Training Series

Income & Credits

Agenda

- Income - Part I
- Income - Part II
- Standard and Itemized Deductions
- Earned Income Tax Credit
- Credit for Child and Dependent Care
- Child Tax Issues
- Credit for the Elderly or Disabled
- Education Credits and Programs
- Alternative Minimum Tax
- Lab

Income Part I

Income Part I

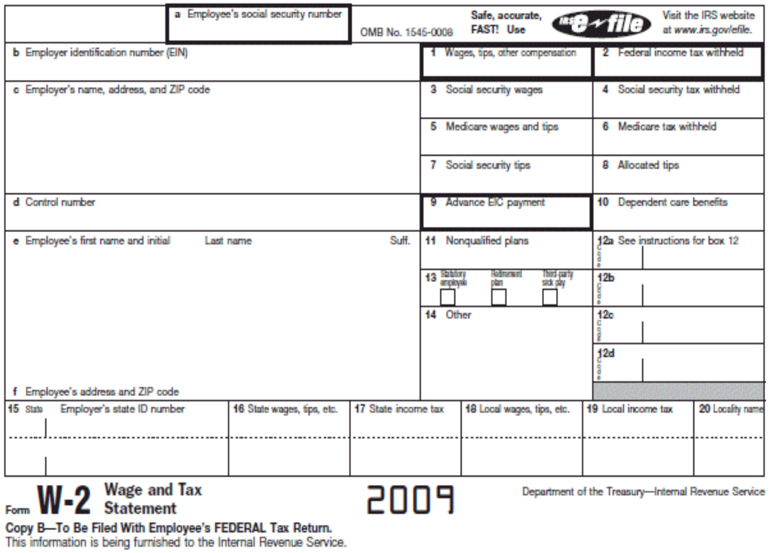
Taxable Income

- Taxable income is any income that is subject to federal income tax. All taxable income must be reported on a tax return unless the amount is so small that the individual is not required to file a return.

Income Part I

Taxable Income

- Most employment compensation is taxable, including:
  - Wages, salaries, bonuses, and commissions
  - Certain fringe benefits
  - Tips and compensation for personal services


a Employee's social security number
OMB No. 1545-0008
Safe, accurate, FAST! Use 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 Advance EIC payment
10 Dependent care benefits
e Employee's first name and initial Last name Suff.
11 Nonqualified plans
12a See instructions for box 12
13 Statutory employee Retirement plan Third-party sick pay
12b
14 Other
12c
12d
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
2009
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.

Income Part I

Taxable Income

- Other forms of taxable income include:
  - Interest
  - Dividends
  - Refunds of state and local taxes
  - Alimony or separate maintenance payments received
  - Business income
  - Capital gains
  - Sale or conversion of property

Income Part I

Taxable Income

- Taxable income may also include:
  - IRA distributions (part or all may be nontaxable)
  - Pensions and annuities (part may be nontaxable)
  - Rents, royalties, and estate or trust income received
  - Unemployment compensation and supplemental benefits
  - Railroad retirement benefits (part or all may be nontaxable)
  - Social security benefits (part or all may be nontaxable)

Income Part I

Taxable Income

- The following taxable income is included in the "Other Income" total on Form 1040's line 21:
  - Jury duty pay
  - Executors' fees
  - Gambling winnings (including lotteries, contests, raffles, etc.)
  - Hobby income, but a hobby losses are not deductible
  - Non-qualifying scholarships and fellowships
  - Payments for punitive damages and damages not attributable to physical injuries or sickness
  - Certain long-term care benefits
  - 1099 MISC income reported in Box 3

Income Part I

Form 1099

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code

1 Gross distribution
$

2a Taxable amount
$

OMB No. 1545-0119

2009

Form 1099-R

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

2b Taxable amount not determined ☐

Total distribution ☐

Copy B
Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.

PAYER'S federal identification number

RECIPIENT'S identification number

3 Capital gain (included in box 2a)
$

4 Federal income tax withheld
$

RECIPIENT'S name

5 Employee contributions /Designated Roth contributions or insurance premiums
$

6 Net unrealized appreciation in employer's securities
$

Street address (including apt. no.)

7 Distribution code(s)

IRA/ SEP/ SIMPLE ☐

8 Other
$ %

This information is being furnished to the Internal Revenue Service.

City, state, and ZIP code

9a Your percentage of total distribution %

9b Total employee contributions
$

1st year of desig. Roth contrib.

10 State tax withheld
$
$

11 State/Payer's state no.

12 State distribution
$
$

Account number (see instructions)

13 Local tax withheld
$
$

14 Name of locality

15 Local distribution
$
$

Form **1099-R**

Department of the Treasury - Internal Revenue Service

Distributions from pensions, annuities, profit sharing, and retirement plans are reported to recipients on Form 1099-R.

Income Part I

Non-taxable Income

- Nontaxable income is income that is exempt from tax. Most nontaxable income is not reported. Some types of nontaxable income will be shown on the return, but will not be added into the amount of income subject to tax.

Income Part I

Non-taxable Income

- Child support
- Federal income tax refunds
- Certain life insurance proceeds
- Gifts and bequests
- Inheritances
- Insurance and certain other payments for physical injury and sickness

Income Part I

Non-taxable Income

- Child support
- Federal income tax refunds
- Certain life insurance proceeds
- Gifts and bequests
- Inheritances
- Insurance and certain other payments for physical injury and sickness

Although gifts and bequests may be exempt from federal income taxes, they may be subject to state and local taxes. Inheritances are usually not taxable except for IRAs and Pensions.

Income Part I

Non-taxable Income

- The following types of income are also exempt from taxes:
  - Interest on certain Series EE and Series I savings bonds redeemed to pay for qualified higher education expenses
  - Interest on certain state and local obligations (municipal bonds)
  - Most life insurance proceeds paid upon death

Income Part I

Other Non-taxable Income

- Public assistance payments (certain TANF payments)
- Certain railroad retirement benefits (part may be exempt)
- Social security benefits (part may be exempt)
- Department of Veterans Affairs (VA) disability benefits
- Workers' compensation
- Accident and health insurance benefits for personal injuries or sickness

Income Part I

Other Non-taxable Income

- Qualified scholarships and fellowships
- Certain dependent care services provided by employer
- Certain employer-provided educational benefits (up to $5,250)
- Interest on insurance dividends left with VA
- Employer-provided assistance for qualifying adoption expenses
- Restitution payments and excludable interest received by Holocaust victims, their estates, or their heirs
- Certain long-term care benefits

Income Part I

Where to Report Taxable Income

Form 1040EZ

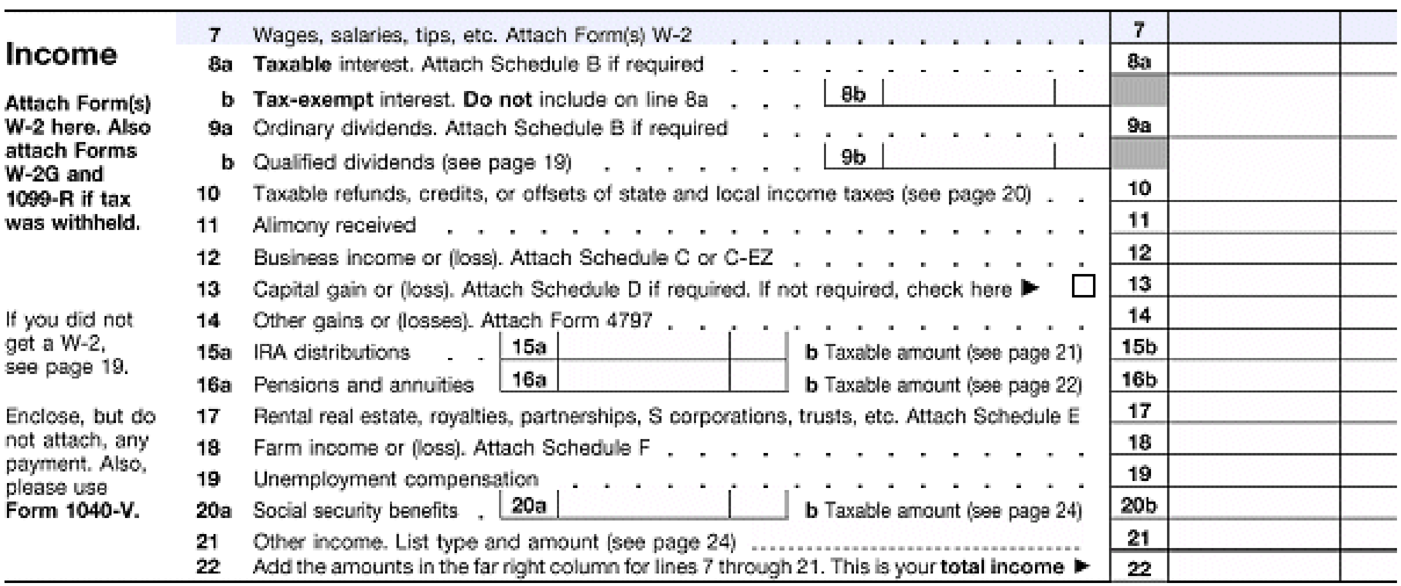
Of the three tax return forms, Form 1040EZ is the simplest. The only income taxpayers can report on Form 1040EZ are:

- Wages, salaries, and tips
- Unemployment compensation
- Qualified state tuition program payments
- Alaska Permanent Fund dividends
- Taxable scholarship and fellowship grants
- Interest income of $1,500 or less

Income Part I

Earned Income(Wages, Salaries & Tips)

The total of wages, salaries, tips, and taxable scholarships and fellowships are reported on Form 1040, line 7.



Income

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

If you did not get a W-2, see page 19.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7
8a	**Taxable** interest. Attach Schedule B if required		8a
b	**Tax-exempt** interest. **Do not** include on line 8a	8b	
9a	Ordinary dividends. Attach Schedule B if required		9a
b	Qualified dividends (see page 19)	9b	
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 20)		10
11	Alimony received		11
12	Business income or (loss). Attach Schedule C or C-EZ		12
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐		13
14	Other gains or (losses). Attach Form 4797		14
15a	IRA distributions 15a	**b** Taxable amount (see page 21)	15b
16a	Pensions and annuities 16a	**b** Taxable amount (see page 22)	16b
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17
18	Farm income or (loss). Attach Schedule F		18
19	Unemployment compensation		19
20a	Social security benefits 20a	**b** Taxable amount (see page 24)	20b
21	Other income. List type and amount (see page 24)		21
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22

Income Part I

Form W2

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 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name Suff.	11 Nonqualified plans	12a See instructions for box 12
	13 Statutory employee / Retirement plan / Third-party sick pay	12b
	14 Other	12c
f Employee's address and ZIP code		12d

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 **2009**

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.

Wages, salaries, bonuses, and commissions Tips and compensation for personal services are included on Form W-2, prepared by the employer, and mailed to the taxpayer.

Income Part I

Incorrect Form W2

Taxpayers who receive an incorrect Form W-2 or do not receive one at all, must contact their employer as soon as possible.

An employer who prepared an incorrect Form W-2 must issue a Form W-2c, Corrected Wage and Tax Statement. For employees who receive Form W-2c:

- Use the W-2c amounts on the return
- Be sure to attach the Form W-2c to the taxpayer's return
- Only an employer can issue a Form W-2 or a Form W-2c

Income Part I

Missing W2

All wage, salary, and tip income must be reported on the return, even if the employee does not receive a Form W-2.

- A taxpayer who does not receive a Form W-2 by January 31 should first contact the employer and find out if or when the Form W-2 was mailed. If the taxpayer does not receive the Form W-2 after a reasonable amount of time, the taxpayer should contact the IRS for assistance at 1-800-829-1040, but not before February 15.

Income Part I

Fraudulent W2

You should be alert to the following possible indications of fraudulent activity:

- Any Form W-2 that is typed, handwritten, or has noticeable corrections
- Any Form W-2 that is different from other Forms W-2 issued by the same employer
- Suspicious person(s) accompanying the taxpayer and observed on other occasions
- Multiple refunds directed to the same address or P.O. Box
- Poorly documented employment or earnings that are a basis for refundable credits, such as the Earned Income Credit
- Similar returns among different taxpayers, such as the same amount of refund, or same number of dependents, or same number of Forms W-2

Income Part I

Earned Income

This topic discusses how to report taxable earned income on a tax return, including income from tips, scholarships, and fellowships. All income is taxable unless it is specifically excluded by law.

Review the Client Organizer submitted by the taxpayer to find out if the taxpayer or spouse received:

- Investment income (such as interest and dividends)
- A distribution from and IRA or retirement plan, such as a 401k
- Social security payments
- Unemployment payments
- Income not reported on Form(s) W-2 or Form(s) 1099 (such as from alimony, self-employment, gambling, etc.)

Income Part I

Form 1099

Taxpayers who receive earnings reported on Form 1099-MISC, Miscellaneous Income, may be considered self-employed. Box 7 of Form 1099-MISC is used to report Nonemployee compensation.

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1 Rents $	OMB No. 1545-0115 2009 Form 1099-MISC	Miscellaneous Income
		2 Royalties $		
		3 Other income $	4 Federal income tax withheld $	Copy B For Recipient
PAYER'S federal identification number	RECIPIENT'S identification number	5 Fishing boat proceeds $	6 Medical and health care payments $	
RECIPIENT'S name		7 Nonemployee compensation $	8 Substitute payments in lieu of dividends or interest $	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.
Street address (including apt. no.)		9 Payer made direct sales of $5,000 or more of consumer products to a buyer (recipient) for resale ►	10 Crop insurance proceeds $	
City, state, and ZIP code		11	12	
Account number (see instructions)		13 Excess golden parachute payments $	14 Gross proceeds paid to an attorney $	
15a Section 409A deferrals $	15b Section 409A income $	16 State tax withheld $ $	17 State/Payer's state no.	18 State income $ $

Form 1099-MISC (keep for your records) Department of the Treasury - Internal Revenue Service

Income

Rental Property

Reported on Schedule E of the 1040

Taxpayer need to keep accurate records

Income records should include

- Rental Incomes
- Purchase price of the property
- Security Deposits
- Accumulated and current annual depreciation

Income

Rental Property continued

* Expenses that should be recorded

  Cleaning , maintenance, and repair costs

  Management fees and commissions

  Advertising expenses

  Real estate taxes and mortgage interest

  Homeowners Insurance and security deposits reimbursed

  Other misc.

Income II

Income II

Life Insurance

- Life insurance proceeds are generally exempt from tax. However, if the insurance proceeds pay interest, then the interest payments must be included as taxable income.
  - Taxpayers can receive life insurance benefits paid upon the death of the insured either in a lump sum or in installments. If the payments are received in installments, the portion that is interest must be included in the taxpayer's income. Form 1099-INT

Life Insurance

- Two exceptions to the rules on interest payments from life insurance proceeds are:
  - If a taxpayer's insured spouse died before October 23, 1986 and the taxpayer receives the payments in installments, then the first $1,000 of interest income received each year is not taxed. This exclusion does not apply if proceeds are left on deposit with the insurance company and only interest is paid.
  - Interest on insurance proceeds that have been left on deposit with the Department of Veterans Affairs (VA) is not taxable. Any return that reports VA proceeds interest as taxable can be amended for a tax refund provided it is within the three (3) year statute of limitations.

Income II

Tax Exempt Interest

- Certain types of interest are exempt from federal income tax. Bonds issued by the following entities generally pay tax-exempt interest:
  - District of Columbia
  - U.S. possessions and political subdivisions, States, counties and cities

Specific examples of governmental entities that may issue tax-exempt bonds include port authorities, toll-road commissions, utility service authorities, community redevelopment agencies, and qualified volunteer fire departments.

Although tax-exempt interest is not taxable, the taxpayer must report all tax-exempt interest on Form 1040 line

Income II

Unemployment compensation

- Unemployment compensation includes benefits that a state or the District of Columbia paid from the Federal Unemployment Trust Fund to unemployed individuals. This income is:
  - Reported to the recipient on Form 1099-G box 1, and
  - Entirely taxable

Income II

Unemployment compensation

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1 Unemployment compensation $	OMB No. 1545-0120 2009 Form 1099-G	Certain Government Payments
		2 State or local income tax refunds, credits, or offsets $		
PAYER'S federal identification number	RECIPIENT'S identification number	3 Box 2 amount is for tax year	4 Federal income tax withheld $	Copy B For Recipient
RECIPIENT'S name		5 ATAA payments $	6 Taxable grants $	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.
Street address (including apt. no.)		7 Agriculture payments $	8 Box 2 is trade or business income ▶ ☐	
City, state, and ZIP code		9 Market gain $		
Account number (see instructions)				

Form 1099-G (keep for your records) Department of the Treasury - Internal Revenue Service

Income II

Other Income

- Line 21 of Form 1040 is used to report income from other sources, such as:
  - Jury Duty Pay
  - Hobby income
  - Prizes, awards, lottery and gambling winnings

The taxpayer must include the amount and description, using an attachment if necessary.

See "Miscellaneous Income" in Publication 525, Taxable and Nontaxable Income.

Questions?

Standard and Itemized Deductions

Standard and Itemized Deductions

What Are Deductions?

- Deductions are subtractions from a taxpayer's adjusted gross income (AGI). They reduce the amount of income that is taxed and ultimately, the amount of tax that is owed

Standard and Itemized Deductions

Taxpayers with qualified deductions

- Taxpayers with qualified deductions should:
  - Use Form 1040 and Schedule A to calculate the total of their itemized deductions and compare it to their standard deduction.

Standard and Itemized Deductions

Itemized deductions

- Include amounts paid for
  - Medical and dental expenses
  - State and local income taxes
  - Real estate taxes
  - Personal property taxes
  - Home mortgage interest
  - Gifts to charity,
  - Casualty and theft losses
  - Job expenses
  - Miscellaneous deductions.

Standard and Itemized Deductions

Standard Deduction

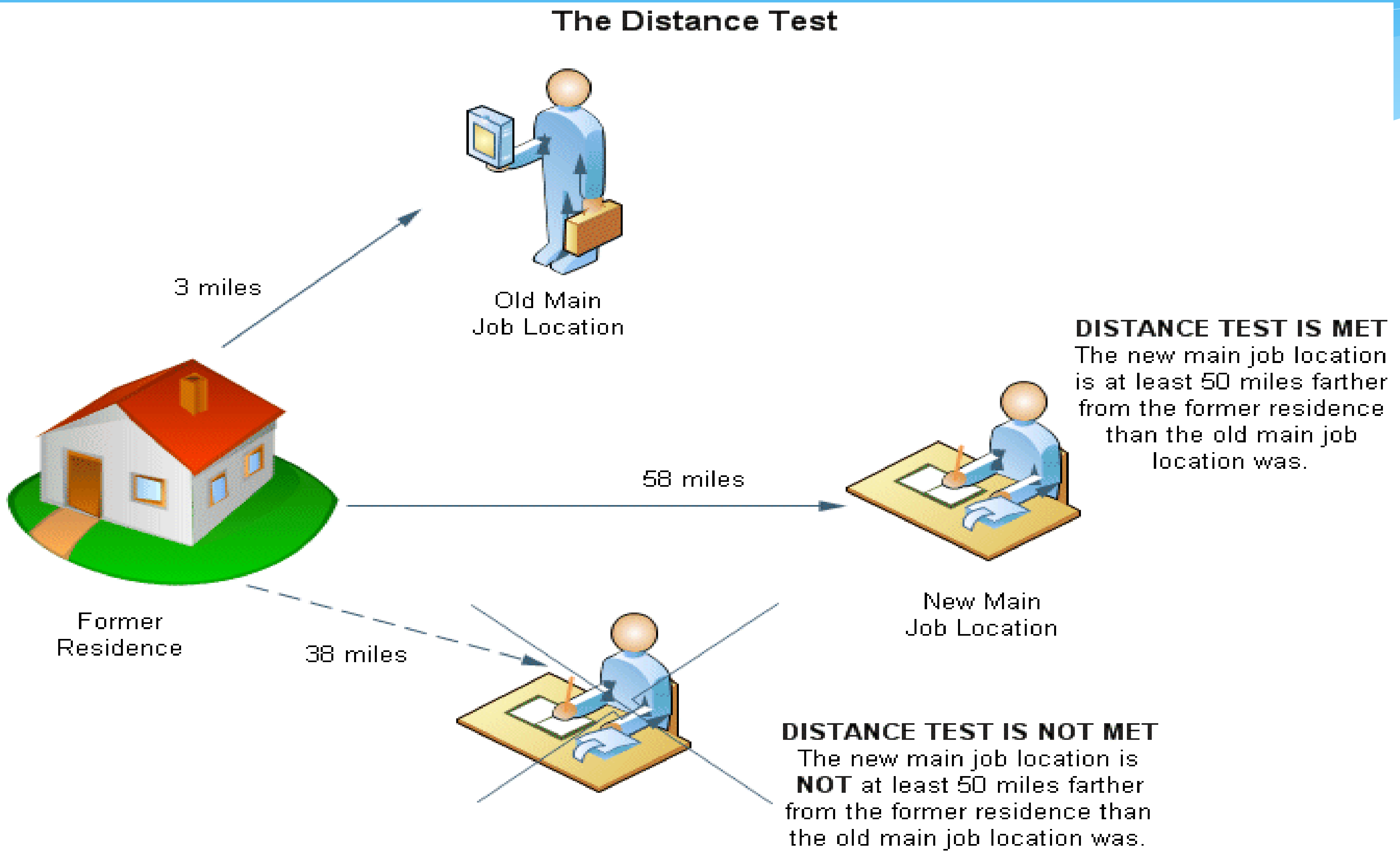
- **All taxpayers must figure their standard deduction, even if they file Form 1040 and itemize their deductions. The standard deduction amount depends on:**
  - The taxpayer's filing status
  - Whether the taxpayer (or spouse) is 65 or older or blind
  - Whether the taxpayer can be claimed as a dependent on another taxpayer's return.

Standard and Itemized Deductions

If the taxpayer's filing status is:	The standard deduction is:	If 65 or over AND/OR blind add for EACH
Single	$5,450	$1,350
MFJ tax return or Qualifying widow(er) with dependent child	$10,900	$1,050
Married filing a separate tax return	$5,450	$1,050
Head of Household	$8,000	$1,350
Dependent Children		

The greater of $900 OR the amount of earned income, plus $300. Not to exceed $5,450 unless the dependent is blind. If blind add $1,350.

Moving Deduction?



Credits

Credits

Most Common Qualifying Credits

- Earned Income Credit (EIC)
- Child Tax Credit
- Child Care Credit
- Education Credit

Credits

EIC

The EIC is a refundable credit available to low-income workers. The amount of the credit varies depending on your income level and the number of qualifying children you have.

Credits

EIC

- **Filing Requirements**
  - Have a valid social security number (SSN); on a joint return, both spouses must have SSNs
  - Not use the Married Filing Separately filing status
  - Not be a nonresident alien, unless filing a joint return with a U.S. citizen or resident
  - Have a tax return that covers a 12-month period, unless filing a short period return because of an individual's death
  - Not be the qualifying child of another person

Credits

EIC

- **Income Requirements**
  - Have earned income during the year
  - Not have investment income of more than $2,950
  - Not exclude from gross income any income earned in foreign countries, or deduct or exclude a foreign housing amount (by filing Form 2555 or Form 2555-EZ, Foreign Earned Income Exclusion)

Credits

EIC

Taxpayers With Qualifying Children

- If the taxpayer has a qualifying child, the taxpayer's earned income and adjusted gross income (AGI) must each be less than:
  - $33,995 if the taxpayer has one qualifying child ($36,995 if Married Filing Jointly)
  - $38,646 if the taxpayer has more than one qualifying child ($41,646 if Married Filing Jointly)
  - The taxpayer's Schedule EIC must include the name, age, and SSN for each qualifying child.

Credits

EIC

Taxpayers Without Qualifying Children

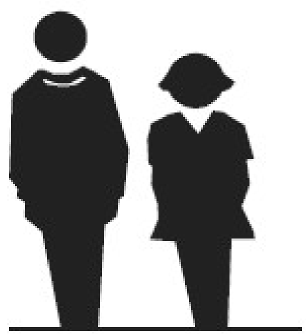
- If the taxpayer does not have a qualifying child:
  - The taxpayer's earned income and AGI must each be less than $12,880 ($15,880 if Married Filing Jointly)
  - The taxpayer (or the taxpayer's spouse, if filing a joint return) must be at least age 25 but under age 65 at the end of the year
  - Neither the taxpayer (nor the taxpayer's spouse if filing jointly) can be eligible to be claimed as a dependent or a qualifying child on another person's return
  - The principal place of abode of the taxpayer (and the taxpayer's spouse, if filing jointly) must be in the United States for more than half the year
-

Relationship Test

A qualifying child is a child who is your….
Son, daughter, stepchild, eligible foster child,
a descendant of any of them (for example, you
grandchild
or
Brother, sister, half brother, half sister,
stepbrother, stepsister, or a descendant of an
of them (for example, your niece or nephew).

AND

Age Test



who was
Under age 19 at the end of the tax year
or
Under age 24 at the end of
the tax year and a student
or
Permanently and totally disabled at any time
during the year, regardless of age…

AND

Residency Test

who lived with you in the United States
for more than half of the tax year.

Credits

Child Tax Credit

This credit is available regardless of filing status. However, credit is reduced if modified adjusted gross income is $110,000 or more if Married Filing Jointly. $75,000 if Single, Head of Household or Qualifying Widow(er). $55,000 if Married Filing Separately

Credits

Child Tax Credit

To qualify, the child must:

- Be under age 17 at the end of the year
- Have not provided over half of his or her own support for the year
- Have lived with the taxpayer for more than half of the year
- Be a citizen or resident of the United States
- Be the taxpayer's:
  - Son or daughter
  - Stepson, stepdaughter, or adopted child
  - Brother or sister
  - Eligible descendent, or

Credits

edit for the Elderly or Disabled

Elderly individuals and individuals who are permanently and totally disabled may be able to claim a special credit on their tax returns if they are U.S. citizens or residents.

- To be eligible for the credit, an individual must either be at least 65 years old by the end of the year; or meet all of the following conditions:
  - Be retired on permanent and total disability by the end of the year
  - Have not reached mandatory retirement age before this year
  - Have received taxable disability income for this year

Credits

Credit for the Blind

Determining legal blindness may require your interview skills. Individuals whose sight is not better than 20/200 in their best eye while wearing corrective lenses, or whose field of vision is 20 degrees or less, might be legally blind.

A taxpayer who was totally blind on the last day of the tax year should attach a statement to the tax return describing the blindness.

Credits

Education Credit

Education tax credits can help offset the costs of education. The American Opportunity (Hope Credit extended) and the Lifetime Learning Credit are education credits you can subtract in full from the federal income tax, not just deduct from taxable income.

Credits

Types of Education Credits

- **Hope Credit**
- **Lifetime Credit**
- **American Opportunity Tax Credit(AOC)**

Alternative Minimum Tax

What is it??

The alternative minimum tax (AMT) attempts to ensure that an individual who benefits from certain exclusions, deductions, or credits pays at least a minimum amount of tax.

- You may have to pay the AMT if your taxable income for regular tax purposes plus any adjustments and preference items that apply to you are more than the AMT exemption amount. The AMT exemption amounts are set by law for each filing status.
    - $48,450 Single or Head Household
    - $ 74, 450 if married filing joint or qualifying widower
    - $37, 225 if married filing separate

Electronic Filing and Bank Product Process

The Electronic Filing and Bank Product Process