



# AccountingAidSociety

**Life Events**

# Life Events

- Credit Disallowance in a Prior Year
- First Time Homebuyer Credit
- Capital Loss Carryover
- Marketplace Health Insurance
- Identity Protection PIN (IP PIN) Program
- Injured Spouse, Form 8379
- Federal Tax Withholding
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## Credit Disallowance in a Prior Year

# Credit Disallowance in a Prior Year

A taxpayer can have various credits disallowed due to a number of factors, these can include:

- Earned Income Credit (EIC)
- Child Tax Credit (CTC) (or Additional Child Tax Credit (ACTC))
- Credit for Other Dependents (ODC)
- American Opportunity Tax Credit (AOTC)

When a credit is disallowed:

- The IRS **removes the credit** from your return and sends you a **notice** (often CP75 or CP79A).
- You may owe **additional tax**, plus **interest** and possibly a **penalty**.
- **Future restrictions** may apply:
  - If it was denied because you **recklessly or intentionally disregarded rules**, you can't claim the credit for **2 years**.
  - If it was denied due to **fraud**, you can't claim it for **10 years**.

If the credit is reduced or disallowed in a prior year and they meet the requirements to claim the credit again, Form 8862 Information to Claim Certain Credit After Disallowance must be filed.

# Credit Disallowance in a Prior Year

Jason filed his tax return and later was notified that his return was rejected because he had the EIC disallowed in a prior year.

What form would need to be filed to claim the credit?

- A. Form 8862
- B. Form 5498
- C. Form 4797
- D. Form 8889

# Credit Disallowance in a Prior Year

Jason filed his tax return and later was notified that his return was rejected because he had the EIC disallowed in a prior year.

What form would need to be filed to claim the credit?

- A. Form 8862
- B. Form 5498
- C. Form 4797
- D. Form 8889

Explanation: Jason would need to file Form 8862 Information to Claim Certain Credit After Disallowance with his tax return in order to claim the credit.



## First Time Homebuyer Credit

# First Time Homebuyer Credit

- If the taxpayer received the first-time homebuyer credit for a home purchased in 2008, generally they must repay the credit over a 15-year period in 15 equal installments.
- The repayment period began in 2010.
- However, if the home ceases to be the taxpayer's main home before the 15-year period is up, the taxpayer must repay all remaining annual installments.
  - The home ceases to be the main home if the taxpayer sells the home; converts the entire home to business or rental property; the home is destroyed, condemned, or disposed of under threat of condemnation; or the lender forecloses on the mortgage.
- The credit is repaid by including it as additional tax on the return for the year the home ceases to be the taxpayer's main home.
- If the taxpayer is required to repay the credit, it is calculated on Form 5405 and reported on Form 1040, Schedule 2.

Note: No more First Time Homebuyers' Credits in 2025, all should have been repaid in 2024 or prior. The look-up tool is no longer available on IRS.gov



# First Time Homebuyer Credit

Information the IRS website asks for when looking up the First Time Homebuyer Credit:


## First Time Homebuyer Credit Account Look-Up

See our [Privacy Notice](#) regarding our request for your personal information.

All fields are required.

**Social Security Number** ?

**Date of Birth**  
MM/DD/YYYY



**Street Address** ?

**ZIP Code** ?

**CONTINUE**

# First Time Homebuyer Credit Example

**Example 1:** Linda purchased her first home in **2008** and also claimed the **\$7,500** credit. She has repaid \$500 each year from **2010 through 2023** (14 years = \$7,000 repaid).

In **2024**, she sold the home and moved to another city.

- Because the home ceased to be her main home before the 15-year repayment period ended, she must repay the remaining **\$500** balance on her **2025 tax return**.
- She calculates the amount owed using **Form 5405** and reports it as additional tax on **Form 1040, Schedule 2**.

**Example 2:** James purchased his first home in **2008** and claimed the First-Time Homebuyer Credit of **\$7,500** on his 2008 tax return. He must repay it over **15 years**, starting in **2010**, at a rate of **\$500 per year**.

- From **2010 through 2024**, James has included the \$500 repayment each year on his tax return. That's **15 years total**, and the credit is now fully repaid.
- No repayment is required on his **2025** tax return unless the home had ceased to be his main home in an earlier year before the repayment period ended.



## Capital Loss Carryover

# Capital Loss Carryover

- A **capital loss carryover** happens when your **capital losses** (from selling investments, property, etc.) are **more than** the amount you can deduct in the current tax year.
  - Deductible capital losses are limited to \$3,000 per year (\$1,500 if MFS) and can be used to offset other income such as wages and interest.
  - Any amount over the deductible limit will be carried over to the next tax year until the full amount is deducted.
    - The loss carryover must be reported every year, or they are lost.
- Capital Losses retain the short-term or long-term classification when carried-over
- Information necessary to figure any capital loss carryovers for the current tax year can be found on the capital loss carryover worksheet generated with Schedule D of the prior year tax return.
- To complete the worksheet, you will need information from the prior year return.
  - Ask taxpayers for their Schedule D Worksheet (Capital Loss Carryovers from This Year to Next Year) from the previous year to determine the carryover amounts from the prior year to the current year.

# Capital Loss Carryover: Example

Samantha comes in with a 1099-B for stocks she sold during the year. It includes:

- \$10,000 in losses
- no gains

In Year 1, Samantha can deduct \_\_\_\_\_ in capital losses.

- A. 10,000
- B. 0
- C. 3,000
- D. 5,000

# Capital Loss Carryover: Example

Samantha comes in with a 1099-B for stocks she sold during the year. It includes:

- \$10,000 in losses
- no gains

In Year 1, Samantha can deduct \_\_\_\_\_ in capital losses.

- A. 10,000
- B. 0
- C. 3,000
- D. 5,000

Explanation: Samantha has no gains to offset and is limited to 3,000 to use against her other income. The remaining 7,000 in losses will be carried over to the next year.

# Capital Loss Carryover: Example

Samantha comes back the next year with another 1099-B. It includes:

- \$5,000 in capital gains

She also brought her tax return from last year which shows the 7,000 carryover.

In Year 2, Samantha can deduct \_\_\_\_\_ in capital losses.

- A. 3,000
- B. 2,000
- C. 7,000
- D. 5,000

# Capital Loss Carryover: Example

Samantha comes back the next year with another 1099-B. It includes:

- \$5,000 in capital gains

She also brought her tax return from last year which shows the 7,000 carryover.

In Year 2, Samantha can deduct \_\_\_\_\_ in capital losses.

- A. 3,000
- B. 2,000
- C. 7,000
- D. 5,000

Explanation: Samantha can use the 7,000 in carryover losses to offset the 5,000 she received as capital gains. The remaining 2,000 from the carryover can be deducted against her other income.





## Marketplace Health Insurance

# Marketplace Health Insurance (Form 1095-A)

Form **1095-A** **Health Insurance Marketplace Statement** ☐ VOID ☐ CORRECTED

Department of the Treasury Internal Revenue Service **Do not attach to your tax return. Keep for your records.** **Go to [www.irs.gov/Form1095A](https://www.irs.gov/Form1095A) for instructions and the latest information.** OMB No. 1545-2232

**Part I Recipient Information**

1 Marketplace identifier <b>12-3456789</b>	2 Marketplace-assigned policy number <b>987654</b>	3 Policy issuer's name
4 Recipient's name <b>THOMAS POLK</b>	5 Recipient's SSN <b>328-00-XXXX</b>	6 Recipient's date of birth <b>3/11/1982</b>
7 Recipient's spouse's name	8 Recipient's spouse's SSN	9 Recipient's spouse's date of birth
10 Policy start date <b>01/01/2022</b>	11 Policy termination date <b>12/31/2022</b>	12 Street address (including apartment no.) <b>100 BROOKS DRIVE</b>
13 City or town <b>YOUR CITY</b>	14 State or province <b>YOUR STATE</b>	15 Country and ZIP or foreign postal code <b>ZIP</b>

**Part II Covered Individuals**

A. Covered individual name	B. Covered individual SSN	C. Covered individual date of birth	D. Coverage start date	E. Coverage termination date
16 <b>THOMAS POLK</b>	<b>328-00-XXXX</b>	<b>03/11/1982</b>	<b>01/01/2022</b>	<b>12/31/2022</b>
17 <b>CHRISTINA POLK</b>	<b>125-00-XXXX</b>	<b>08/25/2016</b>	<b>01/01/2022</b>	<b>12/31/2022</b>
18				
19				
20				

**Part III Coverage Information**

Month	A. Monthly enrollment premiums	B. Monthly second lowest cost silver plan (SLCSP) premium	C. Monthly advance payment of premium tax credit
21 January	\$446	\$602	\$388
22 February	\$446	\$602	\$388
23 March	\$446	\$602	\$388
24 April	\$446	\$602	\$388
25 May	\$446	\$602	\$388
26 June	\$446	\$602	\$388
27 July	\$446	\$602	\$388
28 August	\$446	\$602	\$388
29 September	\$446	\$602	\$388
30 October	\$446	\$602	\$388
31 November	\$446	\$602	\$388
32 December	\$446	\$602	\$388
33 Annual Totals	\$5,352	\$7,224	\$4,656

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 607030 Form **1095-A** (2022)

- Under the Affordable Care Act (ACA), the federal government, state governments, insurers, employers, and individuals share responsibility for improving the quality and availability of health insurance coverage in the United States.
- The ACA reforms the existing health insurance market by prohibiting insurers from denying coverage or charging higher premiums because of an individual's preexisting conditions.
- The ACA also creates the Health Insurance Marketplace.
  - If a taxpayer has Marketplace Insurance, they will have received a 1095-A.
  - Form 1095-A must be included on the tax return if the client had Marketplace insurance.

# Premium Tax Credit (PTC)

- The Premium Tax Credit (PTC) is a refundable credit that helps people pay for health insurance bought through the Health Insurance Marketplace
- When enrolling in qualified health coverage through the Marketplace, the Marketplace estimates the amount of the PTC that eligible taxpayers may claim on their federal tax return.
  - Based on that estimate, eligible taxpayers can choose to have advance payments of the premium tax credit (APTC) made on their behalf to their insurance company,
  - or**
  - Forego APTC and get all of the benefit of the PTC when they claim the credit on their federal tax return.
- Those who choose to get the benefit of APTC must file a federal tax return for the year the payments are made even if they have gross income for the year that is below the income tax filing threshold.

# Premium Tax Credit (PTC)

- In general, taxpayers are allowed a PTC if they meet all of the following (but individuals who can be claimed as a dependent by another taxpayer for a taxable year cannot claim a PTC for the year):
  - The taxpayer, spouse (if filing a joint return), or dependents were enrolled in a qualified health plan offered through the Marketplace for one or more months in which the enrolled individual was not eligible for Minimum Essential Coverage (MEC) other than coverage in the individual market.
  - The premiums for the plan or plans in which the taxpayer and his or her family members enroll are paid by the due date of the taxpayer's return (not including extensions).
  - If married, the taxpayer files a joint return with his or her spouse (unless the taxpayer is considered unmarried for Head of Household filing status, or meets the criteria which allow certain victims of domestic abuse or spousal abandonment to claim the PTC using the Married Filing Separately filing status).
  - The taxpayer is an applicable taxpayer. A taxpayer is an applicable taxpayer if:
    - His or her household income is at least 100 percent of the federal poverty line for the taxpayer's family size

# Premium Tax Credit (PTC)

- The following exceptions allow a taxpayer with household income below 100 percent of the federal poverty line to be an applicable taxpayer, provided the taxpayer meets the other applicable taxpayer requirements:
  - The taxpayer, the taxpayer's spouse, or a dependent who enrolled in a qualified health plan is not a U.S. citizen, but is lawfully present in the U.S. and not eligible for Medicaid because of immigration status.
  - The taxpayer was determined eligible for APTC by the Marketplace and received the benefit of APTC for one or more months of coverage of a family member.

# Premium Tax Credit (PTC)

The federal poverty line (FPL) is an income amount adjusted for family size that is considered poverty level for the year. The U.S. Department of Health and Human Services (HHS) provides three sets of federal poverty guidelines:

- one for residents of the 48 contiguous states and D.C.,
- one for Alaska residents, and
- one for Hawaii residents.

## Federal Poverty Guidelines (FPL) Benchmarks

- **<150% FPL:** Not eligible for Marketplace coverage.
- **<138% FPL:** May qualify for Medicaid (in expansion states).
- **<400% FPL:** Eligible for PTC.
- **>400% FPL:** May still be eligible for PTC, depending on policy year.

# Premium Tax Credit (PTC)

- A taxpayer's household income is the total of the modified adjusted gross income (MAGI) of the taxpayer (and spouse, if married and filing jointly) and the MAGI of all dependents required to file a federal income tax return because his or her income meets the filing threshold.
- MAGI, for the purpose of the PTC, is the adjusted gross income on the federal income tax return plus any excluded foreign income, nontaxable Social Security benefits (including tier 1 railroad retirement benefits), and tax-exempt interest.
- It does not include Supplemental Security Income (SSI) or other types of exempt or excluded income.
- The taxpayer's MAGI does not include the MAGI of a person who is not claimed as a dependent.
- Similarly, the spouse's MAGI is not included when the taxpayer is filing Married Filing Separately or qualifies to file as Head of Household.
- A taxpayer's PTC for the year will differ from the APTC payment amount estimated by the Marketplace if the taxpayer's family size or household income as estimated at the time of enrollment is different from the family size or household income reported on the return.

# Premium Tax Credit (PTC)

## Shared Policy Allocation – OUT OF SCOPE

Occurs when a 1095-A policy spans multiple tax returns. This includes:

- Divorced individuals still on the same Marketplace plan.
- Married couples filing separately.
- Taxpayer claims a dependent but someone else insured them.
- Taxpayer insured someone not claimed as a dependent.

 **All shared policy scenarios are OUT OF SCOPE.**



# Premium Tax Credit (PTC)

Jordan comes in to the VITA site to file his taxes, during the intake he mentions he had healthcare through the marketplace.

Is it required to include the 1095-A on his tax return?

- A. Yes
- B. No

# Premium Tax Credit (PTC)

Jordan comes in to the VITA site to file his taxes, during the intake he mentions he had healthcare through the marketplace.

Is it required to include the 1095-A on his tax return?

→ A. Yes

B. No

Explanation: The 1095-A for Marketplace insurance must be included on the tax return in order to reconcile the Premium Tax Credit. If it is not included when E-filing the return will be rejected.

# Premium Tax Credit (PTC)

Annie comes in to file her tax return, during the interview she mentions she had marketplace insurance. She files as single with no dependents, but while looking at the 1095-A you notice another person is listed on the policy.

Is this return in-scope for VITA?

- A. Yes
- B. No

# Premium Tax Credit (PTC)

Annie comes in to file her tax return, during the interview she mentions she had marketplace insurance. She files as single with no dependents, but while looking at the 1095-A you notice another person is listed on the policy.

Is this return in-scope for VITA?

A. Yes

→ B. No

Explanation: Because it is a shared policy the premiums must be allocated and as such makes the return out-of-scope.

# Premium Tax Credit (PTC)

Heather is married, but files separately, when she comes in to file her return she hands you a 1095-A that lists her and her husband.

Is this return in-scope for VITA?

- A. Yes
- B. No

# Premium Tax Credit (PTC)

Heather is married, but files separately, when she comes in to file her return she hands you a 1095-A that lists her and her husband.

Is this return out-of-scope for VITA?



A. Yes

B. No

Explanation: A married couple with a shared policy would need to be allocated and as such would make the return out-of-scope.

# Premium Tax Credit (PTC)

Jane comes in to file her tax return, she is not married and claims her son. She hands you a 1095-A, but it only lists her on it. She explains he was covered on another policy under his father.

Is this return out-of-scope for VITA?

- A. Yes
- B. No

# Premium Tax Credit (PTC)

Jane comes in to file her tax return, she is not married and claims her son. She hands you a 1095-A, but it only lists her on it. She explains he was covered on another policy under his father.

Is this return out-of-scope for VITA?



A. Yes

B. No

Explanation: For VITA, the 1095-A must cover the whole tax family, since her son wasn't included on the policy it would make the return out-of-scope.





## Identity Protection PIN (IP PIN) Program

# Identity Protection PIN (IP PIN) Program

- The **IRS Identity Protection PIN (IP PIN)** is a **6-digit number** the IRS gives to certain taxpayers to help prevent **tax-related identity theft**.
  - Automatically issued to confirmed victims of identity theft whose cases the IRS has resolved.
  - Available **voluntarily** to anyone who can verify their identity
- Taxpayers are mailed Notice CP01A every year as long as the identity theft indicator remains on their account (usually 3 years).
  - The notice includes a 6-digit Identity Protection Personal Identification Number (IP PIN) to be entered on the tax return.
- The most recent IP PIN must be used regardless of the tax year being filed.

# Identity Protection PIN (IP PIN) Program

- The IP PIN acts as an identity validation tool only.
- The IP PIN indicates that taxpayers previously provided IRS with information that validates their identity and that IRS is satisfied that the taxpayers are the valid owners of the SSNs.
- Returns that are filed on accounts with an IP PIN indicator present are processed as valid returns using standard processing procedures.
- Returns that are filed on accounts with an IP PIN indicator present that do not have an IP PIN, or the IP PIN was not input correctly, will experience delays while IRS validates the identity of the taxpayer against IRS records.
  - The return will be rejected in TaxSlayer if e-filed.
  - Taxpayers can elect to paper file their return if they do not wish to retrieve IP PIN.

# Practice Scenario

Jennifer comes into the VITA site and lets you know she has an IP PIN. The letter she gives you is the PIN for the 2023 tax year.

Can this PIN be used to file a 2024 tax return?

- A. Yes
- B. No

# Practice Scenario

Jennifer comes into the VITA site and lets you know she has an IP PIN. The letter she gives you is the PIN for the 2023 tax year.

Can this PIN be used to file a 2024 tax return?

A. Yes

→ B. No

Explanation: A new PIN is assigned every year, only the most recent pin can be used to file any tax year.



## Injured Spouse, Form 8379

# Injured Spouse, Form 8379

- When a joint return is filed and only one spouse owes a past-due amount, the other spouse can be considered an injured spouse.
  - Past due amounts include:
    - Unpaid federal tax liability
    - unpaid federal non-tax debt
    - past-due child support
    - past-due legally enforceable state income tax obligations
    - unemployment compensation debts
- Injured spouses may file Form 8379 to receive their share of the refund shown on the joint return. Form 8379 can be e-filed with the joint return.
- The injured spouse:
  1. Must not be legally obligated to pay the past-due amount, and
  2. Must have made and reported tax payments (such as federal income tax withheld from wages or estimated tax payments), or claimed a refundable tax credit.

# Injured Spouse, Form 8379

- If a taxpayer already filed a joint return and the refund was offset, Form 8379 can be filed by itself.
  - Attach copy of all W-2s and 1099s showing federal withholding
  - Do NOT attach copy of joint return
  - Both spouses' TINs in the same order as on joint return
  - Injured spouse signs the form
- A separate Form 8379 must be filed for each tax year to be considered.
- File by later of 3 years from return due date (w/ext.) **or** 2 years from date tax paid that was later offset
  - IRS service center where original return filed or if electronic return, to IRS service center for where TP lives
  - Cannot be filed at a Taxpayer Assistance Center



# Injured Spouse, Form 8379

## Form 8379 Allocations

- Joint overpayment allocated to each based on contribution to overpayment
- Share of joint liability based on each spouse's MFS liability
- Must allocate all joint return items between spouses – Form 8379, Part III
- Use joint return amounts even if item limited or not allowable on MFS
- If taxpayer does not allocate, IRS will allocate 50/50

# Injured Spouse, Form 8379

Allocate each item as follows:

Income	Deductions and Adjustments
<ul style="list-style-type: none"><li>• Wages - Allocate as would for MFS returns</li><li>• Joint income - TP chooses allocation</li><li>• Other income – Allocate as would for MFS returns</li><li>• Must identify the type and amount of income</li></ul>	<ul style="list-style-type: none"><li>• Allocate as would for MFS returns (includes itemized deductions)</li><li>• Joint deductions - TP chooses allocation</li><li>• Standard deduction allocated 50/50</li><li>• QBI allocated to spouse with the business income</li></ul>

# Injured Spouse, Form 8379

Allocate each item as follows:

Credits	Taxes
<ul style="list-style-type: none"><li>• All credits allocated except EIC (IRS will allocate)</li><li>• Credits follow claim for dependent</li><li>• Business credits based on interest in business</li><li>• All other credits TP's choice</li></ul>	<ul style="list-style-type: none"><li>• SE tax to spouse with SE income</li><li>• Excess APTC repayment allocated as TP chooses</li><li>• NII tax allocated as net investment income allocated</li></ul>

# Injured Spouse, Form 8379

Allocate each item as follows:

## **Tax Payments**

- Withholding to spouse who paid the withholding (income, excess soc. sec., tier 1 RR retirement, additional Medicare tax)
- Separate estimates allocated to paying spouse
- Joint estimates allocated however spouses agree

# Practice Scenario

Susanne comes to the VITA site to file her taxes, she says she is married but wants to file separately because her husband has past debts that garnish any refund they get.

Can they file a joint return and avoid having the refund garnished?

- A. Yes
- B. No

# Practice Scenario

Susanne comes to the VITA site to file her taxes, she says she is married but wants to file separately because her husband has past debts that garnish any refund they get.

Can they file a joint return and avoid having the refund garnished?

- A. Yes
- B. No

Explanation: The Injured Spouse, Form 8379 will allow the taxpayers to receive the benefit of filing married filing jointly and allocate the income between each spouse. This will allow the injured spouse to receive their portion of the refund.

# Practice Scenario

Mark and his wife, Betty, come in to file their tax return. Mark has a W-2 and Betty receives social security. Betty has past debts she still owes and for the last two years any refund they are due has been garnished. They want to file jointly but Mark wants to still receive his portion of the refund so they ask to file the injured spouse form.

How should the income be allocated?

- A. All income should be allocated to Mark
- B. All income should be allocated to Betty
- C. Income should be allocated based on who received it
- D. Income should be split evenly

# Practice Scenario

Mark and his wife, Betty, come in to file their tax return. Mark has a W-2 and Betty receives social security. Betty has past debts she still owes and for the last two years any refund they are due has been garnished. They want to file jointly but Mark wants to still receive his portion of the refund so they ask to file the injured spouse form.

How should the income be allocated?

- A. All income should be allocated to Mark
- B. All income should be allocated to Betty
- C. Income should be allocated based on who received it
- D. Income should be split evenly

Explanation: When filing the injured spouse form income should be allocated based on who receives it, in this scenario the income from the W-2 would be allocated to Mark, and the income from social security would be allocated to Betty.



# Practice Scenario

Mark and his wife, Betty, come in to file their tax return. Mark has a W-2 and Betty receives social security. Betty has past debts she still owes and for the last two years any refund they are due has been garnished. They want to file jointly but Mark wants to still receive his portion of the refund so they ask to file the injured spouse form.

The refund they are due is all from withholdings on the W-2, who should the refund be allocated to?

- A. Mark
- B. Betty
- C. It should be split evenly

# Practice Scenario

Mark and his wife, Betty, come in to file their tax return. Mark has a W-2 and Betty receives social security. Betty has past debts she still owes and for the last two years any refund they are due has been garnished. They want to file jointly but Mark wants to still receive his portion of the refund so they ask to file the injured spouse form.

The refund they are due is all from withholdings on the W-2, who should the refund be allocated to?

- A. Mark
- B. Betty
- C. It should be split evenly

Explanation: Mark's income would be allocated to him, any excess withholding would be allocated to Mark since it was his to claim.

# Practice Scenario

John and Marie are married, they wish to file jointly but John has past debts that will garnish any refund they are due. John is self-employed as an Uber driver, Marie is a teacher at a school and receives a W-2.

On the injured spouse form how will their income be allocated?

- A. The income will be split evenly between both spouses
- B. All of the income will be allocated to John
- C. All of the income will be allocated to Marie
- D. The income will be allocated based on who earned the income

# Practice Scenario

John and Marie are married, they wish to file jointly but John has past debts that will garnish any refund they are due. John is self-employed as an Uber driver, Marie is a teacher at a school and receives a W-2.

On the injured spouse form how will their income be allocated?

- A. The income will be split evenly between both spouses
- B. All of the income will be allocated to John
- C. All of the income will be allocated to Marie
- D. The income will be allocated based on who earned the income

Explanation: On the injured spouse form, income is allocated to who receives it. In this scenario John would be allocated all of his self employment income, and Marie would be allocated all of her W-2 income.

# Practice Scenario

John and Marie are married, they wish to file jointly but John has past debts that will garnish any refund they are due. John is self-employed as an Uber driver, Marie is a teacher at a school and receives a W-2.

Would the QBI deduction be split evenly between the spouses?

- A. Yes
- B. No

# Practice Scenario

John and Marie are married, they wish to file jointly but John has past debts that will garnish any refund they are due. John is self-employed as an Uber driver, Marie is a teacher at a school and receives a W-2.

Would the QBI deduction be split evenly between the spouses?

A. Yes

→ B. No

Explanation: The QBI deduction would be allocated only to John since he is the one that earned the self employment income.



## Federal Income Tax Withholding

# Federal Income Tax Withholding

- The federal income tax system is a “pay as you go” system.
- That means tax is paid as income is earned or received during the year and is referred to as withholding credit.
- Income tax is generally withheld from the following types of income:
  - Salaries and wages
  - Pensions and annuities
  - 401(k) and IRA distributions
  - Gambling winnings
  - Unemployment compensation
  - Certain federal payments such as Social Security benefits



# Federal Income Tax Withholding

- There are several ways to pay taxes during the year to avoid having a balance due when the return is filed.
  - Taxpayers whose income is mostly from wages, pensions, unemployment, or some investment income (such as interest on U.S. bonds) can adjust their withholding
    - Taxpayers who are wage earners should use the IRS Tax Withholding Estimator to determine whether they need to update their withholding
    - Form W-4, Employee's Withholding Certificate can be used to increase or decrease withholding
  - Taxpayers whose income is mostly from self-employment or investments can make or increase their estimated tax payments
- A combination of increased withholding and estimated tax payments may work best for some taxpayers



## Estimated Payments

# Estimated Payments

**Estimated taxes** are periodic tax payments that individuals and businesses make directly to the IRS throughout the year to cover **income tax**, **self-employment tax**, and certain other taxes that aren't withheld by an employer.

You generally must pay estimated taxes if **both** apply:

1. You expect to owe **\$1,000 or more** in tax for the year after subtracting withholding and refundable credits, **and**
2. Your withholding and refundable credits will be **less than the smaller of**:
  - 90% of the tax you'll owe for the current year, or
  - 100% of the tax you owed last year (110% if your AGI was over \$150,000; \$75,000 if married filing separately).

# Estimated Payments

These taxes are commonly paid by:

- **Self-employed individuals** (no employer withholding)
- People with **gig economy** or **freelance** income
- Landlords earning **rental income**
- Investors with **substantial dividends or capital gains**
- Retirees with income from **pensions, IRAs, or Social Security** where withholding is insufficient

If these payments are not made throughout the year there is a possibility of an underpayment penalty.

The due dates for estimated payments are:

- **April 15**
- **June 15**
- **September 15**
- **January 15** of the following year.

# Estimated Payments

Jason is an Uber driver and expects to owe \$4,000 when he files his tax return. Jason should make quarterly estimated payments of \_\_\_\_\_, in order to not owe or be penalized.

- A. 4,000
- B. 1,000
- C. 0
- D. 500

# Estimated Payments

Jason is an Uber driver and expects to owe \$4,000 when he files his tax return. Jason should make quarterly estimated payments of \_\_\_\_\_, in order to not owe or be penalized.

- A. 4,000
- B. 1,000
- C. 0
- D. 500

Explanation: Jason expects to owe 4,000 when filing, as a result he should make a payment of 1,000 each quarter to avoid owing or being penalized for underpayment.



## Extensions

# Extensions

- Taxpayers can get an automatic six-month extension of time to file by submitting Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.
  - This form extends the time to file until October 15.
- This is only an extension to file, not an extension to pay.
  - If taxpayers do not pay their taxes by April 15, they will owe interest and may be charged penalties

**Example:** Taxpayer will not receive all income documents until after April 15th. Taxpayer estimates they will owe \$200 when they do file, as a result they should file Form 4868 and pay the \$200 before April 15th

**Example:** While applying for an ITIN, taxpayers will commonly submit Form 4868 with the application and pay any estimated tax owed with it before April 15th.





## Refund and Amount of Tax Owed

# Refund and Amount of Tax Owed

Taxpayers may be entitled to a refund or owe tax.

- In either case, they have several choices on how to get their refund or pay the amount they owe.
- The taxpayer's total tax and total tax payments already made, which includes refundable credits, appear on the applicable lines of Form 1040.
- If the payments made exceed the amount of tax liability, the amount of the overpayment is shown on the applicable line in the Refund section of the Form 1040.
  - This is the amount the taxpayer has overpaid.
- If the amount of the tax liability exceeds the payments made, the amount owed appear in the Amount You Owe section of the Form 1040.
  - This is the amount the taxpayer must pay to the IRS.

# Refunds

Taxpayers have several choices for how to use their federal refund:

- Apply to Next Year's Taxes
  - Any portion of the refund can be applied to the following tax year.
- Direct Deposit (Required for Refunds)
  - Refunds must be issued by direct deposit; the IRS no longer issues paper checks.
  - Deposits can go into any financial account with a valid Routing Transit Number:
    - Checking account
    - Savings account (including IRAs)
    - Prepaid debit card
  - Refunds can only be deposited into accounts in the taxpayer's own name.
- Split Refunds (Form 8888)
  - Using Form 8888, Allocation of Refund, taxpayers can direct their refund into up to three separate accounts.
- Purchase Series I Savings Bonds
  - Taxpayers may use Form 8888 to purchase U.S. Series I Savings Bonds with part or all of their refund.

# Amounts Owed

- Taxpayers who owe money on their returns are often afraid and do not know what to do next. This is a good opportunity to advise the taxpayers of the various options for payment.
- Explain to taxpayers that the tax return will be filed now and that they should submit their payment of taxes due no later than April 15.
  - To avoid a failure-to-file penalty, taxpayers with an amount owed must file their return by the due date even if they cannot pay the full amount with the return.
- The payment options are:
  - Check or money order submitted with Form 1040-V, Payment Voucher,
  - Electronic funds withdrawal,
  - Credit card (fees may apply),
  - Electronic Federal Tax Payment System (EFTPS) ,
  - IRS Direct Pay,
  - Cash at a retail partner

# Amounts Owed

- If taxpayers state that they cannot pay, first advise them to file the return and pay as much as they can with the return.
  - This will reduce penalty and interest charges.
- Once they receive a notice, they can pay the remaining amount in full or choose another payment option if more time is needed.
- Taxpayers who cannot pay the full amount owed may use one of the following options:
  - Request a short-term payment plan of up to 180 days using the Online Payment Agreement Application (OPA) or calling.
    - No fee is charged, but interest and penalties are charged on payments after the April due date.
  - Monthly installment payments (established online using OPA or file Form 9465, Installment Agreement Request).
    - A fee is charged for this option, in addition to interest and penalties. The fee is less with OPA. Taxpayers may qualify for waiver or reimbursement.
  - Referral to Low-Income Taxpayer Clinics (LITC).

# Refund and Amount of Tax Owed: Examples

Taxpayer files as single, with a W-2 of 12,000 and federal withholding of 120. He does not qualify for any additional credits. After the standard deduction, he does not have a tax liability and as a result will receive all of his withholding as a refund.

Taxpayer files as single and the only income he receives is from working as an Uber driver. He did not make any estimated payments throughout the year. As a result he will have a tax liability and owe.

Taxpayer files as Head of Household and claims two dependents, she has a W-2 of 30,000 and no withholding. After the standard deduction, she has a tax liability of \$810, however the EIC and CTC will reduce this liability to 0 and any additional amounts will be received as a refund.

Taxpayer files as single, with a W-2 for 52,000 and federal withholding of 3,459. After the standard deduction, he has a tax liability of 4,256. After applying the withholding he is left with an amount owed of \$797.



## Superseding Returns

# Superseding Returns

- If a client comes back into the office after their return has been e-filed saying they need to add additional information or change their return, let the site coordinator know.
- Do NOT file an amended return if a client returns with additional income (or for any other reason a client would need an amendment) before April 15th.
  - Paper superseding returns are filed **before** the due date of the return and **after** they receive their refund.
- Enter the additional information into the system as normal, print the return as a paper return, and write “SUPERSEDING RETURN” at the top of the first page of the 1040.

**Example:** Taxpayer files their 2024 tax return on 2-14-2025. In March they come back in because they realized they had an additional W-2 that was not included. The W-2 can be added and the return can be sent as a paper return.

**Example:** Taxpayer filed their return on 2-1-2025. In April they come back to the tax site and say they received a 1099-B for some stock transactions they had forgot about. They had already received their refund, the 1099-B can be included and the return submitted on paper.



# End of Life Events

Take a few moments with your table and discuss any questions you may have regarding this topic.