHHS Home Help Program is not a qualified Medicaid Waiver Program as far as we are aware
  - These are typically the payments reported on a W-2 where the person being cared for is listed as the employer and includes MDHHS' EIN on the W-2
  - This is an example where the taxpayer would need to provide written proof that these payments are under a qualified Medicaid Waiver Program before we will exclude the payments

# W-2 from GT Independence Services

- Recently, we have been seeing Forms W-2 from the employer GT Independence Services. The name of the individual being cared for is in the employer name section
- In Box 1, Wages, \$0.00 is entered
- In Box 14, Other, “2014-7 Income” is entered as the reason for the exclusion of wages in Box 1, referencing IRS Notice 2014-7

Copy B To Be Filed With Employee's State, City, or Local Income Tax Return		2021	OMB No. 1545-0008
a Employee's Soc. Sec. No.	1 Wages, tips, other compensation	2 Federal income tax withheld	
	0.00	0.00	
b Employer ID number	3 Social Security wages	4 Social Security tax withheld	
81-0943263	11990.25	743.40	
	5 Medicare wages and tips	6 Medicare tax withheld	
	11990.25	173.86	
c Employer's name, address, and zip code			
GT Independence Services, LLC			
Agent for: [REDACTED]			
215 Broad [REDACTED]			
Sturgis, MI 49091			
d Control Number			
e Employee's name, address, and zip code			
[REDACTED]			
7 Social Security tips	8 Allocated tips	9	
0.00	0.00		
10 Dependent care benefits	11 Nonqualified plans	12a Code	
0.00	0.00		
13 Statutory employee	14 Other	12b Code	
	2014-7 Income: 11990.25		
Retirement plan		12c Code	
Third-party sick pay		12d Code	
MI	810943263	0.00	0.00
15 State Employers state I.D.	16 State wages, tips, etc.	17 State income tax	
18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form W-2 Wage and Tax Statement

Dept. of the Treasury - IRS

This information is being furnished to the Internal Revenue Service

# W-2 from GT Independence Services (continued)

- Many taxpayers, however, have indicated that they *did not live with the individual for whom they provided care*
  - Tax returns should not be prepared for these taxpayers
  - They should be advised to get a corrected W-2
- Other taxpayers, as well, with W-2s from GT Independence Services should be advised that we cannot prepare the return until we get further information on the payments

Copy B To Be Filed With Employee's State, City, or Local Income Tax Return		2021	OMB No. 1545-0008
a Employee's Soc. Sec. No.	1 Wages, tips, other compensation	2 Federal income tax withheld	
	0.00	0.00	
b Employer ID number	3 Social Security wages	4 Social Security tax withheld	
81-0943263	11990.25	743.40	
	5 Medicare wages and tips	6 Medicare tax withheld	
	11990.25	173.86	
c Employer's name, address, and zip code GT Independence Services, LLC Agent for: [REDACTED] 215 Broadus Sturgis, MI 49091			
d Control Number			
e Employee's name, address, and zip code [REDACTED]			
7 Social Security tips	8 Allocated tips	9	
0.00	0.00		
10 Dependent care benefits	11 Nonqualified plans	12a Code	
0.00	0.00		
13 Statutory employee	14 Other	12b Code	
	2014-7 Income: 11990.25	12c Code	
Retirement plan		12d Code	
Third-party sick pay			
MI	810943263	0.00	0.00
15 State Employers state I.D.	16 State wages, tips, etc.	17 State income tax	
18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form W-2 Wage and Tax Statement  
This information is being furnished to the Internal Revenue Service

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# Medicaid Waiver Payments and the Michigan Tax Return

- Exempt Medicaid waiver payments are also not taxable for Michigan
- However, they must be included in total household resources for the Michigan Homestead Property Tax Credit and Home Heating Credit Claims
- TaxSlayer Entry:
  - No additional entry needed if Medicaid waiver payment is reported on Form W-2 in Box 1
  - If Medicaid waiver payment is unreported or reported under a different scenario, consult the site coordinator to ensure that the payments are treated correctly on the MI-1040 and the credit claims



# QUESTIONS

# Tax Masters Session 2

**Date:** Thursday, November 9, 2023

**Time:** 5:30 PM – 8:00 PM

**Topics:** Federal & Michigan Tax Law Updates



**Thank you for your participation in this presentation!**

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

END