VOLUNTEER INCOME TAX ASSISTANCE

Tax Year 2021
TAX LAW
PROGRAM TRAINING
Session 3

City of Phoenix VITA Network 2021

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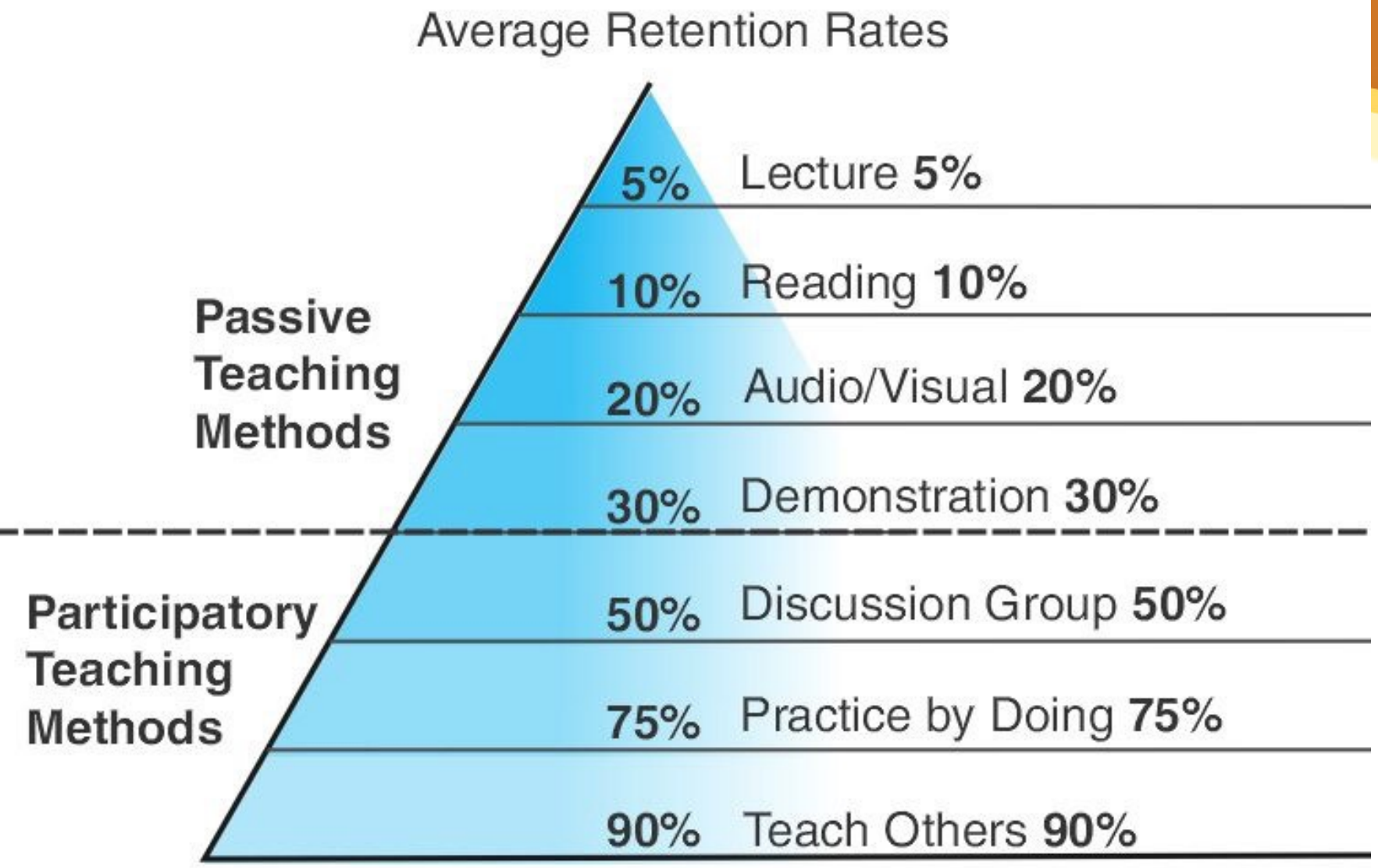
The Pyramid Learning



Adapted from National Training Laboratories. Bethel, Maine

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AGENDA
Session 3

1. Homework Review
2. Income – Retirement
3. Income - Capital
4. Adjustments to Income
5. Native American AZ Income
6. Homework Assignment

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Income

IRA, Pension, & Annuities

Forms used to report retirement income:

- 1099-R or SSA-1099
- RRB 1099-R (Railroad Retirement)
- CSA 1099-R (Civil Service Annuity)
- CSF 1099-R (Civil Service Survivor's Annuity)

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Income

IRA, Pension, & Annuities
TaxSlayer Screenshot

IRA/Pension Distributions

Add or Edit a 1099-R	Edit
RRB-1099-R	Begin
Social Security Benefits/RRB-1099	Edit
Nontaxable Distributions	Begin

Continue

Income

Social Security Benefits

SSA-1099

Always enter the amount in pink into TaxSlayer

FORM SSA-1099 – SOCIAL SECURITY BENEFIT S

2018 • PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABL
• SEE THE REVERSE FOR MORE INFORMATION.

Box 1. Name	Box 2. Beneficiary's Social S ber
York Young	211-00-874

Box 3. Benefits Paid in 2016	Box 4. Benefits Repaid to SSA in 2016	Box 5. Net Benefits for 2016 (Box minus Box 4)
$13,650.00		$13,650.00

DESCRIPTION OF AMOUNT IN BOX 3		DESCRIPTION OF AMOUNT IN BOX 4
Paid by check:	$ 12,626.25	
Medicare Part B Premiums deducted from your benefits:	$0.00	
Medicare Part Prescription Drug premiums (Part D) deducted from your benefits	$0.00	
Total Additions	$13,650.00	
Benefits for 2018	$13,650.00	
Benefit for 2017		
Benefit for 2016		
Benefit for 2015		

Box 6. Voluntary Federal Income Tax Withheld

$1,023.75

Box 7. Address

York Young
1 Main Street
Peoria, AZ 85345

Box 8. Claim Number (Use this number if you need to co t SSA)

211-00-8748

Form **SSA-1099-SM** (1-2017) **DO NOT RETURN THIS FORM TO SSA OR IRS**

Most over looked information

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Income

TaxSlayer Screenshot

SSA-1099

2016 |

Social Security SSA-1099/RRB-1099 Tier I

Taxpayer's Social Security Benefit (Generally Box 5 of Form SSA-1099)

$ 13650

Taxpayer's Federal Tax Withheld (Amount from Box 6 of Form SSA-1099)

$ 1024

Taxpayer's Medicare Premiums

$

Spouse's Social Security Benefit (Generally box 5 of Form SSA-1099)

$

Spouse's Federal Tax Withheld (Amount from Box 6 of Form SSA-1099)

$

Spouse's Medicare Premiums

$

Lump-Sum Payments

Begin Worksheet

Cancel Continue

Taxpayer's Info

Spouse's Info

From SSA-1099, Box # 5

From SSA-1099, Box # 6

From SSA-1099, Box # 3

- Only add the Medicare premiums from Box #3

Income

Social Security Benefits

- Reported on SSA-1099
- If Social Security is the **only** income, generally this is not taxable
- If there are any other pension or other income, then part or all of social security benefits may be taxable

  Depends on income/filing status

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Income

IRA, Pension, & Annuities

Difference between a **Roth IRA** and a **Traditional IRA**?

- **Roth IRA** distributions are generally tax free, because the contributions were after-tax, however; earnings are taxable when withdrawn.
- **Traditional IRA** distributions are usually fully taxable because the contributions are generally pre-tax. In rare situations, some contributions are post-tax, distribution may only be partially taxable.

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Income

IRA, Pension, & Annuities

Difference between a **Roth IRA** and a **Traditional IRA**?

- Taxpayers must pay 10% penalty if withdrawn before age 59½ unless an exception applies.
- Taxpayers must pay 10% additional tax on the taxable part of any Roth IRA non-qualified distributions, unless an exception applies.

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Retirement Savings 101

401(k) vs. IRA

*= Contribution limits for 2021

401(k)

- ✓ Can contribute $19,500/year Or $26,000/year if over age 50+*
- ✓ Employer sponsored (you sign up for the plan at work)
- ✓ Your employer may match some of your contributions
- ✓ No income limit

Retirement Savings plan that has tax benefits (different types of tax benefits though)

IRA

- ✓ Can contribute $6,000/year or $7,000/year if over age 50+*
- ✓ Stands for Individual Retirement Account
- ✓ (you sign up for the plan at a bank or with a private company)
- ✓ Has income limits

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Retirement Savings 101
401(k) vs. IRA

Traditional

- ✓ The money you put in is not taxed (you put in tax-deferred money)
- ✓ You pay taxes on all the money you take out during retirement (your contributions AND your earnings)

Can describe either a 401(k) or an IRA

Roth

- ✓ The money you put in has already been taxed.
- ✓ You don't pay taxes on any of the money you take out during retirement (you've already paid taxes on your contributions and you never have to pay taxes on your earnings.

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Income

IRA, Pension, & Annuities

Premature Distributions – (Pub. 4012)

- Most premature distributions (made before age 59 ½) are subject to an additional tax of 10%.
- If distribution code on Box #7 of 1099-R is “1”, “4” or “7” the distribution <u>is taxable</u>.
- If distribution code on Box #7 of 1099-R is “2” or “3” the distribution is <u>not taxable</u>.

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Eric is 33 years old. While he was unemployed, he cashed in his 401(k) savings from his previous employer and used the money to pay off debt. He does not qualify for any exception to the additional tax on early distributions. He received a Form 1099-R with a gross distribution in box 1 of $2,500 and a distribution code of 1 in box 7. What is the amount of additional tax?

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Eric is 33 years old. While he was unemployed, he cashed in his 401(k) savings from his previous employer and used the money to pay off debt. He does not qualify for any exception to the additional tax on early distributions. He received a Form 1099-R with a gross distribution in box 1 of $2,500 and a distribution code of 1 in box 7. What is the amount of additional tax?

$250

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Income (IRA, Pension, & Annuities)

☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. IRA Bank 5012 N. Central Ave. Phoenix, AZ 85001	1 Gross distribution $ $17,500.00	OMB No. 1545-0119 2021 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
	2a Taxable amount $		
	2b Taxable amount not determined ☒	Total distribution ☐	Copy 1 For State, City, or Local Tax Department
PAYER'S TIN 95-6123456	RECIPIENT'S TIN 210-00-2020	3 Capital gain (included in box 2a) $	4 Federal income tax withheld $
RECIPIENT'S name York Young		5 Employee contributions/ Designated Roth contributions or insurance premiums $	6 Net unrealized appreciation in employer's securities $
Street address (including apt. no.) 17 S. Main Street Scottsdale, AZ 85251		7 Distribution code(s) G IRA/ SEP/ SIMPLE ☒	8 Other $ %
City or town, state or province, country, and ZIP or foreign postal code		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 ☐	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

Income

TaxSlayer Screenshot

Form 1099-R

CANCEL | SAVE & ENTER ANOTHER | CONTINUE

☑ Check here if this is a standard 1099-R.
☐ Check here if this is a substitute 1099-R.

Only the amount entered in box 2a will be considered taxable.

Whose 1099-R is this?

Recipient *
◉ York Young
○ Cindy Young

Payer Information

Payer's ID *
26 - 2999999

Payer Name *
PEOPLES TRUST COMPANY

☐ Check here if foreign address

Address (Number and Street) *
PO BOX 254

ZIP Code *
46201 -

City, Town, or Post Office *
INDIANAPOLIS

State *
Indiana

1099-R Information

1 Gross Distribution *
$ 17500

2a Taxable Amount
$

Do you need to calculate your taxable amount?
Click here for options

2b
☑ Taxable amount not determined
☐ Total distribution

3 Capital gain
$

4 Federal income tax withheld
$

5 Employee contributions or insurance premiums
$

6 Net unrealized appreciation in employer's securities
$

Recipient Information

☐ Check here if foreign address

Address (Number and Street) *
1 Main Street

ZIP Code *
85345 -

City, Town, or Post Office *
Peoria

State *
Arizona

7 Distribution Code(s) *
G
☑ IRA/SEP/Simple

8 Other (Not collected)

9a Your percentage of total distribution

9b Total employee contributions
$

10 Amount allocable to IRR within 5 years Not needed for e-filing

Rollover or Disability

☑ Check here if all/part of the distribution was rolled over, and enter the rollover amount.

Rollover Amount *
$ 17500

☐ Check here to report on Form 1040, Line 7 (Distribution code must be a "3")

Check here if 1099-R was taken out and rolled over to another pension plan within 60 days

State/Local Information 1

Tax W/H
$

13a State
- Please Select -

13b ID
262127

14 State Distr
$ 0

15 Local Tax
$

16 Locality Name

17 Local Distr
$

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Income

IRA, Pension, & Annuities

Form 1099-R Box 7 Distribution Codes

Box 7 Distribution Codes	Explanations
1 — Early distribution, no known exception.	• If this amount was rolled over within 60 days of the withdrawal and—if the distribution was from an IRA--no prior rollover was made in the same 12-month period, enter the amount rolled over in Line 1 of the Exclusion Worksheet below the 1099-R screen. Trustee to trustee transfer isn't considered a prior rollover. If more than one rollover from an IRA in the 12-month period, return is out of scope. • If this wasn't rolled over, a 10% additional tax will be applied unless the taxpayer qualifies for an exception. See Tab H, Other Taxes, Payments and ACA, for a list of exceptions. If the taxpayer qualifies for an exception, go to Form 5329, Additional Taxes on Qualified Plans and Other Tax-Favored Accounts, enter the amount that qualifies for an exception and select the reason for the exception from the dropdown list.
2 — Early distribution, exception applies.	Code 2 applies if the taxpayer is under 59 ½ but the payer knows that an exception to the additional tax applies. If the IRA/SEP/SIMPLE box **ISN'T** checked, no further action needed. If the IRA/SEP/SIMPLE box **IS** checked, additional reporting may be required on Form 8606, and the return is out of scope.
3 — Disability.	Code 3 is for a disability pension. • 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." This will reclassify the disability income as wages. It will also include the amount in earned income for calculation of the earned income credit, the dependent care credit and the additional child tax credit. • If the taxpayer has reached the minimum retirement age, no further action is needed.
4 — Death.	Code 4 is for a survivor's benefit or an inherited IRA. If it's a pension, the original retiree has died, and the survivor is receiving his or her share of the pension. If the original pensioner was using the Simplified Method, continue to use it for the survivor. If it's an inherited IRA and the original owner had a basis, the survivor takes over that basis.
5 — Prohibited transaction.	This code is out of scope.
6 — Tax-free Section 1035 exchange.	This code is out of scope.
7 — Normal distribution.	Code 7 is for normal distributions. It may occur in several different situations: • If the amounts in Box 1 and 2a are the same, and Box 2b isn't checked, the pension is fully taxable. • If the taxpayer makes a rollover from one IRA to another and holds the money less than 60 days, enter the amount rolled over into the Rollover or Disability field. • If the Box 2b is checked and there is an amount in Box 9b, complete the Simplified Method. Be sure to use the taxpayer's age at the time of retirement—not current age. • If there is an amount in Box 2 that is different than Box 1, no further action is needed. • If there is no amount (or zero) in Box 2a, check to see if there is an amount in Box 5. If this is the same amount as Box 1, the distribution is the taxpayer's own money coming back. Enter the Box 5 amount on line 5 of the Exclusion Worksheet. None of the distribution will be taxed. • If any portion of this distribution was sent directly from the trustee to a charity, and the taxpayer is over 70 1/2 years old, enter the net taxable amount in box 2a (which may be zero). Hit Continue and at the IRA/Pensions Distributions page, select Nontaxable Distributions and check the box to mark that there is a Qualified Charitable Distribution (QCD). No charitable deduction may be taken for the donation.

Form 1099-R Box 7 Distribution Codes (continued)

Box 7 Distribution Codes	Explanations
A — May be eligible for 10-year tax option.	This code is out of scope.
B — Designated Roth account distribution	Code B is for a distribution from a designated Roth account. This code is in scope only if taxable amount has been determined.
D — Annuity payments from nonqualified annuities	Code D is used for a distribution from a private annuity in conjunction with the regular code. The distribution is subject to the net investment income tax. 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 the AGI is less than the threshold amount the return is in scope and no further action is needed.
E — Distributions under Employee Plans Compliance Resolution System (EPCRS).	This code is out of scope.
F — Charitable gift annuity.	Code F is used for the annuity payments from a charitable gift annuity. The difference between the distribution in Box 1 and the capital gain shown in Box 3 will appear on the IRAs, pensions, and annuities line of the Form 1040. Schedule D must be completed to report the capital gain. Describe it as "From 1099-R". The gain should be the amount in Box 3, and the gain is long term.
G — Direct rollover of distribution and direct payment.	Code G is for a direct rollover from a qualified plan to an eligible retirement plan. If box 2a, taxable amount, is zero or blank, it won't be taxed. If there is an amount in box 2a, the direct rollover is fully or partially taxable. No further action is needed.
H — Direct rollover of a designated Roth account distribution to a Roth IRA.	Code H is for a direct rollover of a distribution from a designated Roth account to a Roth IRA. It won't be taxed. No further action is needed. Box 2a should be blank. Place check mark in box IRA/SEP/SIMPLE.
J — Early distribution from a Roth IRA.	This code is out of scope.
K — Distribution of Traditional IRA assets not having a readily available FMV	This code is out of scope.
L — Loans treated as deemed distributions	Code L is for loans treated as deemed distributions. This code could possibly be combined with codes 1, 4, or B. For more information on how it is treated see the codes on this chart.
N — Recharacterized IRA contribution.	This code is out of scope.
P — Excess contributions plus earnings/excess deferrals	This code is out of scope.
Q — Qualified distribution from a Roth IRA.	This distribution isn't taxable. TaxSlayer enters the distribution amount on Form 1040 on the IRAs, pensions, and annuities line. No further action is needed.
R — Recharacterized IRA contribution.	This code is out of scope.
S — Early distribution from a SIMPLE IRA in the first 2 years, no known exception.	A 25% additional tax will be applied unless the taxpayer qualifies for an exception. See Tab H for a list of exceptions. If the taxpayer qualifies for an exception, go to Form 5329 and enter the amount of the distribution not subject to the additional tax and the code for the exception and the amount that qualifies for it.

Income

IRA, Pension, & Annuities

- Fully Taxable
  - Taxpayers did not pay any portion of the cost in the plan therefore all distributions are included in taxable income

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Income

IRA, Pension, & Annuities

- Partially Taxable
  - Taxpayers contributed “after-tax” to the cost in the plan so only the taxable portion of the distribution is included in taxable income

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Income

IRA, Pension, & Annuities

NOTE: Disability income from a retirement plan is taxed differently depending on the taxpayers age.

Before retirement age – taxed as wages (W-2)

After minimum retirement age – taxed as pension (1099-R)

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Income (IRA, Pension, & Annuities)

☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. IRA Bank 5012 N. Central Ave. Phoenix, AZ 85001	1 Gross distribution $ $17,500.00	OMB No. 1545-0119 2021 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
	2a Taxable amount $		
	2b Taxable amount not determined ☒	Total distribution ☐	Copy 1 For State, City, or Local Tax Department
PAYER'S TIN 95-6123456	RECIPIENT'S TIN 210-00-2020	3 Capital gain (included in box 2a) $	4 Federal income tax withheld $
RECIPIENT'S name York Young		5 Employee contributions/ Designated Roth contributions or insurance premiums $	6 Net unrealized appreciation in employer's securities $
Street address (including apt. no.) 17 S. Main Street Scottsdale, AZ 85251		7 Distribution code(s) G IRA/ SEP/ SIMPLE ☒	8 Other $ %
City or town, state or province, country, and ZIP or foreign postal code		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 ☐	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

Income

TaxSlayer Screenshot

Form 1099-R

CANCEL | SAVE & ENTER ANOTHER | CONTINUE

- [x] Check here if this is a standard 1099-R.
- [ ] Check here if this is a substitute 1099-R.

Only the amount entered in box 2a will be considered taxable.

Whose 1099-R is this?

Recipient *

- (•) York Young
- ( ) Cindy Young

Payer Information

Payer's ID *

26 - 2999999

Payer Name *

PEOPLES TRUST COMPANY

- [ ] Check here if foreign address

Address (Number and Street) *

PO BOX 254

ZIP Code *

46201 -

City, Town, or Post Office *

INDIANAPOLIS

State *

Indiana

1099-R Information

1 Gross Distribution *

$ 17500

2a Taxable Amount

$

Do you need to calculate your taxable amount?
Click here for options.

2b

- [x] Taxable amount not determined
- [ ] Total distribution

3 Capital gain

$

4 Federal income tax withheld

$

5 Employee contributions or insurance premiums

$

6 Net unrealized appreciation in employer's securities

$

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Simplified Method for Pensions

Gross distribution amount (from 1099-R)

$31,063.00

Plan cost at annuity start date

$

Starting date of annuity *

MM DD YYYY

Check here if this is a Joint or Survivor Annuity.

Death benefit exclusion

$

Age of recipient at start date *

If joint or survivor annuity, add ages of recipients

Number of months paid in 2020 *

Amounts previously recovered

$

Public Safety Officer Exclusion

$

FILL IN THE INFORMATION FROM THE CLIENT'S 1099-R

CANCEL

CONTINUE

Income

IRA, Pension, Annuities & Social Security Income

QUESTIONS ABOUT RETIREMENT INCOME?

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Income

Capital Gain or Loss – Schedule D

Sale of Stocks:

Must have the following regarding stock transactions:

- Date of Purchase and Date of Sale
- Basis of Stock (Original Purchase Cost)
- Proceeds from Sale (Amount stock was sold for)
- Previous capital loss carryovers (SEE Previous Return)

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Income

Capital Gain or Loss – Schedule D

Sale of Stocks:

*Short Term = 1 year or less Holding Period (Taxed at **regular** income tax rates)

*Long Term = Greater than 1 year Holding Period (Taxed at a **lower** rate than short term) (Inherited stocks are always consider as long-term, regardless of the date acquired or sold.)

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Income

TaxSlayer

	Long Term	Short Term
Basis reported to IRS	★	★
Basis not reported to IRS	★	★

Sale of stock in 2021

\- <u>Basis (cost) of stock</u>

= Profit (to be taxed) or loss (can be carried forward)

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Income

Capital Gain or Loss – Schedule D

Sale of Stocks

FORM 1099-B* 2017 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 1a & 3) (IRS Form 1099-B box numbers are shown below in bold type)

1a Description, 2 Short-Term, 3 Basis Reported to IRS, 6 Net Proceeds, and Stock or Other Symbol, CUSIP

Action	Quantity	**1b** Date Acquired	**1c** Date Sold or Disposed	**1d** Proceeds	**1e** Cost or Other Basis	**1f** Code, if any	**1g** Adjustments	Gain or Loss (-)	**4** Federal Tax Withheld	**16** State Tax Withheld
Magic Investor Class Fund										
Sale	16.523	9/23/17	8/26/18	177.62	142.58			35.04		
Sale	15.875	12/15/17	8/26/18	170.66	132.75			37.91		
Sale	14.345	3/23/17	8/26/18	154.21	128.68			25.53		
Sale	13.985	6/23/17	8/26/18	150.34	130.57			19.77		
				652.83	534.58		0.00	118.25		
Hot Air Bond Fund										
Sale	175	10/25/17	2/26/18	2,368.15	2,632.75	W	226.80	(37.80)		
Sale	150	3/15/17	12/15/18	2,286.36	2,352.45			(66.09)		
				4,654.51	4,985.20		226.80	(103.89)		
Red Balloon Investor Fund										
Sale	250	7/23/17	12/5/18	1,555.00	1,085.36			469.64		
Sale	100	7/23/17	8/26/18	622.00	512.74			109.26		
				2,177.00	1,598.10		0.00	578.90		
TOTALS				**7,484.34**	**7,117.88**		**226.80**	**593.26**		

Income

TaxSlayer Screenshot

Capital Gains Transaction

Description of Property *

MAGIC INVESTOR

Date Acquired

☐ * **Alternate Option:** If Date Acquired is not known, leave and select an option here

7 | 23 | 2016

Date Sold

☐ * **Alternate Option:**

☐ Check here if a short sale.

12 | 5 | 2016

Sales Price

☐ * **Alternate Option:** If Sale Price is Expired, leave the sa and select an option here

$7484.34

Select cost basis type *

1099-B, Box 3 Cost Basis Reported to the IRS

Cost

☐ * **Alternate Option:** If Cost is Expired, leave the cost blank an option here

$7117.88

Adjustments

Enter any necessary adjust ns to Gain

NOTE: If this entry is to be shown as a loss,

$226.80

If you entered an adjustment amount abov

☐ B - Form 1099-B with Basis shown in Box

☐ T - Form 1099-B & Type of Gain/Loss sho

☐ N - Received 1099-B/1099-S as a Nomine

☐ H - Exclude Some/All of the Gain from th

☐ D - Form 1099-B showing accrued marke

☐ Q - Exclude Part of the Gain from the Sale

☐ X - Exclude om DC Zone Assets or Qualified Community Assets

☐ R - Re er of Gain from QSB Stock, Empowerment Zone, Publicly Traded Securities

☑ W - Nondeductible Loss from a Wash Sale

☐ L - Nondeductible Loss other than a Wash Sale

☐ E - Form 1099-B or 1099-S with Selling Expenses or Options not Reflected on Form

☐ S - Loss from the Sale of Small Business Stock more than Allowable Ordinary Loss

☐ C - Disposed of Collectibles

☐ M - Reporting Multiple Transactions on a Single Row

☐ O - Other Adjustment Not Explained Above

Collectible Exchange

☐ Is this a Collectible Exchange?

Cancel | Save & Enter Another | Continue

Only input amount here if there is an adjustment amount in 1099-B, box #1g, follow by the code next to the adjustment

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Income

Capital Gain or Loss – Schedule D

Generally, all belongings or 'property' you own is considered a capital asset. This is true if the asset is used for personal use or investment purposes.

When you sell the asset, the difference in the selling price and purchase price is considered either a capital gain or a capital loss.

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Income

Capital Gain or Loss – Schedule D

- Capital losses on personal property, such as vehicles and homes, are not deductible.
- If you have a net capital gain, that gain may be taxed at a different tax rate than your ordinary income tax rates.

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Income

Capital Gain or Loss – Schedule D

- If your capital losses exceed your capital gains, the amount of the excess loss that can be claimed is limited to $3,000
- If your net capital loss is more than this limit, you can carry the loss forward to later years.
  - You need the prior year return for this information.

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Income

Wages and Salaries Form W-2	BEGIN
State and Local Refunds Form 1099-G Box 2	BEGIN
Interest and Dividends Form 1099-INT / 1099-DIV	BEGIN
IRA/Pension Distributions Form 1099-R / RRB, SSA	BEGIN
Unemployment Compensation Form 1099-G Box 1	BEGIN
Form 1099-Misc	BEGIN
Profit or Loss From A Business Schedule C	BEGIN
Payment Card and Third Party Network Transactions Form 1099-K	BEGIN
Rents and Royalties Schedule E	BEGIN
Capital Gain and Losses Schedule D	BEGIN
Profit or Loss From Farming Schedule F	BEGIN

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Schedule D Capital Gains

Capital Gains and Loss Items	BEGIN
Additional Capital Gains Distributions	BEGIN
Other Capital Gains Data (including Capital Loss Carryover)	BEGIN
Sale of Main Home Worksheet	BEGIN
PDF Attachments	BEGIN

CONTINUE

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Other Capital Gains Data

Adjust Section 1250 Amounts

$

Adjust 28% Gain

$

Short Term Loss Carryover from 2019 (enter as a **positive** number)

$

Long Term Loss Carryover from 2019 (enter as a **positive** number)

$

CANCEL

CONTINUE

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Income-Capital

Capital Gain or Loss – Schedule D

In 2007, Zack bought 100 shares of Atoka Corporation stock for $3,000. In 2012, he bought another 100 shares of Atoka for $3,300. In 2021, Zack sold 100 shares of Atoka for $4,000. He did not specify the specific block at the time of the sale. The result of Zack's sale of Atoka stock is:

a. Long-term loss of $2,300,
b. Long-term gain of $700, or
c. Long-term gain of $1,000.

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Income-Capital

Capital Gain or Loss – Schedule D

In 2007, Zack bought 100 shares of Atoka Corporation stock for $3,000. In 2012, he bought another 100 shares of Atoka for $3,300. In 2021, Zack sold 100 shares of Atoka for $4,000. He did not specify the specific block at the time of the sale. The result of Zack's sale of Atoka stock is a long-term: GAIN OF $1,000

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Income-Capital

Capital Gain or Loss – Schedule D

Sale of Main Home:

Ownership Test

Use Test

To claim the exclusion, you must meet the tests above. This means that during the 5-year period ending on the date of the sale, you must have:

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Income-Capital

Capital Gain or Loss – Schedule D

Owned the home for at least two years

Lived in the home as your main home for at least two of the last five years

Income-Capital

Capital Gain or Loss – Schedule D

Gain: If you have a gain from the sale of your main home, you may be able to exclude up to $250,000 of the gain from your income ($500,000 on a MFJ return).

- If you **can exclude ALL** of the gain, <u>you **do not need to report** the sale on your tax return.</u>

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Income-Capital

Capital Gain or Loss – Schedule D

A taxpayer must report the sale of their principal residence if they receive a form 1099-S.

See Pub.4012, tab D.

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Income-Capital

Capital Gain or Loss – Schedule D

Gain: If you have gain that cannot be excluded, it is taxable. Report it on Schedule D.

Loss:

You cannot deduct a loss from the sale of your main home.

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Emily sold her home in June of 2021. She recognized a gain from the sale. She married Jamie later in the year. Emily meets the ownership and use tests. Which of the following is true?

A. They do not qualify to claim the gain as an exclusion.
B. Emily can exclude up to $250,000 of gain on a separate or joint return.
C. Emily & Jamie can exclude up to $500,000 gain if they file a joint return.
D. None of the above.

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Emily sold her home in June of 2021. She recognized a gain from the sale. She married Jamie later in the year. Emily meets the ownership and use tests. Which of the following is true?

A. They do not qualify to claim the gain as an exclusion.

B. Emily can exclude up to $250,000 of gain on a separate or joint return.

C. Emily & Jamie can exclude up to $500,000 gain if they file a joint return.

D. None of the above.

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K-1 Earnings

- Reports taxpayer's share of income and other distributions, deductions, and credits from partnerships, S corporations, and some estates and trusts
- Limited Schedule K-1 income topics (and reporting forms) **are in scope**

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K-1 Earnings Items within Scope

- Interest income (Schedule B)
- Dividend income (Schedule B)
- Net short-term capital gains and losses (Schedule D)
- Net long-term capital gains and losses (Schedule D)
- Tax-exempt interest income
- **<u>Royalty income (Schedule E)</u>**

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Royalty income is in scope for VITA programs only when the source document is reported on Schedule K-1 or Form 1099-MISC, with no associated expenses.

TRUE or FALSE

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Royalty income is in scope for VITA programs only when the source document is reported on Schedule K-1 or Form 1099-MISC, with no associated expenses.

TRUE or FALSE

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David and Monica are both retired and want to file a joint return. David has a 1099-R distribution from a pension for $32,500 and Monica has a Form SSA-1099 with $14,000 in Box 5. Is Monica's Social Security income taxable?

YES or NO

fppt.com

David and Monica are both retired and want to file a joint return. David has a 1099-R distribution from a pension for $32,500 and Monica has a Form SSA-1099 with $14,000 in Box 5. Is Monica's Social Security income taxable?

YES or NO

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Income

IRA, Pension, Annuities & Social Security Income

QUESTIONS ABOUT CAPITAL INCOME?

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Income- Unemployment

(12/2011)

1099-G, Copy

Arizona Department of Economic Security
Unemployment Insurance Administration
Site Code 918B-2 PO Box 6123
Phoenix AZ 85005-6123

Please, do not use this State EIN number.

Elsa Arendell
6578 Balloon Way
Avondale, AZ 8532

Social Security Number: 889-00-8748

This is important tax information and is being furnished to the Internal Revenue Service. 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.

State for Recipients for Unemployment Compensation Payments during

Unemployment Compensation: $ 3,198.71

Federal Income Tax Withheld: $ 320.00

ATAA Payments: $

State Income Tax Withheld: $

Service and must furnish Copy B of the form to the person receiving the payments, by January 31 of the following year.

The totals above show the unemployment compensation paid to you this year from this payer and the amounts you elected withheld for federal and state income tax. The unemployment compensation represents taxable income to you. For more information, see the instructions for your Federal income tax return.

The State and Federal ID numbers are as follows:

State ID #07-506284E

Federal ID #86-0369595

Correct State ID # & Federal ID # are here!!!

Equal Opportunity Employer/Program
This document available in alternative formats by contacting your local office.

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Income

TaxSlayer Screenshot

1099-G

Unemployment Income

Please enter the amount reported to you on your 1099-G.

Cancel Continue

Payer Information

EIN *
86 - 0369595

Payer Name *
Arizona Department of Economic Secu

Address (Number and Street) *
Mail Drop 589C PO ox 6123

Zip Code *
85005 -

City, Town, or Post Office *
Phoenix

State *
Arizona

Phone
( ) -

1099-G Information

Unemployment Compensation *
$ 3198.71

2 State or local income tax refunds, credits, or offsets
(Not collected)

3 Box 2 Tax Year
(Not collected)

Federal Tax Withheld
$ 320

State Information

State
Arizona

State ID No.
07506284E

State Tax Withheld
$

Recipient Information

○ HANS ARENDELL
◉ ELSA ARENDELL

☐ Check here if foreign address

Address (Number and Street) *
6578 BALLOON WAY

Zip Code *
85323 -

City, Town, or Post Office *
Avondale

State *
Arizona

Locality Name

Locality Tax
$

Cancel Continue

When Colten was laid off, he received state unemployment compensation totaling $4,000 before finding a new job. How much would he report as income?

A. $1,600

B. $2,400

C. $4,000

D. Not enough information to answer the question.

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When Colten was laid off, he received state unemployment compensation totaling $4,000 before finding a new job. How much would he report as income?

A. $1,600

B. $2,400

C. $4,000

D. Not enough information to answer the question.

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Income

Alimony <u>prior to 2019 </u>is taxable income for the recipient.

Alimony <u>prior to 2019 </u>is an “adjustment to” income for the payer.

ALIMONY is **NOT** EARNED INCOME

fppt.com

Income

TaxSlayer Screenshot

Alimony Received

Taxpayer Amount of Alimony Received

$

Spouse Amount of Alimony Received

$

CANCEL

CONTINUE

ALIMONY is **NOT** EARNED INCOME

fppt.com

Income

TaxSlayer Screenshot

Alimony Paid

Recipient's SSN

- -

Amount Paid *

$

CANCEL

CONTINUE

fppt.com

Income

Alimony <u>for 2019 and beyond</u> is **not** taxable income for the recipient.

Alimony <u>for 2019 and beyond</u> is **not** an "adjustment to" income for the payer.

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Income

Prior to 2019:

Typically, the wealthier spouse (who pays the alimony) receives a tax benefit via the deduction, and the less wealthy spouse (who receives the alimony) pays the income tax at a lower tax bracket

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Income

For 2019 and later:

Typically, the wealthier spouse is responsible for paying taxes on the payments. The result is an increased tax burden on the spouse paying alimony, and ultimately, more money for the government.

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Income

You can't deduct alimony or separate maintenance payments made under a divorce or separation agreement (1) executed <u>after 2018</u>, or (2) executed before 2019 but <u>later modified</u> if the modification expressly states the repeal of the deduction for alimony payments applies to the modification

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Alimony Requirements (Instruments Executed After 1984)

Payments ARE defined as alimony if all of the following are true:	**Payments AREN'T alimony if any of the following are true:**
Payments are required by a divorce or separation instrument.	Payments aren't required by a divorce or separation instrument.
Payer and recipient spouse don't file a joint return with each other.	Payer and recipient spouse file a joint return with each other.
Payment is in cash or cash equivalents (including checks or money orders).	Payment is: • Not in cash, • A noncash property settlement, • Spouse's part of community income, or • To keep up the payer's property.
Payment isn't designated in the instrument as not alimony.	Payment is designated in the instrument as not alimony.
Spouses legally separated under a decree of divorce or separate maintenance aren't members of the same household.	Spouses legally separated under a decree of divorce or separate maintenance are members of the same household.
Payments aren't required after death of the recipient spouse.	Payments are required after death of the recipient spouse.
Payment isn't treated as child support.	Payment is treated as child support.
These payments are deductible by the payer and includible in income by the recipient.	These payments are neither deductible by the payer nor includible in income by the recipient.

Note: Alimony paid pursuant to a divorce or separation instrument executed on or before December 31, 2018, is deductible.

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Income

Alimony Received (Form 1040, Sch. 1, Line 11)

Child Support **IS NOT** taxable **nor IS IT** deductible by the taxpayer

Do not confuse child support payment with alimony payment

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Tom is separated from his wife but does not have a legal separation agreement. He has paid $3,000 during the tax year for the support of his son, who lives with his wife. Which of the following is true?

A. Child support is an adjustment to income.
B. The entire $3,000 may be considered alimony and an adjustment to income.
C. Child support is never an adjustment to income.

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Tom is separated from his wife but does not have a legal separation agreement. He has paid $3,000 during the tax year for the support of his son, who lives with his wife. Which of the following is true?

A. Child support is an adjustment to income.

B. The entire $3,000 may be considered alimony and an adjustment to income.

C. Child support is never an adjustment to income.

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Income

TaxSlayer Screenshot

Less Common Income

Other Income Not Reported Elsewhere		BEGIN
Gambling Winnings Form W-2G		BEGIN
Other Compensation		BEGIN
Payments from Qualified Education Programs Form 1099-Q	Out-of-Scope	BEGIN
Cancellation of Debt Form 1099-C, Form 982		BEGIN
Installment Sale Income Form 6252	Out-of-Scope	BEGIN
Sale of Business Property Form 4797	Out-of-Scope	BEGIN
K-1 Earnings		EDIT
Gains and Losses From Section 1256 Form 6781	Out-of-Scope	BEGIN
Foreign Earned Income Exclusion Form 2555	Out-of-Scope	BEGIN
Farm Rental Income and Expenses Form 4835	Out-of-Scope	BEGIN

CONTINUE

Income

Income

Any Questions?

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Adjustment to Income

Adjusted Gross Income (AGI) (Form 1040, Page 2, Line 7)

Adjustments are subtractions from total income

	TOTAL INCOME
-	ADJUSTMENTS to INCOME
=	ADJUSTED GROSS INCOME (AGI)

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Adjustments

Medical Savings Account Form 8853	Out-of-Scope	BEGIN
Educator Expenses		BEGIN
Expenses for Reservists, Performing Artists, and Qualifying Government Employees	Military Cert.	BEGIN
Health Savings Account Form 8889		BEGIN
Moving Expenses Form 3903	Military Cert.	BEGIN
Contributions to SEP, Simple, and Qualified Plans		BEGIN
Self-Employed Health Insurance		BEGIN
Penalty on Early Withdrawal of Savings or CD		BEGIN
Alimony Paid		BEGIN
IRA Deduction		BEGIN
Nondeductible IRAs Form 8606	Out-of-Scope	BEGIN
Student Loan Interest Deduction		BEGIN
Tuition and Fees Deduction		BEGIN
Domestic Production Form 8903	Out-of-Scope	BEGIN
Other Adjustments	Not common at VITA sites	BEGIN

CONTINUE

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Adjustment to Income

Alimony Paid Prior to 2019

- The taxpayer identification number of the person who received the alimony or separate maintenance payments must be entered on Form 1040.
- Failure to enter correct taxpayer identification number could result in disallowance of the adjustment and a penalty.

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Adjustment to Income

Alimony Paid

- **Child support** **is not** the same as alimony. Child support is not taxable to the recipient and cannot be claimed as a deduction by the payer.
- The Alimony is still considered as income and expenses as long as the divorce or separation instrument was executed by December 31, 2018

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Adjustment to Income

Alimony Paid

- If taxpayer does not have ex-spouse's SSN, the volunteer can enter **000-11-0000** on the tax return to complete, but must **paper file** this tax return!

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Adjustment to Income

TaxSlayer Screenshot

Alimony Paid

Recipient's SSN

215 - 00 - 8748

Amount Paid *

$ 3600

Cancel Continue

If Taxpayer **does have ex-spouse's SSN**, then you can enter ex-spouse 's SSN here. This tax return can be **e-filed.**

Alimony Paid

Recipient's SSN

000 - 11 - 0000

Amount Paid *

$ 3600

Cancel Continue

If Taxpayer **does <u>not</u> have** ex-spouse's SSN, then you can enter "000-11-0000", but this return must be **<u>paper filed</u>!**

Adjustment to Income

EDUCATOR

- Eligible educator (K-12) can deduct up to $250 of qualified expenses.
- Eligible educator is **K-12 teacher**, instructor, counselor, principal, or aide who worked at least **900 hours** during a school year.
- If MFJ and both are (K-12) educators, deduct up to $500 of qualified expenses.

Publication 4012

fppt.com

Adjustment to Income

TaxSlayer Screenshot

Cindy Young tells you that she paid **$138** for classroom supplies for her students. You ask how many hours she worked as an educator and she said she was full-time, well over 900 hours.

Educator Expense

Taxpayer's Educator Expenses (Limited to $250)

$

Spouse's Educator Expenses (Limited to $250)

$ 138

CANCEL

CONTINUE

Publication 4012

fppt.com

Adjustment to Income-Penalty on Early W/D

☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.	Payer's RTN (optional)	OMB No. 1545-0112	Interest Income
Money Bags Bank 1029 N. Central Ave. Phoenix, AZ85001	1 Interest income $ $73.29	2021 Form **1099-INT**	
	2 Early withdrawal penalty $ $3.00		Copy 1
PAYER'S TIN / RECIPIENT'S TIN	3 Interest on U.S. Savings Bonds and Treas. obligations $		For State Tax Department
RECIPIENT'S name York Young	4 Federal income tax withheld $	5 Investment expenses $	
Street address (including apt. no.) 17 S. Main Street	6 Foreign tax paid $	7 Foreign country or U.S. possession	
City or town, state or province, country, and ZIP or foreign postal code Scottsdale, AZ 85251	8 Tax-exempt interest $	9 Specified private activity bond interest $	
	10 Market discount $	11 Bond premium $	
FATCA filing requirement ☐	12 Bond premium on Treasury obligations $	13 Bond premium on tax-exempt bond $	
Account number (see instructions)	14 Tax-exempt and tax credit bond CUSIP no.	15 State / 16 State identification no.	17 State tax withheld $ $

Form **1099-INT** www.irs.gov/Form1099INT Department of the Treasury - Internal Revenue Service

Adjustment to Income

Student Loan Interest Deduction

- Form 1098-E

☐ CORRECTED (if checked)

RECIPIENT'S/LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number			OMB No. 1545-1576 2021 Form **1098-E**	**Student Loan Interest Statement**
First Class Corp 90 I Street Mesa, AZ 85206				
RECIPIENT'S TIN 94-0561321	BORROWER'S TIN 212-00-8749	**1** Student loan interest received by lender $ 2,680.25		**Copy B** **For Borrower**
BORROWER'S name Cindy Young Street address (including apt. no.) 1 Main Street City or town, state or province, country, and ZIP or foreign postal code Peoria, AZ 85345				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 the IRS determines that an underpayment of tax results because you overstated a deduction for student loan interest.
Account number (see instructions)		**2** If checked, box 1 does **not** include loan origination fees and/or capitalized interest for loans made before September 1, 2004 . . . . . ☐		

Form **1098-E** (keep for your records) www.irs.gov/Form1098E Department of the Treasury - Internal Revenue Service

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Adjustment to Income

Student Loan Interest Deduction

- Maximum deduction is smaller of $2,500 or actual interest paid
- Eligible educational institution
- Eligible student
- AGI limits apply: If modified AGI is $70,000+ for S, HoH, or QW; or $140,000+ for MFJ, the amount that can be claimed is reduced

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Adjustment to Income

TaxSlayer Screenshot

1098-E

Student Loan Interest Deduction

Total interest paid on qualified student loans

$ 2680

If the amount is greater than $2,500 (max allowed) than Taxslayer will automatically put $2,500.00 maximum allowed amount.

Cancel Continue

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Adjustment to Income

HSA Contributions Deduction

Contributions to an HSA are tax-deductible on your tax return as an <u>adjustment to income</u>.

HSA Contribution LIMITS for 2021:

Self-only	**$3,650**
Family	**$7,300**
Over 55 catchup	**$1,000**

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Health Savings Account

Over 26 million Americans now have a

Health Savings Account. This reflects a

more than 12 percent increase in

enrollment from 2018 to 2019.

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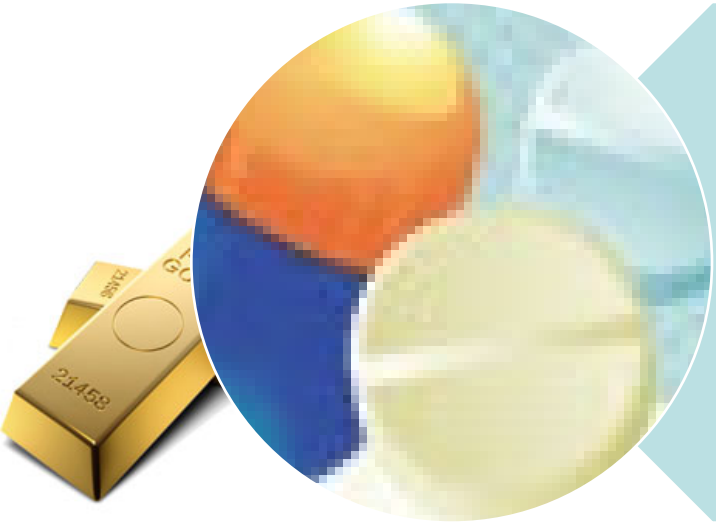
Health Savings Account

A health savings account (HSA) is a tax-favored medical savings account available to taxpayers.



HSAs enable taxpayers to pay for current medical expenses and save for future qualified medical expenses on a tax-free basis.

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Health Savings Account

Once you put money into an HSA, you can invest it for added growth so that by the time you retire, you'll have a pile of money allocated to healthcare expenses.

But you'll also have the option to withdraw funds at any time to pay for medical bills.

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Health Savings Account

As is the case with a traditional IRA or 401(k), the money you put into your HSA is income the IRS cannot tax you on.

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Health Savings Account

If you have a high-deductible health insurance plan you may be eligible to contribute to a <u>health savings account</u>, or HSA

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Health Savings Account

HSAs are owned by individuals, but contributions may be made by an employer or <u>any other person</u>.

Amounts in an HSA may be <u>accumulated over the years</u> or distributed on a <u>tax-free basis</u> to pay for or reimburse qualified medical expenses.

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Health Savings Account

Use Form 13614-C, Intake/Interview to determine if the taxpayer had HSA contributions or distributions.

Form 5498-SA is used to report HSA **contributions**.

Form 1099-SA is used to report HSA **distributions**.

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Health Savings Account

Yes	No	Unsure	Part V – Life Events – Last Year, Did You *(or Your Spouse)*
☐	☐	☐	1. (A) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)
☐	☐	☐	2. (A) Have credit card or mortgage debt cancelled/forgiven by a lender or have a home foreclosure? (Forms 1099-C, 1099-A)
☐	☐	☐	3. (A) Adopt a child?
☐	☐	☐	4. (B) Have Earned Income Credit, Child Tax Credit or American Opportunity Credit disallowed in a prior year? If yes, for which tax year? _____
☐	☐	☐	5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.)
☐	☐	☐	6. (A) Receive the First Time Homebuyers Credit in 2008?
☐	☐	☐	7. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much? _____
☐	☐	☐	8. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D?
☐	☐	☐	9. (A) Have health coverage through the Marketplace (Exchange)? [Provide Form 1095-A]
☐	☐	☐	10. (B) Receive an Economic Impact Payment (stimulus) in 2020?

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Health Savings Account

a Employee's social security number	OMB No. 1545-0008	Safe, accurate, FAST! Use IRS e-file	Visit the IRS website at www.irs.gov/efile
b Employer identification number (EIN)		1 Wages, tips, other compensation	2 Federal income tax withheld
c Employer's name, address, and ZIP code		3 Social security wages	4 Social security tax withheld
		5 Medicare wages and tips	6 Medicare tax withheld
		7 Social security tips	8 Allocated tips
d Control number		9	10 Dependent care benefits
e Employee's first name and initial Last name Suff.		11 Nonqualified plans	12a See instructions for box 12 Code
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b Code
		14 Other	12c Code
			12d Code
f Employee's address and ZIP code			

15 State Employer's state ID number	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** 2021 Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Health Savings Account

9494 ☐ VOID ☐ CORRECTED

TRUSTEE'S/PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number			OMB No. 1545-1517 2021 Form **1099-SA**
PAYER'S TIN	RECIPIENT'S TIN	1 Gross distribution $	2 Earnings on excess cont. $
RECIPIENT'S name		3 Distribution code	4 FMV on date of death $
Street address (including apt. no.)		5 HSA ☐ Archer MSA ☐ MA MSA ☐	
City or town, state or province, country, and ZIP or foreign postal code			
Account number (see instructions)			

Distributions From an HSA, Archer MSA, or Medicare Advantage MSA

Copy A For Internal Revenue Service Center File with Form 1096.

For Privacy Act and Paperwork Reduction Act Notice, see the **2019 General Instructions for Certain Information Returns.**

Form **1099-SA** Cat. No. 38471D www.irs.gov/Form1099SA Department of the Treasury - Internal Revenue Service

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Health Savings Account

2727 ☐ VOID ☐ CORRECTED

TRUSTEE'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		1 Employee or self-employed person's Archer MSA contributions made in 2021 and 2022 for 2021 $	OMB No. 1545-1518 **2021** Form **5498-SA**
		2 Total contributions made in 2021 $	
TRUSTEE'S TIN	PARTICIPANT'S TIN	3 Total HSA or Archer MSA contributions made in 2022 for 2021 $	
PARTICIPANT'S name		4 Rollover contributions $	5 Fair market value of HSA, Archer MSA, or MA MSA $
Street address (including apt. no.)		6 HSA X Archer MSA ☐ MA MSA ☐	
City or town, state or province, country, and ZIP or foreign postal code			
Account number (see instructions)			

HSA, Archer MSA, or Medicare Advantage MSA Information

Copy A For Internal Revenue Service Center

File with Form 1096.

For Privacy Act and Paperwork Reduction Act Notice, see the **2021 General Instructions for Certain Information Returns.**

Form **5498-SA** Cat. No. 38467V www.irs.gov/Form5498SA Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

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Health Savings Account

Archer Medical Savings Accounts

Medicare Advantage MSA

Types of tax-favored arrangements similar to a HSA

Health Reimbursement Arrangements

Flexible Spending Arrangements

OUT-OF-SCOPE

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Health Savings Account

- To set up an HSA a taxpayer will need to work with a trustee.
- A qualified HSA trustee can be a bank, an insurance company, or anyone already approved by the IRS to be a trustee of an individual retirement arrangement (IRA).

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Health Savings Account

The HSA can be established through a trustee that is different from the taxpayer's health plan provider.

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Health Savings Account

The interest & other earnings in the account are tax-free.

Distributions will be tax-free.

The benefits of having an HSA include:

An HSA is portable.

There is no deadline.

Health Savings Account

To be an **eligible individual** and qualify for an HSA, the taxpayer must meet the following requirements:

- Be covered by a high-deductible health plan (HDHP) on the <u>first day of the month</u>
- Not be covered by other health insurance
- Not be enrolled in Medicare
- Not be eligible to be claimed as a dependent on someone else's tax return

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Health Savings Account

Married couples **cannot** have a joint HSA, even if they are covered by the same HDHP; however, distributions can be used to cover the qualified expenses of the other spouse.

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Health Savings Account

In the event of the death of one of the married individuals, the HSA will be treated as the surviving spouse's HSA if the spouse is the designated beneficiary of the HSA.

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Health Savings Account

Any eligible individual can contribute to an HSA. For an employee's HSA, the employee or employer or **both** may contribute to the employee's HSA in the same year. For an HSA established by a self-employed (or unemployed) individual, the individual can contribute.

Health Savings Account

Contributions to an HSA must be made in cash.

Contributions of stock or property are <u>not allowed</u>.

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Health Savings Account

Employer contributions (including an employee's contribution through a cafeteria plan) are allowed to be made to an employee's HSA. Generally, employer contributions are excluded from an employee's income. Employer contributions are reported on **Form W-2, Box 12 using code W.**

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Health Savings Account

HSA Contribution LIMITS for 2021:

Self-only	$3,650
Family	$7,300
Over 55 catchup	$1,000

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Health Savings Account

Taxpayers must **reduce the amount** they, or any other person, **can contribute** to their HSA by the **amount** of any **contributions** made by the taxpayer's **employer** that are excludable from income. This includes amounts contributed to the taxpayer's account by the employer through a cafeteria plan.

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Health Savings Account

For example, if the employer contributed $1,000 to a taxpayer's HSA who had a self-only HDHP, the remaining contribution limit would be reduced by that $1,000.

$3,650 annual contribution limit
- *$1,000 contributed by employer*
= *$2,650 which could be contributed by taxpayer*

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Health Savings Account

If the taxpayer is an eligible individual on the first day of the last month of the tax year, the full contribution amount for the year is allowed.

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Health Savings Account

If the taxpayer was not an eligible individual for the entire year or changed his or her coverage during the year, the contribution limit is determined using either the **last month rule** or the **sum of the monthly contributions limits rule**.

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Health Savings Account

Generally, a rollover is a tax-free distribution to the taxpayer of cash or other assets from one HSA that the taxpayer contributes to another HSA. The contribution to the second HSA is called a **rollover contribution**. These contributions:

- Are not included in taxpayers' income,
- Are not deductible, and
- Do not reduce taxpayers' contribution limit.

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Health Savings Account

Rollover Contributions

Rollovers are not subject to annual contribution limits and a rollover contribution is not always cash; for example, it could be a Certificate of Deposit (CD).

The taxpayer ***must roll over the amount within 60 days after the date of receipt***, and may only make one rollover contribution to an HSA during a one-year period.

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Health Savings Account

Rollover Contributions

If the taxpayers have their HSA funds transferred directly into another HSA in a **trustee-to-trustee** transfer, this is not considered a rollover. There is **no limit** on the number of these transfers.

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Health Savings Account

DISTRIBUTIONS

The taxpayer can receive tax-free distributions from an HSA to pay or be reimbursed for qualified medical expenses incurred after the taxpayer establishes the HSA.

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Health Savings Account

DISTRIBUTIONS

Qualified medical expenses are expenses that *generally* would qualify for the medical and dental expenses deduction. Examples include unreimbursed expenses for doctors, dentists, and hospitals.

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Health Savings Account

DISTRIBUTIONS

A medicine or drug will be a qualified medical expense only if the medicine or drug:

- Requires a prescription, or
- Is an over-the-counter medicine or drug, or
- Is insulin, or
- is a menstrual care product.

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Health Savings Account

A taxpayer **cannot** treat insurance premiums as qualified medical expenses **unless** the premiums are for:

1. Long-term care insurance based on premium limits shown in Publication 4012, or
2. Health care continuation coverage, such as coverage under COBRA (cont.)

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Health Savings Account

A taxpayer **cannot** treat insurance premiums as qualified medical expenses **unless** the premiums are for:

3. Health care coverage while receiving unemployment compensation
4. Medicare and other health care coverage if the taxpayer was 65 or older (other than premiums for a Medicare supplemental policy, such as Medigap)

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Health Savings Account

Qualified medical expenses are those incurred by the following persons:

- The taxpayer and spouse
- All dependents claimed on the tax return

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Health Savings Account

A child of parents who are divorced, separated, or living apart for the <u>last six months of the calendar year</u> is treated as the dependent of both parents (for medical expenses) whether or not the custodial parent releases the claim to the child's dependency.

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Health Savings Account

Taxpayers cannot deduct qualified medical expenses as an itemized deduction on Form 1040, Schedule A, that are equal to the tax-free distribution from their HSA. Since the medical expenses have been paid from HSA funds, the taxpayers cannot include the same expenses on Schedule A.

No double-dipping allowed!

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Health Savings Account

Excess contributions will be included in income and are also subject to a 6% excise tax.

Excess contributions that are not withdrawn in a timely fashion are **out of scope** for the VITA/TCE programs.

Refer taxpayers in this situation to a professional tax preparer.

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TaxSlayer Screen From 4012

Adjustments

Medical Savings Account Form 8853		BEGIN
Educator Expenses		BEGIN
Expenses for Research, Performing Artists, and Qualifying Government Employees		BEGIN
Health Savings Account Form 8889	Health Savings Account – select to open Form 8889, Health Savings Accounts. (HSA Certification required)	BEGIN
Moving Expenses Form 3903		BEGIN
Contributions to SEP, Simple, and Qualified Plans		BEGIN
Self-Employed Health Insurance	Self-employed health insurance deduction is in scope (Advanced certification required)	BEGIN
Penalty on Early Withdrawal of Savings or CD		BEGIN
Alimony Paid		BEGIN
IRA Deduction		BEGIN
Nondeductible IRAs Form 8606	Form 8606 Nondeductible IRAs is out of scope	BEGIN
Student Loan Interest Deduction		BEGIN
Tuition and Fees Deduction		BEGIN
Domestic Production Form 8903	Form 8903 Domestic Production Activities Deduction is out of scope	BEGIN
Other Adjustments		BEGIN

Must be Certified for Military. Check the box near the top of the form to indicate an Armed Forces PCS move. Moving expenses for tax year 2018 apply to Military only.

Flows over from input of Form 1099- INT in Interest Income.

If the taxpayer paid alimony to more than one person, add a second payee after entering the first.

Student Loan Interest paid is entered here

See Tab EXT, Legislative Extenders for additional information.

Select other adjustments for jury duty pay turned over to employer

HSA Screening Worksheet From Pub.4012

Publication 4885

Screening Sheet for Health Savings Accounts (HSA)

NOTE: Only volunteers with **Health Savings Account Certification** may assist taxpayers with HSA issues.

IRS

Instructions: This Screening Sheet will help you identify HSA issues that are within the scope of the VITA/TCE program. Use the Determine HSA Eligibility section to determine if taxpayer is eligible for an HSA; use Part I for contributions/deduction; use Part II for distributions. **References:** Publication 969, Form 8889 and Instructions

Determine HSA Eligibility (To set up an HSA or make contributions to an HSA)

TO QUALIFY: An individual must meet **ALL** the following requirements:

- Be covered under a high deductible health plan (HDHP) on the first day of any month of the year.
- Have no other health coverage except for allowable "other health coverage." (Publication 969, "Other health coverage")
- Not be claimed as a dependent on someone else's tax return. (Publication 969, "Qualifying for an HSA")
- Not be covered by Medicare (but the individual can be HSA eligible for the months before being covered by Medicare)

NOTE: If the taxpayer doesn't qualify, but contributions have been made to an HSA, the taxpayer should be referred to a professional tax preparer.

PART I – HSA Contributions and Deduction

step 1	If eligible, were contributions made to an HSA?	**YES** – Complete Form 8889, Part, I, lines 1 and 2. Go to Step 2. **NO** – STOP.
step 2	Was the taxpayer enrolled in the same HDHP coverage for the **entire** year? (Answer Yes, if last-month rule applies, and see Form 8889 Instructions) **Caution:** If line 2 is more than line 13, the taxpayer must withdraw the excess contribution to avoid an additional tax. If the excess is not timely withdrawn, refer the taxpayer to a professional tax preparer. (Refer to Form 8889 Instructions, line 13).	**YES** – Complete Form 8889, Part I, lines 3-13. **FOR YES AND NO: Lines 4 and 10 are out of scope.** **NO** – Refer to Form 8889 Instructions for additional information on completing line 3.

PART II – HSA Distributions

step 1	Did the taxpayer receive distributions from the HSA trustee (whether or not Form 1099-SA received)?	**YES** – Complete Form 8889 Part II, Line 14a, 14b, if applicable, and 14c. Go to Step 2. **NO** – STOP, do not complete Part II.
step 2	Did the taxpayer use all or part of the distribution to pay or get reimbursed for qualified medical expenses during the year that were incurred after the HSA was established **and** were for qualified persons?	**YES** – Enter the amount on line 15 and complete line 16. Go to Step 3. **NO** – Enter zero on line 15 and complete line 16. Go to Step 3.
step 3	If any part of the distribution is taxable, was the distribution made after the taxpayer died, became disabled or turned 65?	**YES** – Check box on line 17a and complete 17b. **NO** – Taxpayer will be subject to an additional 20% tax.

TaxSlayer Screen from 4012

Form 8889 - Health Savings Account

CANCEL

Form belongs to:

- (●) Taxpayer
- ( ) Spouse

Add a second Form 8889 if taxpayer and spouse have separate HSAs.

Coverage under high deductible health plan *

-- Please Select --

Select the appropriate HDHP coverage for the taxpayer: **Self-only or family**. This determines the maximum HSA contribution limits.

HSA Contributions

HSA Contributions you made for 2018

* INCLUDE contributions made from Jan 1 to Apr 15 of this year that were for 2018.
* DO NOT INCLUDE employer contributions, contributions through a cafeteria plan, or amounts that were rolled over into your HSA(s).

$

Employee contributions are entered here. Contributions by relatives and friends are considered to be made by taxpayer. **Don't** include employer contributions on this line.
The account holder needs to tell you how much was put in the HSA, because the Form 5498-SA may not have been received prior to preparing the return.

Number of months during this tax year that you were an eligible individual

- Please Select -

Enter number of months you had a Health Savings Account, a high deductible policy and no other major medical policy (including Medicare) and could not be claimed as dependent.

Amount you and your employer contributed to your **Archer MSAs** for 2018 from **Form 8853**, lines 3 and 4. If you and your spouse had family coverage under an HDHP at any time during the tax year, also include any amount contributed to your spouse's **Archer MSA**.

$

Amount to Adjust Employer Contributions made to your HSA(s) for 2018
We will automatically pull your employer contributions from your W-2. DO NOT enter amounts from your W-2.

$

Qualified HSA Funding Distributions from IRA or ROTH IRA

$

TaxSlayer Screen from 4012

HSA Distributions

Total distributions received during 2018 from all HSAs.
(Usually shown in Box 1 of Form(s) 1099-SA)

$

Enter HSA distributions here. Ask the taxpayer for Form 1099-SA, with the HSA box checked. If not an HSA distribution, refer the taxpayer to a professional tax preparer.

Distributions used for qualified medical expenses
* If you do not enter an amount here your entire distribution will be considered taxable.

$

Enter amount spent on qualifying medical expenses not reimbursed by insurance.

Distributions you received in 2018 that you rolled over into another HSA. Also include any excess contributions (and the earnings on those excess contributions) included above that were withdrawn by the due date of your return.

$

Form 8889 will calculate the amount of excess contributions, if any.

CAUTION If the excess isn't withdrawn by the due date of the return then the return is out-of-scope.

Exceptions - The additional 20% tax does not apply to distributions made after the account beneficiary dies, becomes disabled, or turns age 65.

☐ Check here if you meet any of the exceptions to the 20% tax.

If the taxpayer meets one of exceptions to the 20% additional tax, check this box. The exceptions are that the account beneficiary dies, becomes disabled, or turns age 65.

HSA Adjustments

Limitation - Adjust amount of limitation from worksheet (entries here carry to Line 3 of 8889)
Note: This amount will adjust a calculated amount.

$

Adjust your share of high-deductible health plan. If you and your spouse had separate HSAs AND had family coverage under an HDHP, see Page 4 of the Instructions for the amount to enter.
Note: This amount will adjust a calculated amount.

$

If you were age 55 or older at the end of the tax year, married, AND you or your spouse had family coverage under an HDHP at any time during the year, enter your Additional Contribution Amount. (entries here carry to Line 7 of 8889)
Note: This amount will adjust a calculated amount.

$

Age 55 or older, look up "catch up" contribution limits in Form 8889 instructions.

Health Savings Account

If distributions are received for reasons other than qualified medical expenses,

the amount withdrawn will be included in income and

reported on Form 1040, line 8.

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Health Savings Account

HSA distributions <u>included in income</u> are subject to an additional 20% tax unless the account beneficiary:

- Dies
- Becomes disabled
- Turns age 65

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Health Savings Account

Out of Scope

Refer taxpayers with these issues to a professional tax preparer:

1. Excess contributions to an HSA that are not withdrawn in a timely fashion
2. Qualified HSA funding distributions from an IRA
3. Death of an HSA holder (when spouse is not the designated beneficiary)
4. Additional tax for failure to maintain HDHP coverage (cont.)

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Health Savings Account

Out of Scope

Refer taxpayers with these issues to a professional tax preparer:

5. Distributions from an HSA due to prohibited transactions
6. Archer Medical Savings Account
7. Medicare Advantage MSA
8. Health Reimbursement Arrangement
9. Form 5889, Part III

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Health Savings Account

Adjustment to Income

Adjusted Gross Income (AGI) (Form 1040, Page 2, Line 7)

Adjustments are subtractions from total income

	TOTAL INCOME
-	ADJUSTMENTS to INCOME
=	ADJUSTED GROSS INCOME (AGI)

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Adjusted Gross Income (AGI)

Arizona State Income

- The Federal Adjusted Gross Income (AGI) is = Gross Income for Arizona.

- Arizona Tax Return begins with the AGI from the Federal Return

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Income Considerations of American Indians

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Topics to be covered:

- Special Income Considerations for American Indians
- Types of Income
- How to complete AZ 140
- Documents
- Questions to ask
- Affordable Care Act & AI/AN
- Map

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Special Tax Considerations for American Indians

Arizona Income Tax **Exclusions**

Must meet all criteria:

- Living & working on the reservation
- Deriving income from reservation sources only
- Affiliated member of the tribe for which that reservation was established

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Interest & Dividend Payments

- Interest and dividend income received is not included in Arizona income even if the bank or corporation making the payments are located off the reservation.
- The Native American must live on the reservation and be an affiliated member of the tribe for which the reservation was established.

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Gambling Winnings

Gambling winnings are not included in AZ income if:

- the casino is on the tribal member's reservation,
- the tribe owns the casino,
- the tribal member lives on the reservation, &
- the tribal member must be an affiliated member of the tribe for which the reservation was established.

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Per Capita Payments-1

- Per capita payments are not included in Arizona income if the Native American is living on the reservation.
- Per capita payments received by Native Americans living off the reservation are taxable.

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Per Capita Payments-2

- Per capita payments received by dependents living temporarily off the reservation, such as students at college, are not included in income if the dependent's parents live on the reservation, the parents are affiliated members of the tribe for which the reservation was established, and the dependent's home is located on that reservation.

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Per Capita Payments-3

- Reported – 1099-Misc
  - Box 3 – Other Income
  - Ask what type of income.
  - If response is “per cap”. Verify if “gaming per cap”.
  - Unearned income
    - **Therefore not eligible for EIC**

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Per Capita Payments

- 1040 (Federal Return)
  - Sch 1, Line 8z – Other Income
    - INDIAN GAMING PROCEEDS
    - INDIAN TRIBAL DISTRIB
    - NATIVE AMERICAN DISTRIB

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Arizona Excise Tax Credit

- Native Americans who live on the reservation and are affiliated members of the tribe for which the reservation was established are **<u>not</u>** eligible to file for the refundable Arizona Excise Tax Credit.

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Work On and Off Reservation

- If the Native American worked on and off the reservation in the same tax year, an allocation must be made to determine the correct excludable income.
- The Native American would have some excludable income if the tribal member lives on the reservation and if he/she is an affiliated member of the tribe for which the reservation was established.
  - These individuals should be referred to the Arizona Department of Revenue in order to determine the excludable income as needed.

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MFJ – AI and Non-AI

Community Property Issues

- Filing a joint Arizona income tax return, the following income shall be subtracted in determining AZ adjusted gross income:
  1) The income earned by the affiliated Native American from the reservation sources while living on the reservation &
  2) One-half of the non-Indian spouse's or non-affiliated Indian spouse's community income earned from reservation sources while living on the reservation.

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AZ 140 Form

- Line 31 – Certain Wages of American Indians
  - Enter amount of wages to be excluded from state taxes
  - Use scratch pad to list types and amounts of income being excluded.

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Subtractions From Income

earn more

Arizona offers the following deductions from federal taxable income. Enter the applicable subtractions to the extent they are included in taxable Federal income.

Enter the qualified pension income amount that qualifies for the Exclusion for U.S. Government, Arizona State or Local Government Pensions

Taxpayer: $

Spouse: $

Enter the qualified benefits, annuities and pensions for retired/retainer pay of the uniformed services

Taxpayer: $

Spouse: $

Enter recalculated Arizona depreciation deduction (Adjustment)

$

Enter certain wages of American Indians

$

What to Bring to the Tax Preparer

- Photo ID
- Original Social Security cards
- Birth date information
- Records of income and expenses
- Copy of prior year returns (helpful)
- MFJ – both spouses must sign paperwork for e-filing
- Tribal Membership – self attestation

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Questions to ask?

Are you a member of a federally recognized Indian tribe?

Do you live on your tribe's reservation?

Do you work on your tribe's reservation?

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Information

- Have a map of Arizona tribes
- Become familiar with communities/towns located on reservations
- If unsure, ask taxpayer if town is located on reservation

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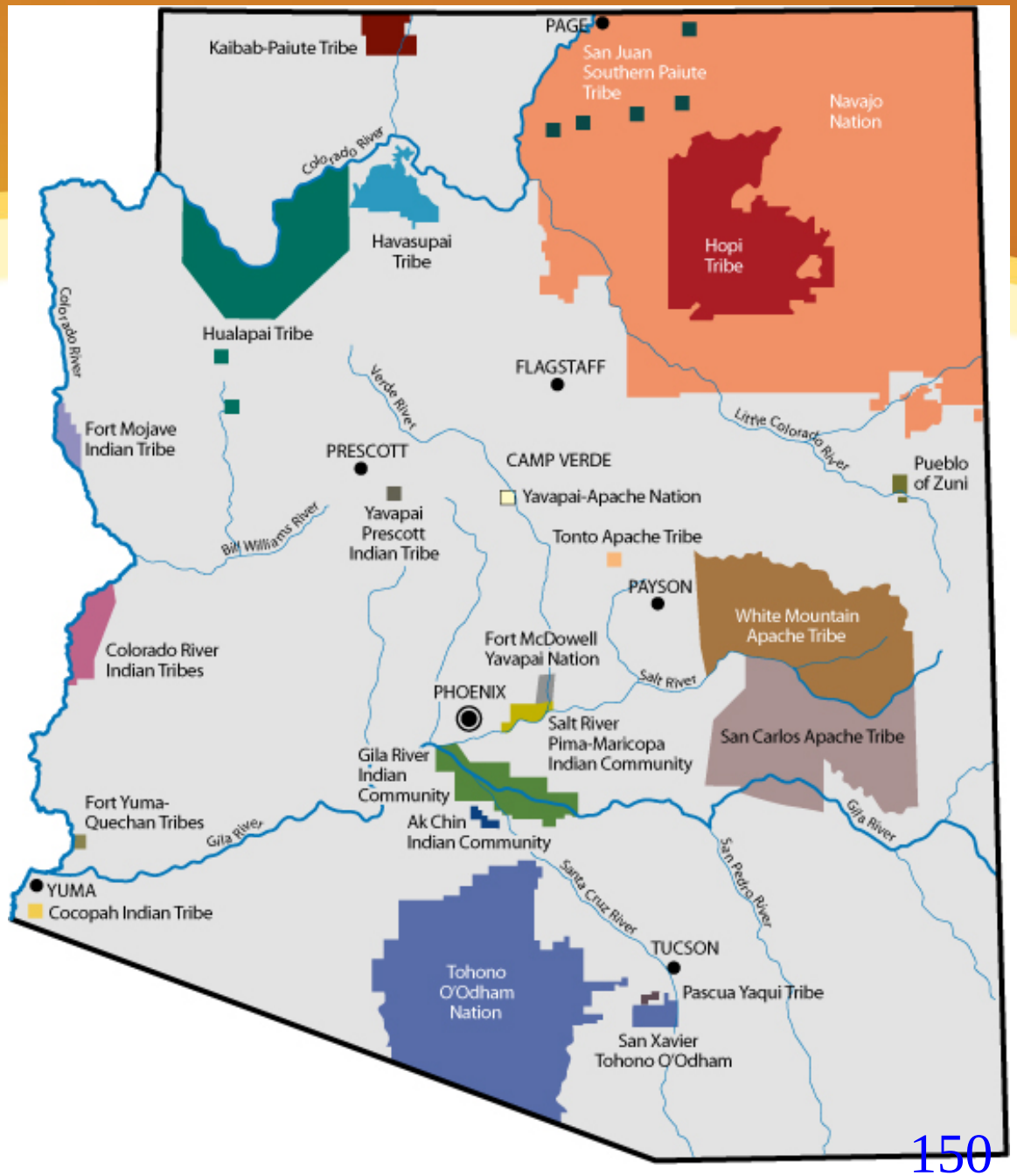
Map of Tribal Lands in Arizona



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Tribes in Arizona

Ak-Chin Indian Community

Cocopah Indian Tribe

Colorado River Indian Tribes

Fort McDowell Yavapai Nation

Fort Mohave Indian Tribe

Gila River Indian Community

Havasupai Tribe

Hopi Tribe

Hualapai Tribe

Kaibab Band of Paiute Indians

Navajo Nation

Pascua Yaqui TribePueblo of Zuni

Quechan Tribe

Salt River Pima-Maricopa Indian Community

San Carlos Apache Tribe

San Juan Southern Paiute

Tohono O'odham Nation

Tonto Apache Tribe

White Mountain Apache Tribe

Yavapai-Apache Tribe

Yavapai Prescott Indian Tribe

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Special Tax Considerations for American Indians

Questions?

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Homework

- ✓ Enter all basic information (stop before income) for Advanced Scenario 7 then "SAVE AND EXIT" the return.
- ✓ Repeat the same process for Advanced Scenarios 8, and 9.

Publication 4012

Read Tabs G, I and J

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AGENDA
SESSION 4

1. Homework Review
2. Standard Deductions, Itemized Deductions
3. Non-refundable Credits
4. Refundable Credits
5. Payments & Estimates
6. Homework Assignment

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Let’s finish the accurate return for Tom Andrews and then do a return for our client, Rita Morales.

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THANK YOU FOR BEING HERE,
WE COULDN’T DO IT WITHOUT YOU!

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VOLUNTEER INCOME TAX ASSISTANCE

Tax Year 2021
TAX LAW
PROGRAM TRAINING
Session 3

City of Phoenix VITA Network 2021

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