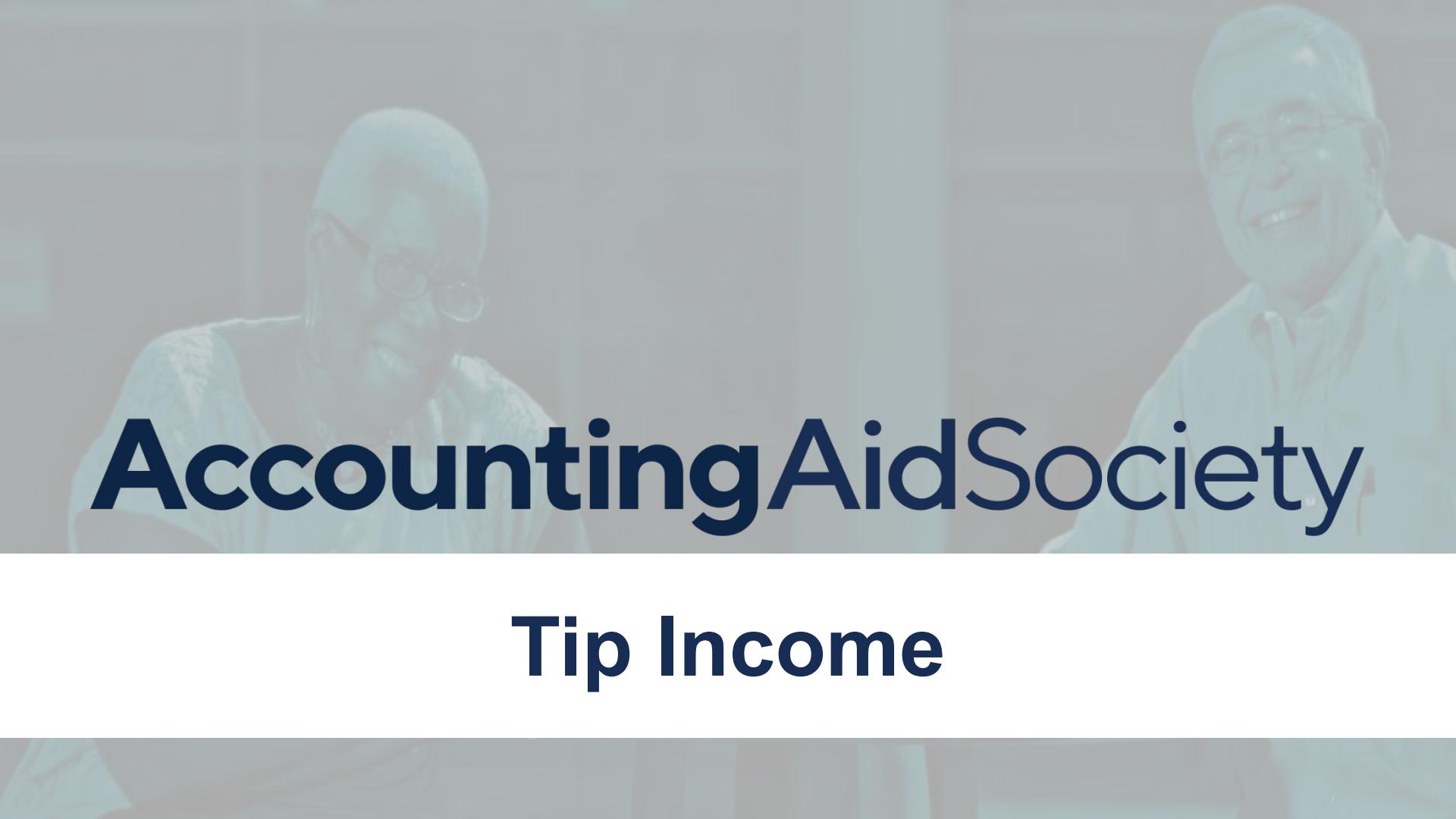


Advanced Income

Advanced Income

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



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Tip Income

What Is Tip Income?

Reporting Tip Income – What Tax Preparers Should Know

-  **Self-employed individuals** (like hairstylists, manicurists, and barbers) must include **all tip income in gross receipts** on **Schedule C**
-  For employees in tip-based jobs (e.g., **waiters, bellhops, housekeepers**), always **ask about tips**—they may not be listed on the W-2
-  **All tip income is taxable**, even if it's **not reported to the employer**
-  If a taxpayer **receives more than \$20 in tips per month** at a single job **and reports them**, the employer must:
 - Include those tips in **Box 1 (Wages)** and **Box 7 (Social Security tips)** of Form W-2



Reference: Pub 4012-A, Tab D.

New Tip Income Deduction (2025-2028)

- Effective: Tax years 2025 through 2028
- New deduction for Qualified Tip Income
- Applies to both employees and self-employed individuals

What Are Qualified Tips?

- Voluntary cash or charged tips
- Received from customers or through tip sharing
- Must be reported on:
 - Form W-2
 - Form 1099
 - Form 4137 (or other IRS-specified statements)



Deduction Limits & Income Cap

- Max deduction: \$25,000/year
- For self-employed: limited to net income from the relevant business
- Phases out if Modified AGI exceeds:
 - \$150,000 (Single/HOH)
 - \$300,000 (Married Filing Jointly)

Who Can Claim the Deduction?

- Workers in IRS-recognized tipped occupations (list to be published by 10/2/25)
- Must include Social Security Number on return
- Married taxpayers must file jointly
- Available to both itemizing and standard deduction filers
- Self-employed individuals in a **Specified Service Trade or Business (SSTB)** under section 199A are not eligible. Employees whose employer is in an SSTB also are not eligible.

Specified Service Trade or Business (SSTB)

An SSTB (Specified Service Trade or Business) is a business that mainly earns income from providing services in certain fields, including:

- Health (like doctors, nurses, or other medical professionals)
- Law (such as lawyers or legal advisors)
- Accounting
- Actuarial science (risk and insurance analysis)
- Performing arts (actors, musicians, etc.)
- Consulting
- Athletics (professional athletes, coaches, etc.)
- Financial services (like financial planners or investment advisors)
- Brokerage services
- Investing or investment management
- Trading or dealing in stocks, partnership shares, or commodities

It also includes any business where the main value comes from the reputation or skill of its owners or employees. This can include making money from:

- Endorsing products or services
- Licensing your name, image, voice, or other personal brand elements
- Getting paid to appear at events, on TV, radio, or other media

Employer & IRS Reporting Requirements

- Employers/payers must file information returns with the IRS (or SSA) and furnished statements showing:
 - Amount of cash tips received
 - Occupation of tip recipient

IRS Guidance and Transition Relief

List of occupations that receive tips

Treasury Tipped Occupation Code, provides a three-digit code and descriptions for the occupations listed within the proposed regulations. The proposed regulations group the occupations into eight categories:

- 100s – Beverage and Food Service
- 200s – Entertainment and Events
- 300s – Hospitality and Guest Services
- 400s – Home Services
- 500s – Personal Services
- 600s – Personal Appearance and Wellness
- 700s – Recreation and Instruction
- 800s – Transportation and Delivery
- Transition relief provided for:
 - Taxpayers claiming the deduction in 2025
 - Employers/payors subject to new reporting requirements

Allocated Tips

Tip Allocation and Reporting Allocated Tips

- To encourage accurate reporting of tip income, some employers use **tip allocation programs**.
- If an employee reports **less tip income** than expected based on the employer's formula, the **difference is recorded as "allocated tips"** on **Form W-2, Box 8**.
- **Allocated tips are not included in Box 1 (Wages)** and are **not subject to Social Security or Medicare tax withholding**.
- If the taxpayer **did not keep written, reliable records** of their actual tips received, they are generally required to **report the full amount of allocated tips as wages on Form 1040**.

 *Tip: Encourage taxpayers who work in tipped positions to keep a daily log of their tips to ensure accurate and fair reporting.*

Allocated Tips Example

Scenario: Allocated Tips on the W-2

Scenario:

Tiffany worked as a server at a restaurant in 2025. She reported tips to her employer each week but did **not keep written records** of her actual tip income.

At year-end, her **Form W-2** shows:

- **Box 1 (Wages):** \$20,000
- **Box 7 (Social Security Tips):** \$2,600
- **Box 8 (Allocated Tips):** \$1,200

? Question:

What must Tiffany do when filing her tax return?

- A. Report only the amounts in Boxes 1 and 7 – Box 8 is informational only
- B. Ignore Box 8 since it's not included in Box 1
- C. Report the \$1,200 from Box 8 as additional wages on Form 1040
- D. Only report Box 8 if she received a separate statement from her employer

Allocated Tips Example

Icon Scenario: Allocated Tips on the W-2

Scenario:

Tiffany worked as a server at a restaurant in 2025. She reported tips to her employer each week but did **not keep written records** of her actual tip income.

At year-end, her **Form W-2** shows:

- **Box 1 (Wages):** \$20,000
- **Box 7 (Social Security Tips):** \$2,600
- **Box 8 (Allocated Tips):** \$1,200

 **Correct Answer: C. Report the \$1,200 from Box 8 as additional wages on Form 1040**

Because she has no written records of her actual tips, she must include the allocated tips as income.

Question:

What must Tiffany do when filing her tax return?

- A. Report only the amounts in Boxes 1 and 7 – Box 8 is informational only
- B. Ignore Box 8 since it's not included in Box 1
- C. Report the \$1,200 from Box 8 as additional wages on Form 1040**
- D. Only report Box 8 if she received a separate statement from her employer

Unreported Tips

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

Unreported Tips Example

Scenario:

Alex works part-time as a **barista** at a café. In 2025, Alex receives tips in several forms:

- Reports **\$50/month in cash tips** to the employer (included on the W-2)
- Receives an additional **\$15/month in unreported cash tips** from late-night shifts
- Receives a **\$100 concert ticket** as a tip from a customer

Alex **did not report** the \$15/month cash tips or the ticket to the employer and **kept no written records**.

Question:

Which of the following statements is correct about how Alex must report tip income?

- A. Only the tips on the W-2 are taxable
- B. Alex must report both the \$15/month in cash tips and the \$100 concert ticket as taxable income
- C. The \$15/month in unreported tips must be reported to the employer
- D. The \$100 concert ticket is not taxable because it's non-cash

Unreported Tips Example

Scenario:

Alex works part-time as a **barista** at a café. In 2025, Alex receives tips in several forms:

- Reports **\$50/month in cash tips** to the employer (included on the W-2)
- Receives an additional **\$15/month in unreported cash tips** from late-night shifts
- Receives a **\$100 concert ticket** as a tip from a customer

Alex **did not report** the \$15/month cash tips or the ticket to the employer and **kept no written records**.

? Question:

Which of the following statements is correct about how Alex must report tip income?

- Only the tips on the W-2 are taxable
- Alex must report both the \$15/month in cash tips and the \$100 concert ticket as taxable income**
- The \$15/month in unreported tips must be reported to the employer
- The \$100 concert ticket is not taxable because it's non-cash

 **Correct Answer: B.**
Alex must report both the \$15/month in cash tips and the \$100 concert ticket as taxable income

Even though the cash tips are under \$20/month and the concert ticket is non-cash, both are still taxable and must be included on the return.

Practice Scenario

Maria is a **waitress at a local diner**. In 2025, she earns **\$12,000 in tips**, which are fully reported on her **W-2**.

- Her **Adjusted Gross Income (AGI)** is **\$40,000**
- She files as **Head of Household**
- Her occupation is on the IRS's list of jobs that **regularly receive tips**
- Her income is **below the phase-out threshold** for the **No Tax on Tips** deduction

?

Question:

Based on this information, how much of Maria's tips can she deduct using the **No Tax on Tips** provision?

- A. \$0
- B. \$6,000
- C. \$12,000
- D. It depends on her filing status

Practice Scenario

?

Question:

Based on this information, how much of Maria's tips can she deduct using the **No Tax on Tips** provision?

- A. \$0
- B. \$6,000
- C. \$12,000**
- D. It depends on her filing status

Correct Answer:  **C. \$12,000**

Explanation:

Maria is eligible to deduct the **full \$12,000** in tips because:

- Her **occupation qualifies** under the IRS-approved list
- Her **AGI (\$40,000) is below the phase-out threshold**
- She **properly reported all tip income** on her W-2

Practice Scenario

Leo is a **self-employed attorney**. In 2025, he earns **\$10,000 in tips** from **speaking engagements and client consultations**.

- Leo **properly reports all tips** on his Schedule C
- However, as an attorney, he is engaged in a **Specified Service Trade or Business (SSTB)**
- He wants to know if he can deduct these tips under the **No Tax on Tips** provision

?

Question:

Can Leo claim a deduction for his \$10,000 in tip income under the **No Tax on Tips** law?

- A. Yes, because all self-employed people qualify
- B. Yes, as long as the tips were reported on Schedule C
- C. No, because SSTB professions are not eligible
- D. No, because the deduction only applies to employees

Practice Scenario

?

Question:

Can Leo claim a deduction for his \$10,000 in tip income under the **No Tax on Tips** law?

- A. Yes, because all self-employed people qualify
- B. Yes, as long as the tips were reported on Schedule C
- C. No, because SSTB professions are not eligible**
- D. No, because the deduction only applies to employees

Correct Answer: **C. No, because SSTB professions are not eligible**

Explanation:

Although Leo properly reported his \$10,000 in tips, he is **not eligible** for the **No Tax on Tips deduction** because:

- **Attorneys** are classified under the IRS as a **Specified Service Trade or Business (SSTB)**
- The new law **excludes SSTBs** from claiming this deduction, regardless of tip amount or reporting status
- This applies even if the taxpayer is **self-employed** and otherwise meets the income threshold

Additional Resources

- IRS Publication 4012-A (Tab D)
- Publication 525 (Taxable & Nontaxable Income)
- Form 4137 Instructions
- IRS Tip Reporting Guide for Employers

End of Tip Income

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



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Self Employment/Business Income

- Included in your folder: Schedule C - Worksheet & Business Expense Detail

Business Income

- A taxpayer or spouse may have business income from being self-employed or working as an independent contractor.
 - Taxpayers are self-employed if they carry on an unincorporated trade or business as a sole proprietor or independent contractor.
 - Being self-employed doesn't require full-time business activity; part-time businesses may also count.
 - These taxpayers may not have income statements for their business income and expenses.
 - The information to prepare their tax return comes from their own records.
 - A business activity qualifies if the primary goal is profit and the taxpayer is involved *regularly and consistently*.

Example: A taxpayer who drives for Uber on the weekends is considered self-employed and has business income.

Example: A taxpayer owns and operates a landscaping business, their only documents are the records they keep.

Business Income

Cash Income

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

Form 1099-NEC, Nonemployee Compensation

- Taxpayers who are independent contractors should receive Form 1099-NEC. The amount from Form(s) 1099-NEC, along with any other business income payments, are reported on their tax return.
- Individuals who receive **less than \$600** may not receive Form 1099-NEC, but still must report all their income.

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

- Form 1099-K is used by third-party networks (such as Visa, Mastercard, or others) to report transactions processed for taxpayers, including those who use their automobiles for hire or ride share services such as Uber, Lyft, Sidecar, etc.
- Taxpayers may not receive the Form 1099-K if the amount is less than \$2,500, but the amount received must still be reported.

W-2 with Box 13 Statutory Employee Checked

- A W-2 with statutory employee checked in box 13 is considered self-employed.

Example: Uber/Lyft/Doordash drivers are considered independent contractors and should receive a 1099-NEC and possibly a 1099-K.

Self-Employment Income (Form 1099-NEC)

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

Form 1099-NEC (keep for your records) www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

Self-Employment Income (Form 1099-K)

<input type="checkbox"/> CORRECTED (if checked)			
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. Delicious Deliveries 123 LILAC AVENUE YOUR CITY, YOUR STATE, ZIP		FILER'S TIN 63-400XXXX PAYEE'S TIN 605-00-XXXX	OMB No. 1545-2205
		1a Gross amount of payment card/third party network transactions \$ 7,492.00	Form 1099-K
Check to indicate if FILER is a (an): Payment settlement entity (PSE) <input type="checkbox"/> Electronic Payment Facilitator (EPF)/Other third party <input checked="" type="checkbox"/>	Check to indicate transactions reported are: Payment card <input type="checkbox"/> Third party network <input checked="" type="checkbox"/>	1b Card Not Present transactions \$	2 Merchant category code
		3 Number of payment transactions 325	4 Federal income tax withheld \$
PAYEE'S name JOANNE OAK Street address (including apt. no.) 159 ARCHER AVENUE City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP		5a January \$ 785.00	5b February \$ 800.00
		5c March \$ 700.00	5d April \$ 600.00
		5e May \$ 550.00	5f June \$ 400.00
		5g July \$ 500.00	5h August \$ 378.00
		5i September \$ 700.00	5j October \$ 800.00
		5k November \$ 600.00	5l December \$ 679.00
PSE's name and telephone number		6 State \$	7 State identification no. \$
Account number (see instructions)			8 State income tax withheld \$
Payment Card and Third Party Network Transactions			
Copy B For Payee			
This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.			
Form 1099-K (Keep for your records) www.irs.gov/Form1099K Department of the Treasury - Internal Revenue Service			

Practice Scenario

John drives for Uber and receives a 1099-NEC and a 1099-K at the end of the year. What should be included on John's tax return when filing?

- A. The 1099-NEC
- B. The 1099-K
- C. Both the 1099-NEC *and* the 1099-K
- D. Neither form is necessary to include

Practice Scenario

John drives for Uber and receives a 1099-NEC and a 1099-K at the end of the year. What should be included on John's tax return when filing?



- A. The 1099-NEC
- B. The 1099-K
- C. Both the 1099-NEC and the 1099-K**
- D. Neither form is necessary to include

Explanation:

Both the 1099-NEC *and* the 1099-K is necessary to include onto the tax return, as both forms include amounts from gross receipts during the year.

Schedule C

- Form 1040, Schedule C, is used to report income from a business operated or a profession practiced as a sole proprietor.
- Schedule C shows the income and expenses and the net income amount is carried to Form 1040.
- ***More than one Schedule C should be prepared if:*** the taxpayers have more than one business or to report each spouse's share of the business if it is jointly operated and filing a joint return.

Example: A Taxpayer drives for Uber and Doordash, which fall under different business categories. The taxpayer should file a separate schedule C for each business activity.

Schedule C

The business code required on Schedule C varies depending on the type of business.

Common codes seen at VITA sites include:

- 485300 - Taxi, limousine, & ridesharing service
 - Used for Uber, Lyft, etc. where the service provided is to transport passengers.
- 492000 Couriers & messengers
 - Used for Doordash, UberEats, Spark, etc. where the service provided is to deliver items.
- 561720 Janitorial services
- 561730 Landscaping services

An extensive list can be found at <https://www.irs.gov/pub/irs-pdf/f1040sc.pdf>

Practice Scenario

What schedule is self employment income reported on in a tax return?

- A. Schedule A
- B. Schedule D
- C. Schedule C
- D. Schedule E

Practice Scenario

What schedule is self employment income reported on in a tax return?



- A. Schedule A
- B. Schedule D
- C. Schedule C
- D. Schedule E

Explanation:

Self employment is reported on Schedule C in a tax return.

Practice Scenario

John drives for Doordash and Uber, he receives a 1099-NEC from both companies. How should he report his income?

- A. John should report the total income on a single Schedule C
- B. John should report each income on a separate schedule C
- C. John Should not report any of the income
- D. None of the above

Practice Scenario

John drives for Doordash and Uber, he receives a 1099-NEC from both companies. How should he report his income?



- A. John should report the total income on a single Schedule C
- B. John should report each income on a separate schedule C**
- C. John Should not report any of the income
- D. None of the above

Explanation:

Doordash and Uber both fall under different business categories; Doordash is a courier service, and Uber is a taxi service, as such both should be reported on a separate respective Schedule C.

Schedule C: Expenses

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

Example: Taxpayer is an Uber driver and pays for car detailing, this is considered an ordinary and necessary expense for their business.

Example: Taxpayer has a lawncare business and pays for their lunch everyday, this is not considered an ordinary and necessary expense.

Example: Taxpayer received a speeding ticket while driving for Uber, the cost of the speeding ticket is NOT an allowable expense.

- Reference PUB-4012, Page D-28

Practice Scenario

David drives for Uber, when filing his tax return he brings a list of expenses that include:

- Mileage - 13,520
- Cleaning Supplies - \$50
- Detroit Tigers Tickets - \$80

Which of these would not be considered an ordinary and necessary expense?

- A. Mileage
- B. Cleaning Supplies
- C. Detroit Tigers Tickets
- D. All of the above are ordinary and necessary expenses

Practice Scenario

David drives for Uber, when filing his tax return he brings a list of expenses that include:

- Mileage - 13,520
- Cleaning Supplies - \$50
- Detroit Tigers Tickets - \$80

Which of these would not be considered an ordinary and necessary expense?



- A. Mileage
- B. Cleaning Supplies
- C. Detroit Tigers Tickets**
- D. All of the above are ordinary and necessary expenses

Explanation:

C. Detroit Tigers Tickets - Both mileage and cleaning supplies could be considered as ordinary and necessary expenses for an uber driver. Detroit Tigers Tickets would not because they do not have a business purpose related to driving an Uber.

Schedule C: Scope of Service

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

- Have less than \$50,000 in business expenses
- Use the Cash Method of accounting
- Have **no** inventory at any time during the year
- Did not have a net loss from the business
- Have **no** employees during the year and did not pay contract labor for services
- Are not required to file Form 4562, Depreciation and Amortization, for this business (**depreciation and the election to expense business assets are out of scope**)
- Do **not** deduct expenses for business use of a home (Out of scope)

- *Refer to PUB-4012, Page D-29 and the Schedule-C worksheet*

1099-NEC & Schedule C Worksheet

- All returns that contain self-employment require the schedule C worksheet to be completed during the intake process.
- The worksheet includes a step-by-step of all questions that should be answered in order to capture all necessary information.
- The back of the worksheet also includes a list of Out-of-Scope items that a taxpayer may have.
 - If a taxpayer answers yes to any of the Out-of-Scope items, we will not be able to prepare their return.

Example: While filling out the self-employment worksheet the taxpayer indicates they used their home as an office, this return is out of scope for the VITA program.

1099-NEC & Schedule C Worksheet

1. Does the client have a 1099-NEC?	<input type="checkbox"/> Yes <input type="checkbox"/> No
2. Did the client work for someone or do they own their own business?	<input type="checkbox"/> Worked for someone / Independent Contractor <input type="checkbox"/> Owned their own business
3. If they owned their own business, do they have an IRS EIN number?	<input type="checkbox"/> No <input type="checkbox"/> Yes; Enter Business Info Below: EIN Number: _____ Company Name: _____ Company Address: _____
4. What is the principal business or professional activity code? (See list on Resources Page)	Business Code: _____ <small>*Food Delivery (such as DoorDash, Uber Eats, etc.) is 492000 "Couriers and Messengers"</small>
5. Did client have cash income / tips?	<input type="checkbox"/> No <input type="checkbox"/> Yes; Total Amount: _____
6. Did client have expenses?	<input type="checkbox"/> No <input type="checkbox"/> Yes (List Below) Expenses: _____ _____ _____ _____ _____
7. Did client have vehicle expenses?	<input type="checkbox"/> No <input type="checkbox"/> Yes; Enter Info Below: Description of Vehicle: _____ Date vehicle was placed into service for this business: _____ Business Miles: _____ <input type="checkbox"/> Check if client has another vehicle available for personal use. <input type="checkbox"/> Check if the client's vehicle was available for personal use during off duty hours. <input type="checkbox"/> Check if client has evidence to support mileage deduction. <input type="checkbox"/> Check if evidence is written.
8. Did client pay medical insurance premiums for themselves or their spouse?	<input type="checkbox"/> No <input type="checkbox"/> Yes; Total Amount: _____
9. Check the out of scope list to make sure income and expenses were in scope!	

Out of Scope for 1099-K and Schedule C

1099-K

· Any adjustments to amount reported on Form 1099-K

Schedule C:

- Hobby income or not for profit activity
- Professional gamblers
- Bartering
- Any transaction involving virtual currency (bitcoins)
- Method of accounting other than cash
- Taxpayers who do not materially participate in the business
- Payments made that require Form 1099 to be filed
- Return and allowances
- Cost of goods sold (inventory)
- Total expenses over \$50,000
- Vehicle expenses reported as actual expenses (gas, oil, repairs, tires, insurance, registration fees, licenses, and depreciation)
- Contract labor
- Depletion
- Depreciation or when Form 4562 is required
- Expenses for employees
- Car rental or lease more than 30 days
- Casualty losses, amortization
- Business use of home
- Net losses

Practice Problem

Jose does freelance consulting and uses his home as an office for conducting his business. Can Jose come to a VITA site to have his tax return prepared?

- A. Yes
- B. No

Practice Problem

Jose does freelance consulting and uses his home as an office for conducting his business. Can Jose come to a VITA site to have his tax return prepared?



- A. Yes
- B. No

Explanation:

Jose has a business use of Home deduction that should be included in the return, this makes the return Out Of Scope for the VITA program.

Schedule C: In-Scope Expenses

Commonly Seen Expenses:

- Car and Truck Expenses
- Advertising
- Office Expense
- Supplies
- Repair and Maintenance
- Taxes and Licenses
- Commissions and Fees
- Insurance
- Other Expenses

In-Scope but uncommon Expenses:

- Business Meals
- Travel Expenses
- Utilities
- Rent or Lease Expenses
- Other Interest
- Legal & Professional Services

Example: Taxpayer operates a landscaping business and has expenses for business cards, a rake, a lawnmower, and his mileage between clients.

Example: Taxpayer drives for uber and has expenses for their mileage, car detailing, and snacks for passengers.

- *Refer to the Self-Employment Expenses on the Resource Page for more detail on each expense.*

Schedule C: Car and Truck Expenses

Vehicle expenses can be calculated using *actual expenses* or *the standard mileage rate*.

- **Actual vehicle expenses** include: gas, oil, repairs, tires, insurance, registration fees, licenses, and depreciation (or lease payments) attributable to the portion of the total miles driven that are business miles.
 - Taxpayers who wish to use Actual vehicle Expenses are **Out-of-Scope**.
- The **Standard Mileage Deduction** is a simplified method the IRS allows taxpayers to use to deduct vehicle expenses
 - Instead of tracking and deducting **actual vehicle expenses**, you can simply **multiply the number of qualified miles driven** by a set **IRS mileage rate**. (70 cents per mile for 2025)
 - Self-employed taxpayers can also deduct the business part of interest on a car loan, state and local personal property tax on the car, parking fees, and tolls, whether or not they claim the standard mileage rate.
 - For-hire drivers may have other deductible car expenses such as cellular service, fees, and ride-sharing insurance in addition to using the standard mileage rate.
- Refer to PUB-4012, Page D-30-31

Schedule C: Common Expenses

- Advertising
 - Advertising expenses are the costs associated with promoting the business through various means including internet ads, newspapers, magazines, billboards, racing sponsors, and television spots.
- Office Expense
 - Office expense generally includes supplies such as pens, paper, and postage.
- Supplies
 - Supplies expense includes costs for general operating supplies not associated with the cost of goods sold.
- Repairs and Maintenance
 - Repairs on equipment, office space, and buildings are some possible expenditures reflected in this category.
- Taxes and Licenses
 - Taxpayers can deduct taxes and license fees paid in the operation of their business.

Schedule C: Common Expenses

- Commissions and Fees
 - Commissions or fees are paid to both individuals and businesses.
 - Commonly seen for Uber/Lyft Drivers
 - If payments to a single individual are \$600 or more, the taxpayer must report the payments on Form 1099-MISC or Form 1099-NEC.
 - In this case, the taxpayer's return is **out of scope** for the VITA/TCE programs.
- Insurance
 - Insurance policies and coverage are deductible for the business operation. This includes property and business liability insurance.
 - If the standard mileage rate is used, **no deduction** is allowed for regular automobile insurance premiums.
 - A for-hire driver's cost of extra liability coverage can be added to the standard mileage rate if separate from the main policy.

Schedule C: Common Expenses

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

Practice Scenario - 1

Richard is 32 and comes to the VITA site to file his tax return. During the intake he mentions that all of his income comes from his landscaping business that he started last year. Richard kept records throughout the year detailing the income he received from his clients and the expenses he incurred, as follows:

Gross Receipts: \$22,500

Lawnmower: \$600

Leaf Blower: \$120

Hedge Trimmer: \$120

Rake: \$20

Shovel: \$20

Compost Bags: \$75

Work Gloves: \$40

Posters/Business Cards: \$60

Lunches: \$150

Work clothes available for everyday use: \$95

Parking Ticket: \$120

Mileage: 12,500 Business Miles

3,500 Commuter Miles

5,600 Personal Miles

Practice Scenario

Richard should report his income and expenses on Schedule C.

- A. True
- B. False

Practice Scenario

Richard should report his income and expenses on Schedule C.



- A. True
- B. False

Explanation:

Richard does not receive any forms but the income he generated and expenses incurred are considered self employment and should be reported on schedule C.

Practice Scenario

Which of the following expenses are allowed to be used on schedule C?

- A. Lunches: \$150
- B. Work Gloves: \$40
- C. Work clothes available for everyday use: \$95
- D. Parking Ticket: \$120
- E. All of the above
- F. None of the above

Practice Scenario

Which of the following expenses are allowed to be used on schedule C?



- A. Lunches: \$150
- B. Work Gloves: \$40**
- C. Work clothes available for everyday use: \$95
- D. Parking Ticket: \$120
- E. All of the above
- F. None of the above

Answer:

The work gloves are specifically for working in his landscaping business, and would be considered an ordinary and necessary expense. However, Lunches, clothes available for everyday use and a Parking Ticket would not fall under this requirement because they are not *ordinary and necessary* to the business.

Practice Scenario

What is Richard's total ***deductible*** mileage?

- A. 16,000
- B. 3,500
- C. 12,500
- D. 21,600

Mileage: 12,500 Business Miles
3,500 Commuter Miles
5,600 Personal Miles

Practice Scenario

What is Richard's total ***deductible*** mileage?



- A. 16,000
- B. 3,500
- C. 12,500**
- D. 21,600

Mileage: 12,500 Business Miles
3,500 Commuter Miles
5,600 Personal Miles

Explanation:

Only the business miles would be deductible. The 3,500 commuter miles and 5,600 personal miles would *not* be included.

Practice Scenario

What is Richard's Total Expenses?

(The standard mileage rate for 2025 is \$0.70)

- A. \$16,175
- B. \$9,805
- C. \$9,900
- D. \$12,255

Lawnmower: \$600	Lunches: \$150
Leaf Blower: \$120	Work clothes available for everyday use: \$95
Hedge Trimmer: \$120	Parking Ticket: \$120
Rake: \$20	Mileage: 12,500 Business Miles
Shovel: \$20	3,500 Commuter Miles
Compost Bags: \$75	5,600 Personal Miles
Work Gloves: \$40	
Posters/Business Cards: \$60	

Practice Scenario

What is Richard's Total Expenses?

(The standard mileage rate for 2025 is \$0.70)



- A. \$16,175
- B. \$9,805**
- C. \$9,900
- D. \$12,255

Lawnmower: \$600	Lunches: \$150
Leaf Blower: \$120	Work clothes available for everyday use: \$95
Hedge Trimmer: \$120	Parking Ticket: \$120
Rake: \$20	Mileage: 12,500 Business Miles
Shovel: \$20	3,500 Commuter Miles
Compost Bags: \$75	5,600 Personal Miles
Work Gloves: \$40	
Posters/Business Cards: \$60	

Explanation:

Richards total expenses would be calculated as: $600 + 120 + 120 + 20 + 20 + 75 + 40 + 60 + 8,750 (12,500 * 0.70) = 9,805$

Practice Scenario

Richard's Net Income for the year is \$12,695.

Gross Receipts: \$22,500

- A. True
- B. False

Lawnmower: \$600	Lunches: \$150
Leaf Blower: \$120	Work clothes available for everyday use: \$95
Hedge Trimmer: \$120	Parking Ticket: \$120
Rake: \$20	Mileage: 12,500 Business Miles
Shovel: \$20	3,500 Commuter Miles
Compost Bags: \$75	5,600 Personal Miles
Work Gloves: \$40	
Posters/Business Cards: \$60	

Practice Scenario

Richard's Net Income for the year is \$12,695.

Gross Receipts: \$22,500



- A. True
- B. False

Lawnmower: \$600	Lunches: \$150
Leaf Blower: \$120	Work clothes available for everyday use: \$95
Hedge Trimmer: \$120	Parking Ticket: \$120
Rake: \$20	Mileage: 12,500 Business Miles
Shovel: \$20	3,500 Commuter Miles
Compost Bags: \$75	5,600 Personal Miles
Work Gloves: \$40	
Posters/Business Cards: \$60	

Explanation:

Richard's Net Income for the year would be his Gross Receipts less his Total Expenses. ($22,500 - 9,805 = 12,695$). This would be the income he pays taxes on.

Gig Economy: Rideshare

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

Most of them are connected with companies like Uber or Lyft

The drivers are considered independent contractors

They will receive:

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

Form 1099-K if gross payments exceed \$5,000 (Reports gross ride earnings)

Most companies issue them to all drivers (easier bookkeeping)

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

Cash tips (not reported by any payment service)

Rideshare: Mileage

Tax returns with Ridesharing require close attention to mileage and expenses

- Business Miles:
 - 70¢ per qualified mile for 2025.
 - *Do not include personal miles!*
 - Include only these categories:
 - Cruising miles (for example, driving to the stadium to await the exiting crowd)
 - Miles between rides
 - Passenger miles
- If taxpayer uses their home as their business office, the miles from home to first passenger pick up and the miles from last passenger drop off to home may be deducted.
 - Business use of home is **out of scope**.
- Miles are tracked differently by different companies (Uber vs Lyft, etc.)
- Rentals or leases of equipment (including vehicles) for more than 30 days are **Out of Scope**. If the taxpayer uses the standard mileage rate method for business miles of a leased vehicle, the return remains in scope.

Rideshare: Mileage Tracking

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

ENCOURAGE DRIVERS TO KEEP LOGS OF THEIR MILEAGE!

Sample Rideshare Document

2020 summary		lyft
Here's a summary of your earnings and rides for 2020. Thanks for driving with Lyft!		
If you received over \$20,000 in gross ride earnings you will also receive a 1099-K by January, 31st 2021 If you received over \$600 in non-ride related earnings you will also receive a 1099-NEC by January 31st, NaN		
Your driving totals		
	249	2983.37
	Rides	Online miles
Gross earnings		
Ride payments		\$3,391.26
Non-ride earnings		\$64.73
Expenses		
Lyft platform fees		\$948.09
Service fees		\$702.70
Third-party fees		\$20.00
Express Pay fees		\$2.00
Express Drive rental fees		\$1,425.50

Rideshare: Expenses

Allowed in the VITA/TCE world

Fees and commissions already deducted by the company

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

Parking and tolls

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

Snacks, beverages, and other amenities for passengers

Signage (for example, magnetic stickers)

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

Practice Scenario - 2

Josh is 26 and comes to the VITA site to file his tax return. During the intake he mentions that last year he worked for Meijer part-time and drove for Uber when he wasn't working. Josh received a W-2 from Meijer; he also received a 1099-NEC from Uber. Josh kept a record of expenses he incurred throughout the year, as follows:

W-2: \$26,750

1099-NEC: \$7,800

Mileage: 7,600 Business Miles

2,500 Commuter Miles

10,600 Personal Miles

Gas: \$2,200

Oil Change: \$60

Car Repair: \$120

Sanitation Supplies: \$60

Fees from Uber: \$375

Mileage Tracking App: \$30

Tolls: \$35

Speeding Ticket: \$120

Parking Ticket: \$80

Shoes for Meijer Job: \$60

Snacks for passengers: \$75

Practice Scenario

How much self employment income should Josh include on Schedule C?

- A. \$26,750
- B. \$7,800
- C. \$34,550
- D. Josh does not have self employment income

Practice Scenario

How much self employment income should Josh include on Schedule C?



- A. \$26,750
- B. \$7,800**
- C. \$34,550
- D. Josh does not have self employment income

Explanation:

The only income that should be included on schedule C is the income from the 1099-NEC he received.

Practice Scenario

How many miles can Josh include on his Schedule C?

- A. 13,100
- B. 9,100
- C. 20,700
- D. 7,600

Mileage: 7,600 Business Miles
2,500 Commuter Miles
10,600 Personal Miles

Gas: \$2,200
Oil Change: \$60
Car Repair: \$120

Practice Scenario

How many miles can Josh include on his Schedule C?

- A. 13,100
- B. 9,100
- C. 20,700
- D. 7,600**



Mileage: 7,600 Business Miles
2,500 Commuter Miles
10,600 Personal Miles

Gas: \$2,200
Oil Change: \$60
Car Repair: \$120

Explanation:

The only miles Josh can claim for the standard mileage deduction are the Business Miles.

Practice Scenario

Should Josh use Actual Vehicle Expenses or The Standard Mileage Deduction?

(The standard mileage rate for 2025 is \$0.70)

- A. The Standard Mileage Deduction
- B. Actual Vehicle Expenses
- C. Both
- D. Neither

Mileage: 7,600 Business Miles
2,500 Commuter Miles
10,600 Personal Miles

Gas: \$2,200
Oil Change: \$60
Car Repair: \$120

Practice Scenario

Should Josh use Actual Vehicle Expenses or The Standard Mileage Deduction?
(The standard mileage rate for 2025 is \$0.70)



- A. The Standard Mileage Deduction
- B. Actual Vehicle Expenses
- C. Both
- D. Neither

Explanation:

Josh can claim either the actual vehicle expenses or the standard mileage. In this instance the standard mileage deduction is more beneficial (\$5,320 vs. \$2,380). If Josh wanted to claim actual vehicle expenses, his return would be **Out-of-Scope** for VITA.

Mileage: 7,600 Business Miles
2,500 Commuter Miles
10,600 Personal Miles

Gas: \$2,200
Oil Change: \$60
Car Repair: \$120

Practice Scenario

Which of these expenses can Josh not include on his Schedule C?

- A. Speeding Ticket
- B. Parking Ticket
- C. Shoes for Meijer Job
- D. All of the above

Sanitation Supplies: \$60
Fees from Uber: \$375
Mileage Tracking App: \$30
Tolls: \$35
Speeding Ticket: \$120
Parking Ticket: \$80
Shoes for Meijer Job: \$60
Snacks for passengers: \$75

Practice Scenario

Which of these expenses can Josh not include on his Schedule C?

- A. Speeding Ticket
- B. Parking Ticket
- C. Shoes for Meijer Job
- D. All of the above



Explanation:

The speeding ticket, parking ticket, and shoes for his other job are not ordinary and necessary expenses for his job driving an Uber, and cannot be included.

Sanitation Supplies: \$60
Fees from Uber: \$375
Mileage Tracking App: \$30
Tolls: \$35
Speeding Ticket: \$120
Parking Ticket: \$80
Shoes for Meijer Job: \$60
Snacks for passengers: \$75

Practice Scenario

What is Josh's Total Other Expenses?

- A. \$835
- B. \$775
- C. \$575
- D. \$0

Sanitation Supplies: \$60
Fees from Uber: \$375
Mileage Tracking App: \$30
Tolls: \$35
Speeding Ticket: \$120
Parking Ticket: \$80
Shoes for Meijer Job: \$60
Snacks for passengers: \$75

Practice Scenario

What is Josh's Total Other Expenses?



- A. \$835
- B. \$775
- C. \$575
- D. \$0

Explanation:

Josh can include all of the expenses except the speeding ticket, parking ticket, and shoes for his other job. As such his total other expenses would be \$575 ($60+375+30+35+75$).

Sanitation Supplies: \$60
Fees from Uber: \$375
Mileage Tracking App: \$30
Tolls: \$35
Speeding Ticket: \$120
Parking Ticket: \$80
Shoes for Meijer Job: \$60
Snacks for passengers: \$75

Practice Scenario

Josh has W-2 wages of \$26,750, 1099-NEC income of \$7,800, Mileage expense of \$5,320, and Other expenses of \$575. What is Josh's Total Income?

- A. \$26,750
- B. \$28,655
- C. \$34,550
- D. \$13,055

Practice Scenario

Josh has W-2 wages of \$26,750, 1099-NEC income of \$7,800, Mileage expense of \$5,320, and Other expenses of \$575. What is Josh's Total Income?



- A. \$26,750
- B. \$28,655**
- C. \$34,550
- D. \$13,055

Explanation:

Josh's total income would include the W-2 wages and his net income. $(26,750 + (7,800 - 5,320 - 575))$

Self-Employment (SE) Taxes

Self Employment Taxes are primarily imposed on individuals who work for themselves, since these taxes are not automatically withheld from their income like on a W-2.

- Self-employment (SE) tax covers:
 - **Social Security tax** (12.4%)
 - **Medicare tax** (2.9%)
 - For a total of **15.3%** of your **net self-employment income**.
- SE Tax is imposed on top of the income tax an individual will pay.
- Taxpayers should be encouraged to make quarterly estimated tax payments to avoid a large amount owed, as well as penalties, at the end of the year.
- The software automatically transfers the appropriate information from Schedule C to Schedule SE and calculates the self-employment tax and the adjustment for the deductible part of the self employment tax.

Example: Taxpayer has \$10,000 of net self employment income, the self employment tax imposed would be \$1,530.

Deductible Part of Self-Employment Tax

- Self employed taxpayers pay 15.3% on their net self employment income.
 - Of this amount $\frac{1}{2}$ can be deducted as an adjustment to income.
- The Self employment tax and deductible portion of the self-employment tax is automatically calculated on Schedule SE and carried to Form 1040 by the software.

Example: Sarah has net self employment income of \$10,000. The self employment tax imposed would be \$1,530. The deductible portion of this tax would be \$765, and taken as an adjustment to total income.



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Qualified Business Income Deduction

Qualified Business Income Deduction (QBI)

The **Qualified Business Income (QBI) deduction**, also known as the **Section 199A deduction**, allows a taxpayer to deduct up to **20% of their qualified business income** on their **individual tax return (Form 1040)** — not directly on the Schedule C.

The QBI deduction **is in scope for VITA** if:

- The taxpayer has **Schedule C income**
- Their **taxable income is below the threshold**
- No special situations (like multiple businesses, loss carryovers, or complex phaseouts)

The QBI deduction is Automatically calculated and carried to the Form 1040 by the TaxSlayer software.

What Is Qualified Business Income?

Qualified Business Income (QBI) is generally the **net profit** from your business, as shown on **Schedule C, Line 31**, with a few adjustments.

It includes:

- Income from **sole proprietorships**
- Income from **pass-through entities** (partnerships, S corps — reported separately)
- Certain **REIT dividends** and **publicly traded partnership (PTP) income**

It does **not** include:

- Wages or guaranteed payments to partners (W-2, K-1)
- Capital gains/losses
- Dividend or interest income
- Business income earned outside the U.S.

Who Qualifies for the QBI deduction?

Taxpayers may qualify for the QBI deduction if:

- They have **self-employment or pass-through business income**
- Their **taxable income** is below certain thresholds:
 - **2025 limits** (filing jointly): \$394,600
 - **2025 limits** (single): \$197,300

If you're under these limits, you typically get the full 20% QBI deduction.

If you're **over the threshold**, the deduction may be **limited or phased out**.

Who Does Not Qualify?

- Employees (W-2 income is not eligible)
- C Corporations
- Taxpayers whose business is a **SSTB** and whose income is **above the upper limit**
- Anyone with **no business income** (e.g., retirees with only pension or Social Security)

How is QBI calculated?

QBI is calculated automatically in the TaxSlayer software in the following way:

1. Start with your **net profit** from Schedule C (Line 31).
2. Apply any required adjustments (½ of SE Tax, self-employed health insurance, SEP contributions).
3. Multiply by **20%** to get your QBI deduction.
4. The QBI deduction is claimed on **Form 1040, Line 13**, via **Form 8995 or 8995-A**.

Important to note:

- If an individual has more than one trade or business, the QBI is calculated for each trade or business and then the amounts are netted.
- If total QBI is negative, then the QBI deduction is zero -- and the return is most likely Out of Scope due to a total Schedule C loss

Example: QBI Calculation

1. Start with Net Business Income
2. Subtract Adjustments (if any)
 - a. These reduce your QBI and include:
 - i. 1/2 of self-employment (SE) tax
 - ii. Self-employed health insurance deduction
 - iii. Retirement contributions (like a SEP-IRA)
3. Multiply Adjusted QBI by 20%
4. Compare to the 20% of Taxable Income Limit
 - a. Taxable income (after standard or itemized deduction) before the QBI deduction
 - b. Multiply that amount by 20%
5. Final QBI deduction will be the lesser of:
 - a. 20% of adjusted qualified business income, or
 - b. 20% of taxable income (before QBI deduction)

1. Schedule-C Net income: 20,000
2. Adjustments:
 - a. $\frac{1}{2}$ of SE Tax: 1,530
- Adjusted QBI:
 $20,000 - 1,530 = 18,470$
3. Tentative QBI Deduction:
 - a. $18,470 \times 20\% = 3,694$
4. Compare to Taxable Income Limit:
 - a. $18,470 - 14,600 = 3,870$
 - b. $3,870 \times 20\% = 774$
5. Final QBI Deduction: 774

✓ Since the deduction from the Taxable Income (before QBI) is less than the deduction from the Adjusted QBI, the final QBI deduction would be 774

Future Tax Law Changes: QBI

After passage of the One Big Beautiful Bill Act (OBBBA) in 2025, certain changes were made regarding the QBI deduction taking effect in Tax Year 2026 including:

- The QBI deduction is now a permanent part of the Tax code
- The Phase-in range where limitations would apply has been increased
 - **For Single filers:** \$50,000 → **\$75,000**
 - **For Married filing jointly:** \$100,000 → **\$150,000**
- A minimum QBI Deduction has been added
 - Taxpayers materially participating in a qualified trade or business with at least **\$1,000 of active QBI** are guaranteed a minimum QBI deduction of **\$400**, indexed for inflation.



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Digital Assets

Digital Assets

If a taxpayer uses Bitcoin or other Digital Assets, here's what matters for tax help:

- If a taxpayer **buys digital assets (like Bitcoin) using regular money (cash, bank transfer, etc.)** and **does not trade or sell them**, this is **In Scope** for tax preparation
- If they **buy digital assets using other digital money**, that is **Out of Scope**
- If they **sell any digital assets for cash or anything else**, that is **Out of Scope**.

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

Example: John wants to purchase \$100 of dogecoin, but his broker does not allow cash purchases of dogecoin. So he pays \$100, the broker purchases bitcoin and uses the bitcoin to purchase dogecoin. John believes he purchased dogecoin but gets a brokerage statement showing his sale of bitcoin.

Digital Assets

Example:

Ashley bought \$300 worth of Bitcoin using her debit card (real currency) through a cryptocurrency exchange. She did **not** trade or sell the Bitcoin. She simply bought it and held onto it.

On her tax return, she can **check “No”** to the digital asset question because she **did not receive, sell, exchange, or dispose of any digital assets**—she only purchased with real currency.

Result:

This is **In Scope** for tax preparation:

- She used **real currency** to purchase digital assets (Bitcoin).
- She didn't sell or trade them.
- She can check “No” to the digital asset question on Form 1040.

Digital Assets

Now, let's contrast with an OOS example:

- ◆ **OOS example:**

Sara bought 1 Bitcoin in 2022 using real U.S. dollars.

In 2025, she **sold half of that Bitcoin** for \$20,000 to lock in some profit.

Result: Out of Scope

- This is a **sale** of a digital asset.
- **Any sale or exchange** of digital assets is **Out of Scope** for tax prep assistance.
- Even though she originally bought it with real currency, the moment she sold any portion of it, it's OOS.

Practice Scenario

Jason did the following in 2025:

1. Bought \$800 worth of cryptocurrency using his debit card.
2. Later in the year, he used some of that cryptocurrency to buy Bitcoin.
He did **not** sell any digital assets for cash.

How should this situation be classified for tax preparation purposes?

- A. In Scope – All transactions involved real currency
- B. In Scope – No sales occurred
- C. Out of Scope – He used digital assets to acquire other digital assets
- D. Out of Scope – He sold digital assets for real currency

Practice Scenario

Jason did the following in 2025:

1. Bought \$800 worth of cryptocurrency using his debit card.
2. Later in the year, he used some of that cryptocurrency to buy Bitcoin.
He did **not** sell any digital assets for cash.

How should this situation be classified for tax preparation purposes?

- A. In Scope – All transactions involved real currency
- B. In Scope – No sales occurred
- C. Out of Scope – He used digital assets to acquire other digital assets**
- D. Out of Scope – He sold digital assets for real currency

Explanation:

Jason used cryptocurrency (a digital asset) to purchase another digital asset (Bitcoin), which is a **crypto-to-crypto transaction** and therefore **Out of Scope (OOS)** for tax prep.

Practice Scenario

Emily did the following in 2025:

- She used \$600 from her bank account to buy Bitcoin.
- She held onto the Bitcoin without selling, trading, or using it to buy anything else.
- She did not sell or exchange any digital assets for cash.

Which of the following best describes Emily's situation for tax preparation?

- A.** In Scope — She purchased digital assets with real currency and did not sell or trade them
- B.** In Scope — She sold digital assets but reported no gain
- C.** Out of Scope — She used digital assets to purchase other digital assets
- D.** Out of Scope — She sold digital assets for cash

Practice Scenario

Emily did the following in 2025:

- She used \$600 from her bank account to buy Bitcoin.
- She held onto the Bitcoin without selling, trading, or using it to buy anything else.
- She did not sell or exchange any digital assets for cash.

Which of the following best describes Emily's situation for tax preparation?

A. In Scope — She purchased digital assets with real currency and did not sell or trade them

B. In Scope — She sold digital assets but reported no gain

C. Out of Scope — She used digital assets to purchase other digital assets

D. Out of Scope — She sold digital assets for cash



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Income From Sale of Stocks/Bonds

Example Form 1099-B

FORM 1099-B* 2022 Proceeds from Broker and Barter Exchange Transactions

Copy B for Recipient OMB NO. 1545-0715

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

Report on Form 8949 with Box A checked and/or Schedule D, Part I
(This Label is a Substitute for Boxes 1c & 6)

8 Description, 1d Stock or Other Symbol, CUSIP

(IRS Form 1099-B box numbers are shown below in bold type)

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

FORM 1099-B* 2022 Proceeds from Broker and Barter Exchange Transactions

Copy B for Recipient OMB NO. 1545-0715

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

Report on Form 8949 with Box E checked and/or Schedule D, Part II
(This Label is a Substitute for Boxes 1c & 6)

8 Description, 1d Stock or Other Symbol, CUSIP

(IRS Form 1099-B box numbers are shown below in bold type)

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

Identifying Stock/Bond Income

- Income from the sale of stocks and bonds is typically reported on form 1099-B: Proceeds from Broker and Barter Exchange Transactions.
- Form 1099-B is issued whenever a stock and/or bond is sold in a taxable account. Some common examples of brokerage accounts we see our clients have is Robinhood, Webull, or Edward Jones.
- Form 1099-B will show either each individual stock transaction or a summary of all the transactions made in the tax year separated by short and long term transactions.
- Brokerage firms report sales of securities, the acquisition cost, the dates of sale and acquisition, if there is a wash sale adjustment, and whether the cost basis was reported to the IRS on Form 1099-B.
- **Scope:** Sale of stock, mutual funds, and the sale of a personal residence are in scope. If the taxpayer has sold any other assets, refer them to a professional tax preparer.

In the 4012-A, D42-D51 has great information about capital gains and losses. Make sure to refer to this to maintain accuracy!

Reporting Stock Income in TaxSlayer

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

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

Schedule D - Capital Gain and Losses



Income>Schedule D/Form 8949; or Keyword: CAP

Schedule D Capital Gains

Stocks, Mutual Funds, Cryptocurrency, Collectibles, etc.
Form 1099-B or broker statements

1

BEGIN

Other Capital Gains Distributions
Capital gains that are not reported on the other forms

BEGIN

Capital Loss Carryover
Unused prior year capital loss

2

BEGIN

Sale of Main Home Worksheet
1099-S/closing documents

BEGIN

1099-B Transactions with No Adjustments
Short term and Long Term totals with reported basis and no adjustments

3

BEGIN

PDF Attachments

4

BEGIN

Form 8997 - Initial and Annual Statement of Qualified Opportunity Fund (QOF) Investments
Out of Scope

BEGIN

CONTINUE

1. Information regarding sale of capital assets is found on Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, or similar statement, such as a broker's list of consolidated transactions. Capital transactions entered in this section will complete the appropriate sections of Form 8949, Sales and Other Dispositions of Capital Assets. The totals for each Form 8949 will automatically carry to the correct line of Schedule D, Capital Gains and Losses.

Schedule D - Capital Gain and Losses

Other Capital Gains Data

CANCEL **CONTINUE**

Adjust Section 1250 Amounts
 \$

Adjust 28% Gain
 \$

Taxpayer Sample Short Term Loss Carryover from 2019 (enter as a **positive** number)
 \$ **5**

Spouse Sample Short Term Loss Carryover from 2019 (enter as a **positive** number)
 \$ **5**

Both Short Term Loss Carryover from 2019 (enter as a **positive** number)
 \$ **5**

Taxpayer Sample Long Term Loss Carryover from 2019 (enter as a **positive** number)
 \$ **5**

Spouse Sample Long Term Loss Carryover from 2019 (enter as a **positive** number)
 \$ **5**

Both Long Term Loss Carryover from 2019 (enter as a **positive** number)
 \$ **5**

5. If the prior year return shows a capital loss, check the Capital Loss Carryover Worksheet generated with the prior year return to see if there are short- or long-term carryover losses to enter on this screen.

For Certain low-income taxpayers, capital losses less than \$3,000 (or \$1,500 if MFS) may also carryover

Entering 1099-B Transactions with no Adjustments

A simplified method to report a summary of capital transactions is available ONLY if the cost basis is reported to the IRS and there are no adjustments to cost basis, capital gain or loss. This entry will carry directly to the correct line of Schedule D, Capital Gains and Losses.

1099-B Transactions with No Adjustments

CANCEL

CONTINUE

Short-Term Transactions

Total proceeds (sales price) Total cost or other basis

\$0.00

\$0.00

1

Total gain or loss

\$

Long-Term Transactions

Total proceeds (sales price) Total cost or other basis

\$0.00

\$0.00

1

Total gain or loss

\$

1. Calculate the total proceeds (sale price) and cost or other basis for both short- and long-term transactions.



Generally, the Consolidated Broker Statement will contain the subtotals of Form 1099-B short- and long-term transactions.



Separate entries are required for taxpayer, spouse, and joint transactions on married filing jointly returns.

Entering 1099-B Transactions with no Adjustments

Select **Stocks, Mutual Funds, Cryptocurrency, Collectibles, etc.** from the Schedule D Capital Gains screen to indicate cost basis is not reported to IRS, Form 1099-B was not received, or there is an adjustment to the capital gain or loss. Otherwise, use the simplified summary method discussed earlier.

 *If a block of stock (or similar property) was acquired through several different purchases, the sale may be reported on one row as described below.*

1. If applicable for Date Acquired, check the Alternate Option box and select one of three options:
 - Various – Short Term (1 year or less)
 - Various – Long Term (more than 1 year)
 - Inherited – Long Term

 *Do not select Alternate Option for Date Sold. TaxSlayer no longer supports leaving Date Sold blank. Instead, use the date of the latest sale in the summarized transactions and select Adjustment Code M – Reporting Multiple Transactions on a Single Row.*

Date Acquired

* **Alternate Option:** If Date Acquired is not known, leave the date blank and select an option here **1**

- Select if Applicable -

- Select if Applicable -

Various - Short Term
Various - Long Term
Inherited - Long Term

Entering 1099-B Transactions with no Adjustments

Capital Gains Transaction

Form belongs to *

Taxpayer Sample
 Spouse Sample
 Both

Description of Property *

Date Acquired

* **Alternate Option:** If Date Acquired is not known, leave the date blank and select an option here 2

3

Date Sold

* **Alternate Option:**

Check here if a short sale.

4

Sales Price

* **Alternate Option:** If Sale Price is Expired, leave the sales price blank and select an option here

5

Select cost basis type *

- Please Select -

1099-B, Box 3 Cost Basis Reported to the IRS
1099-B, Box 3 Cost Basis NOT Reported to the IRS
Did not receive Form 1099-B

6

2. If investment property is inherited, the capital gain or loss is treated as long-term. This is true regardless of how long the property is held. Check the box for Alternate Option for Date Acquired and select Inherited – Long Term.

Inherited securities are only in scope when the taxpayer provides the basis. Gifted securities are only in scope when the taxpayer provides the basis and the holding period.

3. Enter the date from Form 1099-B Box 1b
4. Enter the date from Form 1099-B Box 1c
5. Enter the amount from Form 1099-B Box 1d
6. Choose the cost basis type that applies to this transaction.

Entering 1099-B Transactions with no Adjustments

Cost
<input type="checkbox"/> * Alternate Option: If Cost is Expired, leave the cost blank and select an option here
<input type="text"/> 7
Adjustments
Enter any necessary adjustments to Gain or Loss NOTE: If this entry is to be shown as a loss, please enter a negative sign before the number.
<input type="text"/> 8
If you entered an adjustment amount above, please select all adjustment explanations that apply.
<input type="checkbox"/> Form 1099-B with Basis shown in Box 1e is Incorrect
<input type="checkbox"/> Disposed of Collectibles
<input type="checkbox"/> Form 1099-B showing accrued market discount in box 1f
<input type="checkbox"/> Form 1099-B or 1099-S with Selling Expenses or Options not Reflected on Form
<input type="checkbox"/> Exclude Some/All of the Gain from the Sale of Your Main Home
<input type="checkbox"/> Nondeductible Loss other than a Wash Sale
<input type="checkbox"/> Reporting Multiple Transactions on a SingleRow 9
<input type="checkbox"/> Received 1099-B/1099-S as a Nominee for the Actual Owner of the Property
<input type="checkbox"/> Other Adjustment Not Explained Above
<input type="checkbox"/> Exclude Part of the Gain from the Sale of Qualified Small Business Stock
<input type="checkbox"/> Rollover of Gain from QSB Stock, Empowerment Zone, Publicly Traded Securities
<input type="checkbox"/> Loss from the Sale of Small Business Stock more than Allowable Ordinary Loss
<input type="checkbox"/> Form 1099-B & Type of Gain/Loss shown in Box 2 is Incorrect
<input type="checkbox"/> Nondeductible Loss from a Wash Sale 10
<input type="checkbox"/> Exclude Gain from DC Zone Assets or Qualified Community Assets
<input type="checkbox"/> Reporting Gain from QOF Investment in Prior Tax Year
<input type="checkbox"/> Postpone Gain for Investments in QOFS

7. Enter the amount from Form 1099-B Box 1e or provided by taxpayer. If the statement or taxpayer does not provide cost basis, historical data can be used. See Publication 551, Basis of Assets, for details. If basis can't be determined, use zero.
8. For most transactions, no adjustment to gain or loss is needed. If an adjustment to basis or net capital gain is required, enter the adjustment amount and mark the reason(s) from the list.
9. If summarizing transactions, check the box for Reporting Multiple Transactions on a Single Row.
10. Wash sales are in scope only if reported on Form 1099-B or on a brokerage or mutual fund statement. Enter the code W amount as a positive number

Things to Look For

- **Be careful:** Always look for box 1g, Wash Sale Disallowed, to see if there was a wash sale on the transaction.
 - A wash sale is when a stock was bought and sold within a month.
 - If this is a loss this cannot be deductible from taxable income and must be reported accurately!
- Make sure to let taxpayers know that any capital gain/loss, dividends, or interest earned in a taxable brokerage account must be reported!

1099-B Reflecting a Wash Sale

Wealthfront Brokerage LLC 261 Hamilton Ave Palo Alto, CA 94301 Customer Service: 844-995-8437		Tax Information Account [REDACTED]	Statement Date: 02/12/2025 Document ID: [REDACTED]	Page 1 of 16
		2024		
PAYER'S TIN: 27-1967207 [REDACTED]				
11 - [] FATCA filing requirement (see instructions)		Summary Information		
DIVIDENDS AND DISTRIBUTIONS 2024 1099-DIV* OMB No. 1545-0110		MISCELLANEOUS INFORMATION 2024 1099-MISC* OMB No. 1545-0115		
1a. Total ordinary dividends (includes lines 1b, 5, 2e) 842.76 1b. Qualified dividends 0.00 2a. Total capital gain distributions (includes lines 2b, 2c, 2d, 2f) 0.00 2b. Unrecaptured Section 1250 gain 0.00 2c. Section 1202 gain 0.00 2d. Collectibles (28%) gain 0.00 2e. Section 897 ordinary dividends 0.00 2f. Section 897 capital gain 0.00 3. Nondividend distributions 0.00 4. Federal income tax withheld 0.00 5. Section 199A dividends 0.00 6. Investment expenses 0.00 8- Foreign country or US possession: 7- Foreign tax paid: 0.00 9. Cash liquidation distributions 0.00 10. Noncash liquidation distributions 0.00 12- Exempt-interest dividends (includes line 13) 0.00 13- Specified private activity bond interest dividends (AMT) 0.00		2. Royalties 0.00 3. Other income 0.00 4. Federal income tax withheld 0.00 8- Substitute payments in lieu of dividends or interest 0.00		
SUMMARY OF PROCEEDS, GAINS & LOSSES, ADJUSTMENTS AND WITHHOLDING Refer to the 1099-B and Proceeds not reported to the IRS pages to ensure that you consider all relevant items and to determine the correct gains and losses. The amounts shown below are for informational purposes.		SECTION 1256 CONTRACTS 2024 1099-B* OMB No. 1545-0715		
		8. Profit or (loss) realized in 2024 on closed contracts 0.00 9. Unrealized profit or (loss) on open contracts-1/23/2023 0.00 10- Unrealized profit or (loss) on open contracts-12/31/2024 0.00 11- Aggregate profit or (loss) on contracts 0.00		
<i>If applicable, proceeds from sale transactions appear summarized below and are detailed in subsequent sections of this document.</i>				
<i>* 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.</i>				
Term Form 8949 type		Proceeds	Cost basis	Market discount
Short	A (basis reported to the IRS)	31,700.71	31,648.88	0.00
Short	D (basis not reported to the IRS)	0.00	0.00	0.00
Short	C (Form 1099-B not received)	0.00	0.00	0.00
	Total Short-term	31,700.71	31,648.88	0.00
Long	D (basis reported to the IRS)	0.00	0.00	0.00
Long	E (basis not reported to the IRS)	0.00	0.00	0.00
Long	F (Form 1099-B not received)	0.00	0.00	0.00
	Total Long-term	0.00	0.00	0.00
Undetermined	B or E (basis not reported to the IRS)	0.00	0.00	0.00
Undetermined	C or F (Form 1099-B not received)	0.00	0.00	0.00
	Total Undetermined-term	0.00	0.00	0.00
	Grand total	31,700.71	31,648.88	0.00
Withholding		Amount		
Federal income tax withheld		0.00		
Changes to dividend tax classifications processed after your original tax form is issued for 2024 may require an amended tax form.				

Practice Scenario

Maria is a single taxpayer who comes to your VITA tax site for assistance. She hands you a **Form 1099-B** from her brokerage account. The form shows that she sold **10 shares of ABC Corp for \$1,000 on May 15, 2024**. She originally bought the shares on **February 10, 2022 for \$600**. The 1099-B shows that the **basis was reported to the IRS**. There are no adjustments, wash sales, or disallowed losses reported. Maria does not have any other income from investments. How should this be handled?

- A. Enter the information on the “Interest/Dividends” section under “Income” in TaxSlayer.
- B. Enter it under “Capital Gain or Loss Transactions (Schedule D)” in the Income section and indicate that the basis was reported to the IRS, and it’s a long-term gain.
- C. Do not enter it. Since the brokerage already reported it to the IRS, it doesn’t need to be included on the return.
- D. Enter it under “Other Income” and select “Broker Sale” as the source.

Practice Scenario

Maria is a single taxpayer who comes to your VITA tax site for assistance. She hands you a **Form 1099-B** from her brokerage account. The form shows that she sold **10 shares of ABC Corp for \$1,000 on May 15, 2024**. She originally bought the shares on **February 10, 2022 for \$600**. The 1099-B shows that the **basis was reported to the IRS**. There are no adjustments, wash sales, or disallowed losses reported. Maria does not have any other income from investments. How should this be handled?

- A. Enter the information on the “Interest/Dividends” section under “Income” in TaxSlayer.
- B. Enter it under “Capital Gain or Loss Transactions (Schedule D)” in the Income section and indicate that the basis was reported to the IRS, and it’s a long-term gain.
- C. Do not enter it. Since the brokerage already reported it to the IRS, it doesn’t need to be included on the return.
- D. Enter it under “Other Income” and select “Broker Sale” as the source.

Practice Scenario

Jamal is a single taxpayer who brings in a **Form 1099-B** from his online brokerage account. The form shows that he sold **5 shares of XYZ Inc. for \$350 on November 10, 2024**. He purchased the shares on **April 1, 2024** for **\$300**. The 1099-B **does not show cost basis**, and there's a box checked that says "**Basis not reported to the IRS.**" There are no other adjustments listed. How would you handle this?

- A. Enter the sale under "Capital Gain or Loss Transactions," mark it as **short-term**, and indicate that the basis **was not reported** to the IRS. Manually enter the cost basis of \$300.
- B. Skip entering the cost basis, since the IRS doesn't have it, and only report the sales proceeds of \$350.
- C. Enter the sale under "Other Income" since basis isn't reported, and check the box that says "Unknown Holding Period."
- D. Enter it under "Capital Gain or Loss Transactions," select **long-term**, and leave the basis blank.

Practice Scenario

Jamal is a single taxpayer who brings in a **Form 1099-B** from his online brokerage account. The form shows that he sold **5 shares of XYZ Inc. for \$350 on November 10, 2024**. He purchased the shares on **April 1, 2024** for **\$300**. The 1099-B **does not show cost basis**, and there's a box checked that says "**Basis not reported to the IRS.**" There are no other adjustments listed. How would you handle this?

- A. Enter the sale under "Capital Gain or Loss Transactions," mark it as **short-term**, and indicate that the basis **was not reported** to the IRS. Manually enter the cost basis of \$300.
- B. Skip entering the cost basis, since the IRS doesn't have it, and only report the sales proceeds of \$350.
- C. Enter the sale under "Other Income" since basis isn't reported, and check the box that says "Unknown Holding Period."
- D. Enter it under "Capital Gain or Loss Transactions," select **long-term**, and leave the basis blank.

Practice Scenario

Olivia brings you her tax documents, including a **Form 1099-B** from her brokerage. It shows that she sold **50 shares of DEF Corp. on October 10, 2024**, for **\$1,000**. She originally bought them on **September 15, 2024**, for **\$1,200**. However, the 1099-B also shows a **wash sale disallowed loss of \$200**, because she **repurchased the same stock** within 30 days of the sale. The form clearly lists the wash sale amount and indicates that the **basis was reported to the IRS**. How would you handle this?

- A. Enter the sale under “Capital Gain or Loss Transactions,” select **short-term**, and reduce the cost basis by the \$200 wash sale loss.
- B. Enter the sale under “Capital Gain or Loss Transactions,” select **short-term**, use the original cost basis and sale proceeds, and enter the **\$200 wash sale amount in the adjustment column**.
- C. Skip entering the transaction. Wash sales are not reportable since the loss is disallowed.
- D. Enter the sale under “Other Income” with a code for disallowed losses.

Practice Scenario

Olivia brings you her tax documents, including a **Form 1099-B** from her brokerage. It shows that she sold **50 shares of DEF Corp. on October 10, 2024**, for **\$1,000**. She originally bought them on **September 15, 2024**, for **\$1,200**. However, the 1099-B also shows a **wash sale disallowed loss of \$200**, because she **repurchased the same stock** within 30 days of the sale. The form clearly lists the wash sale amount and indicates that the **basis was reported to the IRS**. How would you handle this?

- A. Enter the sale under “Capital Gain or Loss Transactions,” select **short-term**, and reduce the cost basis by the \$200 wash sale loss.
- B. Enter the sale under “Capital Gain or Loss Transactions,” select **short-term**, use the original cost basis and sale proceeds, and enter the **\$200 wash sale amount in the adjustment column**.
- C. Skip entering the transaction. Wash sales are not reportable since the loss is disallowed.
- D. Enter the sale under “Other Income” with a code for disallowed losses.



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Income From the Sale of a Main Home

Example Form 1099-S

VOID CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		1 Date of closing	OMB No. 1545-0997
		2 Gross proceeds	Form 1099-S (Rev. January 2022)
		\$	For calendar year 20 _____
FILER'S TIN	TRANSFEROR'S TIN	3 Address (including city, state, and ZIP code) or legal description	
TRANSFEROR'S name			
Street address (including apt. no.)			
City or town, state or province, country, and ZIP or foreign postal code			
Account number (see instructions)		6 Buyer's part of real estate tax \$	
Proceeds From Real Estate Transactions Copy C For Filer			
For Privacy Act and Paperwork Reduction Act Notice, see the current General Instructions for Certain Information Returns.			

Income From Sale of Main Home

- Most often the sale of a taxpayer's main home is reflected on Form 1099-S. Whether or not the taxpayer receives form 1099-S they should report the sale of their home on their taxes.
- The sale of real estate other than a personal residence is **out of scope** for VITA.
 - Taxpayers must report the sale of a home if ANY of the following is true:
 - The taxpayer does NOT meet the ownership test
 - The taxpayer does NOT meet the use test
 - During the two-year period ending on the date of the sale, the taxpayer has excluded the gain from the sale of another home
 - The taxpayer has a gain and does not qualify to exclude all of it
 - The taxpayer has a gain and chooses not to exclude it
 - The taxpayer received Form 1099-S

Exclusion for Sale of Main Home

- Taxpayers who sold their main home may be able to exclude gains up to a maximum of \$250,000 (\$500,000 for married taxpayers who file a joint return or for certain surviving spouses).
- If the taxpayer can exclude all of the gain then it is not necessary to report the sale.
- If there is excess gain over the limits described above and cannot be excluded then it is taxable and must be reported on the tax return.
- A loss on the sale of a main home cannot be deducted from income, contrary to loss on stocks/investments, and may be required to report still on the tax return.
- Any gain on the sale that can be excluded must be from the sale of a taxpayer's **main home**.
- A taxpayer's main home is where they live most of the time.
- Taxpayers with more than one home cannot choose which home to designate as their main home.

Ownership and Use Tests

- **The taxpayer MUST meet the ownership and use tests to exclude gain on the sale of a home.**
- During the five year period ending on the date of sale the taxpayer must have owned the home for at least two years(**ownership test**).
- During the five year period ending on the date of sale the taxpayer must have lived in the home as their main home for at least two years (**use test**).
- The two years don't have to be continuous in this five year period.
- Short/temporary absences are still counted as periods of use even if the property is rented during the absences.
- The taxpayer **must** meet both tests to exclude any gain on the sale of their main home.

Entering into TaxSlayer

Sale of Home 1

Basic Info about the Sale

Date of purchase *
MM DD YYYY

Purchase price *
\$

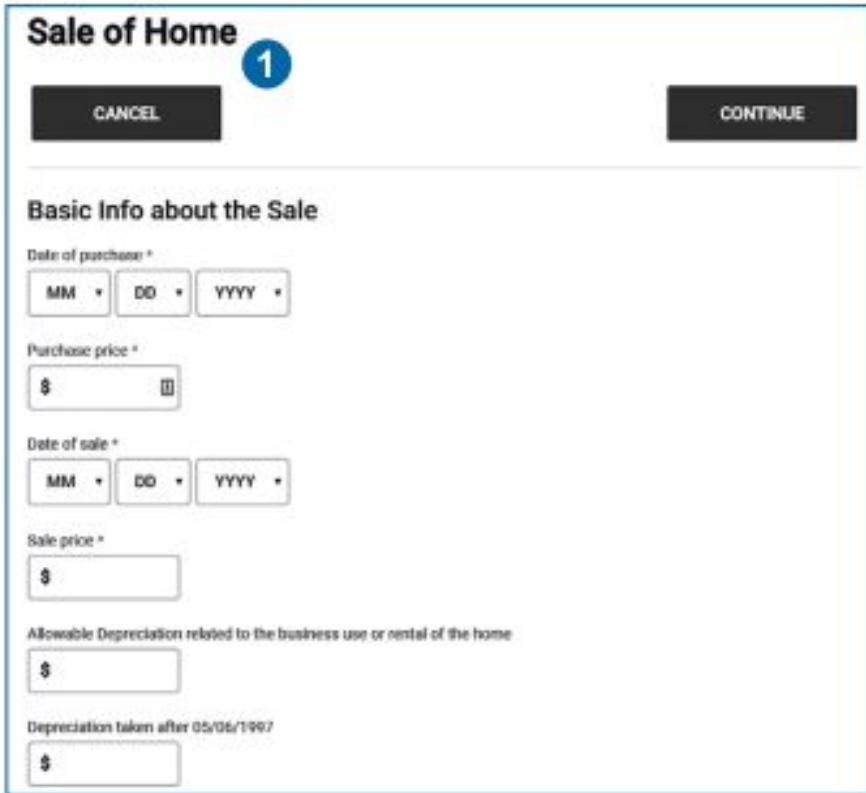
Date of sale *
MM DD YYYY

Sale price *
\$

Allowable Depreciation related to the business use or rental of the home:
\$

Depreciation taken after 05/06/1997
\$

CANCEL **CONTINUE**



1. If the taxpayer is required to report the sale and it results in a gain, enter the purchase date, sale date, purchase price, and sales price in the Sale of Home Worksheet

Entering into TaxSlayer

Info about your home

How many days in the last 5 years was the home your main home?

 2

How many days in the last 5 years did you own your home?

 3

How many days in the last 5 years was the home your spouse's main home?

How many days in the last 5 years did your spouse own your home?

4 Check here if you received the First-time Homebuyers Credit AND you received the credit in 2008 OR you did NOT meet the minimum ownership requirements to exclude repayment of the credit.

5 Check here if you qualify for the Maximum Exclusion or the Reduced Maximum Exclusion.

2. Enter the number of days the dwelling was used as the main home (separate entry for spouse).
3. Enter the number of days the taxpayer owned the home (separate entry for spouse).
4. If the taxpayer received the 2008 First-Time Homebuyers Credit, select the box. Form 5405, Repayment of the First-Time Homebuyer Credit, will be required to determine how much of the credit must be repaid.
5. If the taxpayer meets the ownership, residence, and look-back requirements, taking the exceptions into account, then the Eligibility Test is met and the taxpayer is eligible for the Maximum Exclusion, select the box (reduced maximum exclusion is Out of Scope; refer to a professional).

Entering into TaxSlayer

Adjustments

CANCEL **CONTINUE**

Fees you may have paid when you bought your home

Legal fees: \$

Surveys: \$

Title Insurance: \$

Fees that the seller owed that you agreed to pay: \$

Other fees: \$

General Adjustments

Selling expenses: \$

Cost of additions and improvements that you made to your home: \$

Tax assessments that you paid for sidewalks, streets, and other local improvements: \$

Other increases to your basis: \$

Decreases to your basis: \$

- Enter the selling expenses, cost of improvements and other increases or decreases to the basis of the home. See Publication 523, Selling Your Home, for more information about basis
- This will calculate the adjusted basis of the home, which will be shown on Form 8949.
- The information will carry to Form 8949 and Schedule D.
- If you've checked the box to exclude the entire gain, Form 8949 will show the adjustment as a negative number in the amount of the net gain, with adjustment code H and basis type F and no net gain/loss.

Example

- In the rare case of a taxpayer selling their main home at a loss, we can refer to the 4012-A on how to handle this and report in TaxSlayer.

A loss on the sale of a main home can't be deducted, but must be reported if Form 1099-S was received. To report the sale,

- Use the Sale of Main Home worksheet to assist with determining the basis, but the information will NOT carry to Form 8949
- Add a new Capital Gain or Loss Item
- Enter the description of property, dates, sales price and adjusted basis amount
- Select the basis type as "Did not receive Form 1099-B"
- Enter the adjustment of the nondeductible net loss as a positive number to reduce the amount to \$0.

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis See the Note below and see Column (e) in the separate instructions.	Adjustment, if any, to gain or loss If you enter an amount in column (g), enter a code in column (f). See the separate instructions.	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
MAIN HOME	02/03/2018	09/04/2022	190000	203800	L 7	13800	

H - Exclude Some/All of the Gain from the Sale of Your Main Home

L - Nondeductible Loss other than a Wash Sale 7

M - Reporting Multiple Transactions on a Single Row

7. Select the adjustment reason as "nondeductible loss other than a wash sale" which will show as adjustment code L. Select other adjustments, if applicable.

Example

Example: The taxpayer received a Form 1099-S for the sale of their main home. The taxpayer's adjusted basis in the home is \$150,000. The proceeds from the sale is \$200,000. The taxpayer meets the ownership and use tests. The taxpayer's Form 8949 is shown below.

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis See the Note below and see <i>Column (e)</i> in the separate instructions.	Adjustment, if any, to gain or loss If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
						(f) Code(s) from instructions	(g) Amount of adjustment	
MAIN HOME		03/04/2019	02/02/2022	200000	150000 H		-50000	6 0

6. If the sale resulted in a gain but was not eligible for the exclusion, it will be reported on the appropriate Form 8949 as a gain.

Practice Problem

Your client Ali briefly mentions he sold a house last year during the intake process. After questioning, you come to see he sold his main home and it needs to be reported. Ali knows he sold the home for \$300,000 but doesn't know his cost basis or other expenses related to the sale and expenses done to improve the home. How should you approach this?

- A. Enter the sale of the home in TaxSlayer and ignore the information about the cost basis. That isn't needed for this.
- B. Tell Ali not to worry about reporting the sale of the home since he didn't make a substantial gain on the sale.
- C. Enter the sale of the home in TaxSlayer and make up some numbers with Ali about the cost basis. It is okay to guess if the numbers are "close enough."
- D. Tell Ali he needs to go home to get all the additional information so the sale of his personal residence can be reported properly on the tax return even if the proceeds aren't taxable.

Practice Problem

Your client Ali briefly mentions he sold a house last year during the intake process. After questioning, you come to see he sold his main home and it needs to be reported. Ali knows he sold the home for \$300,000 but doesn't know his cost basis or other expenses related to the sale and expenses done to improve the home. How should you approach this?

- A. Enter the sale of the home in TaxSlayer and ignore the information about the cost basis. That isn't needed for this.
- B. Tell Ali not to worry about reporting the sale of the home since he didn't make a substantial gain on the sale.
- C. Enter the sale of the home in TaxSlayer and make up some numbers with Ali about the cost basis. It is okay to guess if the numbers are "close enough."
- D. Tell Ali he needs to go home to get all the additional information so the sale of his personal residence can be reported properly on the tax return even if the proceeds aren't taxable.**



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Retirement Income

Retirement Income

Retirement Income can be found from various sources including:

- SSA-1099 -
 - Social Security Benefits
- 1099-R -
 - Pensions and Annuities
 - Traditional IRA Distributions
 - Roth IRA Distributions
 - 401(k) and 403(b) Distributions
 - Military Retirement Pay
- Form RRB-1099 or RRB-1099-R
 - Railroad Retirement Benefits
- Retirement income may be fully or partially taxable

Retirement Income (Form 1099-R)

<input type="checkbox"/> CORRECTED (if checked)				
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. HOUSTON STATE BANK 1200 MAIDEN LANE YOUR CITY, YOUR STATE, ZIP			1 Gross distribution \$ \$6,000.00 2a Taxable amount \$ \$6,000.00	OMB No. 1545-0119 Form 1099-R
PAYER'S TIN 38-2XXXXXX			3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$ \$1,200.00
RECIPIENT'S name MONICA MONTGOMERY			5 Employee contributions/ Designated Roth contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$
Street address (including apt. no.) 178 PACKER DRIVE			7 Distribution code(s) 1	8 Other \$ %
City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP			9a Your percentage of total distribution %	9b Total employee contributions \$
10 Amount allocable to IRR within 5 years \$	11 1st year of design. Roth contrib.	12 FATCA filing requirement <input type="checkbox"/>	14 State tax withheld \$ \$	15 State/Payer's state no. \$ \$
Account number (see instructions)		13 Date of payment	17 Local tax withheld \$ \$	18 Name of locality \$ \$
Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.				
Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.				
This information is being furnished to the IRS.				
Form 1099-R www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service				

Retirement Income (Form 1099-R)

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

Retirement Income (Form 1099-R)

A pension is **100% taxable** if:

1. Taxpayers did not pay any part of the cost of their pensions or annuities
2. Employers did not withhold part of the cost from the taxpayer's pay while they worked
3. Employers withheld part of the cost from the taxpayer's before-tax pay while they worked

In this case, **the full amount of each pension payment** is included in **gross income** and taxed as ordinary income.

Example: Form 1099-R with Box 1 and 2a both showing \$10,000, 'Taxable amount not determined' is unchecked, and shows distribution code 7.

Retirement Income (Form 1099-R)

A pension is **partially taxable** if:

1. **You contributed after-tax dollars** to the pension during your working years (e.g., your employer withheld taxes before contributing your portion), and
2. **The plan did not include all pre-tax dollars** (like a traditional 401(k) or government plan might).

In this case:

- The amount you already paid taxes on is **not taxed again**.
- Each year, a **portion of your pension payments** is **tax-free**, and the **rest is taxable**.

There are two methods used to figure the taxable portion of each pension or annuity payment, the Simplified Method and the General Rule.

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

Retirement Income: Simplified Method

What is the Simplified Method?

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

Retirement Income: Simplified Method

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution \$ 19,350.00	OMB No. 1545-0119	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
MAPLE ENTERPRISES 225 ONEIDA AVENUE YOUR CITY, YOUR STATE, ZIP		2a Taxable amount \$	Form 1099-R	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 TIN 41-200XXXX	RECIPIENT'S TIN 417-00-XXXX	2b Taxable amount not determined <input checked="" type="checkbox"/>	Total distribution <input type="checkbox"/>	
RECIPIENT'S name EMILY LINCOLN		3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$ 1,935.00	This information is being furnished to the IRS.
Street address (including apt. no.) 135 DISCOVER AVENUE		5 Employee contributions/ Designated Roth contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$	
City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP		7 Distribution code(s) 7 <input type="checkbox"/>	8 Other \$ %	10 Amount allocable to IRR within 5 years \$ 11 1st year of desig. Roth contrib. 12 FATCA filing requirement <input type="checkbox"/>
		9a Your percentage of total distribution %	9b Total employee contributions \$ 14,500.00	
Account number (see instructions)		14 State tax withheld \$	15 State/Payer's state no. ----- \$	16 State distribution \$
		13 Date of payment \$	17 Local tax withheld \$	18 Name of locality ----- \$
				19 Local distribution \$

Practice Scenario

John received a 1099-R with the following information:

- Box 1: 15,000
- Box 2a: 15,000
- Box 7: Code 7

Does the simplified method need to be used?

- A. Yes
- B. No

Practice Scenario

John received a 1099-R with the following information:

- Box 1: 15,000
- Box 2a: 15,000
- Box 7: Code 7

Does the simplified method need to be used?

A. Yes
 B. No

Explanation: The taxable portion is given, as such the simplified method is not required.

Practice Scenario

John received a 1099-R with the following information:

- Box 1: 15,000
- Box 2a: (blank)
- Box 2b: 'Taxable amount not determined' Checked
- Box 7: Code 7
- Box 9b: 10,000

Does the simplified method need to be used to figure the taxable portion?

- A. Yes
- B. No

Practice Scenario

John received a 1099-R with the following information:

- Box 1: 15,000
- Box 2a: (blank)
- Box 2b: 'Taxable amount not determined' Checked
- Box 7: Code 7
- Box 9b: 10,000

Does the simplified method need to be used to figure the taxable portion?

→ A. Yes
B. No

Explanation: The Taxable amount is not given and there is an amount in Box 9b so the Simplified Method must be used.

Retirement Income: Simplified Method

You must use the Simplified Method if your annuity starting date is **after November 18, 1996**, and you meet both of the following conditions.

1. You receive your pension or annuity payments from any of the following plans.
 - o. a. A qualified employee plan.
 - o. b. A qualified employee annuity.
 - o. c. A tax-sheltered annuity plan (403(b) plan).
2. On your annuity starting date, at least one of the following conditions applies to you.
 - o. a. You are under age 75.
 - o. b. You are entitled to less than 5 years of guaranteed payments.

Retirement Income: Simplified Method

What is needed to do the Simplified Method?

1. Plan Cost at annuity start date (total employee contributions **shown in box 9b** of Form 1099-R)
2. Starting date of annuity
3. Whether it's a joint or survivor annuity
4. Taxpayer's age at start date (and spouse's age if joint/survivor annuity)
5. Number of months paid in 2025
6. Amounts Previously Recovered

Form CSF 1099-R

Office of Personnel Management Retirement Operations P.O. Box 45 Boyers, PA 18017-0045			Statement of Survivor Annuity Paid Copy C - For annuitant's records. This information is being furnished to the U.S. Internal Revenue		OMB No. 1545-0119 Form 1099-R Distributions From Pensions, Annuities, Retirement or Profit- Sharing Plans, IRAs, Insurance Contracts, etc.
PAYER's Federal Identification	Recipient's ID No. (Survivor)	Account number (Retirement Claim No.)	CS F7152555W	1. Gross distribution 18684.00	
5. Employee Contributions/ Designated ROTH Contributions or Insurance Premiums 3127.83	Paid To			2a. Taxable amount UNKNOWN	
7. Distribution Code(s) 4-DEATH-BENEFIT				4. Federal Income Tax Withheld NONE	
9b. Total Employee Contributions 11440.00				12. State tax withheld NONE	13. State/Payer's state no.
				12. State tax withheld NONE	13. State/Payer's state no.

Simplified Method in Taxslayer

Plan cost at annuity start date

 \$

1099-R, Box 9b

Starting date of annuity *

 MM DD YYYY

Death benefit exclusion

 \$

Check here if the annuity benefits are based on the life of the annuitant and a beneficiary

Combined calculated age of annuitants at start date *

Adjust the calculated age of annuitants, if its different

We have calculated the age based on the date of birth and start date of the taxpayer and/or spouse. Add or subtract from the calculated age, if necessary

Number of months paid in 2024 *

 0

Amounts previously recovered

 \$

Calculating the Age of the Recipient at Start Date

Example:

- Joe elected a joint/survivor annuity when he retired and started receiving his pension on July 1, 2015.
- Joe was born March 5, 1950.
- His wife, Mary, was born on July 23, 1953.

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

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

The sum of ages = 126 years.

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

Practice Scenario

- Jane elected a joint/survivor annuity when she retired and started receiving her pension on July 1, 2019.
- Jane was born August 12, 1962.
- Her husband, Sean, was born on June 23, 1960.

What is the combined age at the start of the annuity?

- A. 116
- B. 121
- C. 115
- D. 110

Practice Scenario

- Jane elected a joint/survivor annuity when she retired and started receiving her pension on July 1, 2019.
- Jane was born August 12, 1962.
- Her husband, Sean, was born on June 23, 1960.

What is the combined age at the start of the annuity?

- A. 116
- B. 121
-  C. 115
- D. 110

Explanation: Jane's birthday had not yet passed when she began receiving her pension, her age would be 56, Sean's birthday had passed so his age would be 59. The combined age at the start of the annuity would be 115.

Practice Scenario

- Jane elected a joint/survivor annuity when she retired and started receiving her pension on July 1, 2019.
- Jane was born August 12, 1962.
- Her husband, Sean, was born on June 23, 1960.

How many payments are expected to be received?

- A. 310
- B. 410
- C. 360
- D. 210

Table 1 for Line 3 Above

AND your annuity starting date was—

<u>IF the age at annuity starting date was...</u>	<u>BEFORE November 19, 1996, enter on line 3...</u>	<u>AFTER November 18, 1996, enter on line 3...</u>
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

Table 2 for Line 3 Above

<u>IF the combined ages at annuity starting date were...</u>	<u>THEN enter on line 3...</u>
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

Practice Scenario

- Jane elected a joint/survivor annuity when she retired and started receiving her pension on July 1, 2019.
- Jane was born August 12, 1962.
- Her husband, Sean, was born on June 23, 1960.

How many payments are expected to be received?

- A. 310
- B. 410
-  C. 360
- D. 210

Table 1 for Line 3 Above AND your annuity starting date was—		
IF the age at annuity starting date was...	BEFORE November 19, 1996, enter on line 3...	AFTER November 18, 1996, enter on line 3...
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

Table 2 for Line 3 Above	
IF the combined ages at annuity starting date were...	THEN enter on line 3...
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

Explanation: With a combined age of 115, based on the table they can expect to receive 360 payments.

Finding Amounts Previously Recovered

The amount previously recovered can be found on a prior year tax return on the simplified method worksheet. Alternatively, it can be calculated as follows:

Example:

- Pension start date: January 1, 2022
- Age at annuity start: 66
- Investment in the contract (after-tax contributions): **\$24,000** (Form 1099-R, Box 9b)
- Monthly pension payment: **\$1,000** (\$12,000/year)

To calculate the amounts previously recovered, you would:

1. Take the Investment in the contract: **24,000**
2. Find the expected number of payments for the age at annuity start: **210**
3. Divide the investment by the number of payments: **$24,000 / 210 = 114.29$**
4. Multiply by the number of months paid in the year: **$114.29 \times 12 = 1371.48$**

This would be the tax free portion of the annuity, in the first year (2022) this would be the amount recovered. In following years the total amount recovered would continue to accumulate until fully recovered, at which point the full distribution would be taxable.

In this example of the \$12,000 gross distribution, the taxable amount would be **\$10,629**

Table 1 for Line 3 Above

IF the age at annuity starting date was...	BEFORE November 19, 1996, enter on line 3...	AFTER November 18, 1996, enter on line 3...
55 or under	300	360
56-60	260	310
61-65	240	260
66-70	170	210
71 or older	120	160

Table 2 for Line 3 Above

IF the combined ages at annuity starting date were...	THEN enter on line 3...
110 or under	410
111-120	360
121-130	310
131-140	260
141 or older	210

Tax Year	Amount Previously Recovered
2022	1371.48
2023	2742.96
2024	4114.44

Distribution Codes (Form 1099-R)

Form 1099-R, Box 7 will show the type of distribution. The Codes most commonly seen and are in-scope for VITA include:

- Code 1 - Early Distribution, no known exception
 - If no exception applies the distribution will be assessed a 10% penalty
 - A list of allowable exceptions can be found in PUB 4012-A, page H-7
- Code 2 - Early Distribution, Known Exception
- Code 3 - Disability
 - If the taxpayer is under the minimum age of retirement for the company they retired from, the distribution can be reclassified as disability wages and are eligible for credits requiring earned income.
- Code 4 - Death
- Code 7 - Normal Distribution

Example: Taxpayer receives a 1099-R with distribution code 3, they are 46 and the minimum age of retirement for their company is 55. Taxpayers retirement income can be reclassified as wages.

Early Distributions

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

Example: Taxpayer receives a 1099-R with code 1, taxpayer explains they made the withdrawal to pay for a vacation. This is not an allowable exception and the 10% penalty would be imposed on the taxable portion.

Practice Scenario

John received a 1099-R with code 2 shown.

Is John subject to the 10% early withdrawal penalty?

- A. Yes
- B. No

Practice Scenario

John received a 1099-R with code 2 shown.

Is John subject to the 10% early withdrawal penalty?

- A. Yes
-  B. No

Explanation: Code 2 on a 1099-R is for an early withdrawal with a known exception, as such John is not subject to the 10% penalty

Practice Scenario

Jim comes in to file his taxes, he is Single, 48 years old, and receives a 1099-R with a code 3 distribution. Jim was disabled on the job and says the minimum age of retirement for the company he retired from was 55.

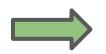
Can Jim's retirement distribution be classified as earned wages?

- A. Yes
- B. No

Practice Scenario

Jim comes in to file his taxes, he is Single, 48 years old, and receives a 1099-R with a code 3 distribution. Jim was disabled on the job and says the minimum age of retirement for the company he retired from was 55.

Can Jim's retirement distribution be classified as earned wages?

-  A. Yes
- B. No

Explanation: Jim's retirement distribution can be classified as earned wages since the distribution was for disability (code 3) and he is under the minimum retirement age for the company.

Distribution Codes

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

Distribution Codes

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

Distribution Codes

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

Distribution Codes

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

Distribution Codes

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

Distribution Codes

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

Minimum Distributions

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

Railroad Retirement Benefits (Form RRB 1099-R)

- Railroad Retirement Benefits (RRBs) are benefits paid to railroad employees working in jobs that are covered by the Railroad Retirement Act (RRA).
- The RRA benefits have two components:
 - Tier 1 (Social Security equivalent benefits) (Blue Form)
 - Reported on Form RRB-1099 and are treated the same as Social Security benefits on the tax return
 - Portion may be taxable.
 - Tier 2 (treated as a qualified employee plan) (Green Form)
 - The tier 2 benefits are reported on Form RRB 1099-R.
 - Partially or Fully taxable
- We do not see these types of benefits very often.

Railroad Retirement Benefits (Form RRB 1099-R)

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE UNITED STATES RAILROAD RETIREMENT BOARD 844 N RUSH ST CHICAGO IL 60611-2092		20XX	PAYMENTS BY THE RAILROAD RETIREMENT BOARD
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600		3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 20XX	
1. Claim Number and Payee Code		4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 20XX	
2. Recipient's Identification Number		5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 20XX	
Recipient's Name, Street Address, City, State, and Zip Code		6. Workers' Compensation Offset in 20XX	
		7. Social Security Equivalent Benefit Portion of Tier 1 Paid for 20XX	
		8. Social Security Equivalent Benefit Portion of Tier 1 Paid for 20XX	
		9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 20XX	
		10. Federal Income Tax Withheld	11. Medicare Premium Total

COPY C -

**FOR
RECIPIENT'S
RECORDS.**

**THIS
INFORMATION
IS BEING
FURNISHED
TO THE
INTERNAL
REVENUE
SERVICE.**

FORM RRB-1099

DO NOT ATTACH TO YOUR INCOME TAX RETURN

Railroad Retirement Benefits (Form RRB 1099-R)

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE UNITED STATES RAILROAD RETIREMENT BOARD		20XX	
844 N RUSH ST CHICAGO IL 60611-2092		3. Employee Contributions	
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600		4. Contributory Amount Paid	
1. Claim Number and Payee Code		5. Vested Dual Benefit	
2. Recipient's Identification Number		6. Supplemental Annuity	
Recipient's Name, Street Address, City, State, and Zip Code		7. Total Gross Paid (Sum of boxes 4, 5 and 6)	
		8. Repayments	
		9. Federal Income Tax Withheld	
		10. Rate of Tax	
		11. Country	12. Medicare Premium Total

ANNUITIES OR PENSIONS BY THE
RAILROAD RETIREMENT BOARD

COPY B -

REPORT THIS INCOME ON
YOUR FEDERAL TAX
RETURN. IF THIS FORM
SHOWS FEDERAL INCOME
TAX WITHHELD IN BOX 9
ATTACH THIS COPY TO
YOUR RETURN.

THIS INFORMATION IS BEING
FURNISHED TO THE INTERNAL
REVENUE SERVICE.

FORM RRB-1099-R

Practice Scenario

Joanne Receives an RRB 1099-R.

How should the amounts on the blue form be treated?

- A. As 1099-R income
- B. As Social Security income
- C. As 'Other' income
- D. Not reported on the Federal return

Practice Scenario

Joanne Receives an RRB 1099-R.

How should the amounts on the blue form be treated?

- A. As 1099-R income
-  B. As Social Security income
- C. As 'Other' income
- D. Not reported on the Federal return

Explanation: Amounts reported on the blue form of a RRB 1099-R are treated as social security income and reported the same as if an SSA-1099 was received.

Practice Scenario

Devin received a 1099-R with code 1 shown. Devin explains he used the distribution to pay for a family vacation.

Is Devin subject to the 10% early withdrawal penalty?

- A. Yes
- B. No

Practice Scenario

Devin received a 1099-R with code 1 shown. Devin explains he used the distribution to pay for a family vacation.

Is Devin subject to the 10% early withdrawal penalty?



- A. Yes
- B. No

Explanation: Using the early distribution for a family vacation is not an allowable exception, as such Devin is subject to the 10% early withdrawal penalty.

Practice Scenario

Jim was born July 15, 1964, and started receiving his pension on June 1, 2020. He receives a 1099-R with the following information:

- Box 1: 8,000
- Box 2a: (blank)
- Box 7: Code 7
- Box 9b: 14,000

What type of distribution is this?

- Disability
- Normal Distribution
- Death benefits
- Early withdrawal, known exception

Practice Scenario

Jim was born July 15, 1964, and started receiving his pension on June 1, 2020. He receives a 1099-R with the following information:

- Box 1: 8,000
- Box 2a: (blank)
- Box 7: Code 7
- Box 9b: 14,000

What type of distribution is this?

- A. Disability
-  B. Normal Distribution
- C. Death benefits
- D. Early withdrawal, known exception

Explanation: Code 7 is a Normal Distribution.

Practice Scenario

Jim was born July 15, 1964, and started receiving his pension on June 1, 2020. He receives a 1099-R with the following information:

- Box 1: 8,000
- Box 2a: (blank)
- Box 7: Code 7
- Box 9b: 14,000

What is the expected number of payments?

- A. 300
- B. 360
- C. 260
- D. 310

Table 1 for Line 3 Above		
AND your annuity starting date was—		
IF the age at annuity starting date was...	BEFORE November 19, 1996, enter on line 3...	AFTER November 18, 1996, enter on line 3...
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

Table 2 for Line 3 Above	
IF the combined ages at annuity starting date were...	THEN enter on line 3...
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

Practice Scenario

Jim was born July 15, 1964, and started receiving his pension on June 1, 2020. He receives a 1099-R with the following information:

- Box 1: 8,000
- Box 2a: (blank)
- Box 7: Code 7
- Box 9b: 14,000

What is the expected number of payments?

- A. 300
- B. 360**
- C. 260
- D. 310

Explanation: Jim annuity start date was June 1, 2020, He was born July 15, 1964 making him 55 at the annuity start. Based on the table, he would have 360 expected payments.

Table 1 for Line 3 Above

AND your annuity starting date was—

<u>IF the age at annuity starting date was...</u>	<u>BEFORE November 19, 1996, enter on line 3...</u>	<u>AFTER November 18, 1996, enter on line 3...</u>
55 or under	300	360
56-60	260	310
61-65	240	260
66-70	170	210
71 or older	120	160

Table 2 for Line 3 Above

<u>IF the combined ages at annuity starting date were...</u>	<u>THEN enter on line 3...</u>
110 or under	410
111-120	360
121-130	310
131-140	260
141 or older	210

Practice Scenario

Jim was born July 15, 1964, and started receiving his pension on June 1, 2020. He receives a 1099-R with the following information:

- Box 1: 8,000
- Box 2a: (blank)
- Box 7: Code 7
- Box 9b: 14,000

In 2020 what would the amount recovered be?

- A. 300
- B. 467
- C. 272
- D. 356

Table 1 for Line 3 Above		
AND your annuity starting date was—		
IF the age at annuity starting date was...	BEFORE November 19, 1996, enter on line 3...	AFTER November 18, 1996, enter on line 3...
55 or under	300	360
56-60	260	310
61-65	240	260
66-70	170	210
71 or older	120	160

Table 2 for Line 3 Above	
IF the combined ages at annuity starting date were...	THEN enter on line 3...
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111-120	360
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Table 2 for Line 3 Above	
IF the combined ages at annuity starting date were...	THEN enter on line 3...
110 or under	410
111-120	360
121-130	310
131-140	260
141 or older	210

Explanation: The amount recovered for the first year would be the investment in the contract (14,000) divided by the expected number of payments (360) multiplied by the number of payments in the year (7).

Practice Scenario

Jim was born July 15, 1964, and started receiving his pension on June 1, 2020. He receives a 1099-R with the following information:

- Box 1: 8,000
- Box 2a: (blank)
- Box 7: Code 7
- Box 9b: 14,000

In 2024 what would the total amount recovered be?

- A. 1,673
- B. 2,353
- C. 1,360
- D. 2,140

Table 1 for Line 3 Above

AND your annuity starting date was—

<u>IF the age at annuity starting date was...</u>	<u>BEFORE November 19, 1996, enter on line 3...</u>	<u>AFTER November 18, 1996, enter on line 3...</u>
55 or under	300	360
56-60	260	310
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121-130	310
131-140	260
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Practice Scenario

Jim was born July 15, 1964, and started receiving his pension on June 1, 2020. He receives a 1099-R with the following information:

- Box 1: 8,000
- Box 2a: (blank)
- Box 7: Code 7
- Box 9b: 14,000

In 2024 what would the total amount recovered be?

- A. 1,673
- B. 2,353
- C. 1,360
- D. 2,140



Explanation: In 2024, the amount previously recovered would be the accumulated amount of

$$272+467+467+467+467 = 2,140$$

Table 1 for Line 3 Above

AND your annuity starting date was—

IF the age at annuity starting date was...	BEFORE November 19, 1996, enter on line 3...	AFTER November 18, 1996, enter on line 3...
55 or under	300	360
56-60	260	310
61-65	240	260
66-70	170	210
71 or older	120	160

Table 2 for Line 3 Above

IF the combined ages at annuity starting date were...	THEN enter on line 3...
110 or under	410
111-120	360
121-130	310
131-140	260
141 or older	210

Practice Scenario

Rachel receives a 1099-R with code 3 shown. Rachel is 57 and says the company she retired from has a minimum retirement age of 55.

Can her retirement income be reclassified as disability wages?

- A. Yes
- B. No

Practice Scenario

Rachel receives a 1099-R with code 3 shown. Rachel is 57 and says the company she retired from has a minimum retirement age of 55.

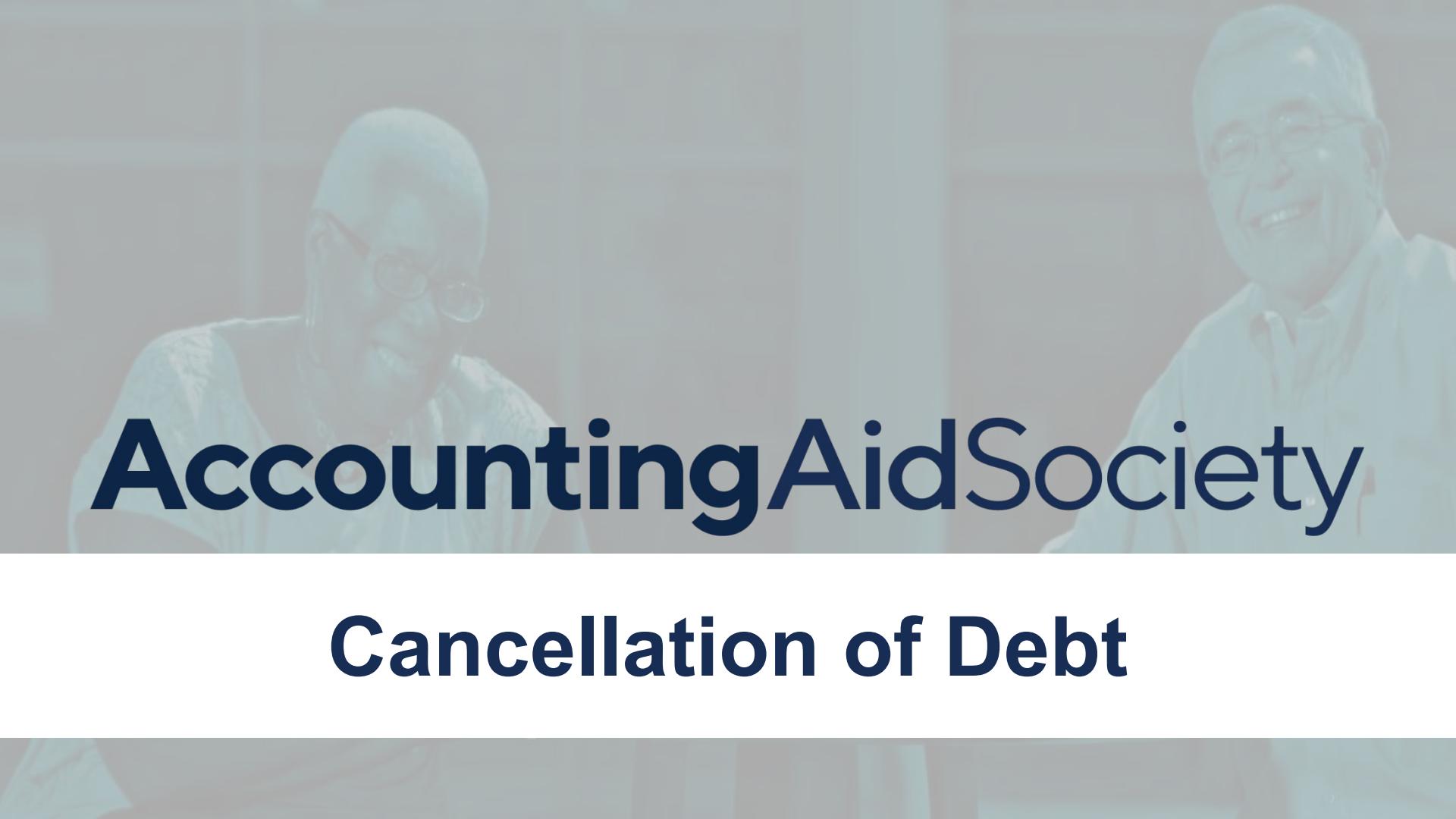
Can her retirement income be reclassified as disability wages?

- A. Yes
-  B. No

Explanation: Rachel is above the minimum retirement age for her company, as such she is no longer able to reclassify the income as disability wages.

End of Retirement Income

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



AccountingAidSociety

Cancellation of Debt

Cancellation of Debt

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

Scenario: Credit Card Debt Forgiven

In 2025, **Carlos had a \$4,000 credit card balance** that he couldn't pay.

The credit card company agreed to **forgive the full amount**, and later sent him a **Form 1099-C** showing **\$4,000 in Box 2 (Amount of debt canceled)**.

 Carlos must report the **\$4,000 as income** on his tax return, because the debt was **personally owed and canceled**.

Form 1099-C, Cancellation of Debt

CORRECTED (if checked)

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

Form **1099-C**

(keep for your records)

www.irs.gov/Form1099C

Department of the Treasury - Internal Revenue Service

Cancellation of Debt

Practice Problem

Question:

In 2025, Amanda had a **\$6,000 medical bill** that she couldn't pay. The hospital canceled the debt and sent her a **Form 1099-C** showing \$6,000 in canceled debt. Amanda was personally liable for the bill and did not file for bankruptcy.

How should this be reported?

- A. She does not need to report it since it was medical-related
- B. It is considered a gift and is not taxable
- C. The \$6,000 is taxable income and should be reported on her tax return
- D. Only half of the canceled debt is taxable

Practice Problem

Question:

In 2025, Amanda had a **\$6,000 medical bill** that she couldn't pay. The hospital canceled the debt and sent her a **Form 1099-C** showing \$6,000 in canceled debt. Amanda was personally liable for the bill and did not file for bankruptcy.

How should this be reported?

- A. She does not need to report it since it was medical-related
- B. It is considered a gift and is not taxable
- C. The \$6,000 is taxable income and should be reported on her tax return**
- D. Only half of the canceled debt is taxable

👉 *Explanation:* If a taxpayer is **personally liable** for a debt that is **canceled or forgiven**, it is generally considered **taxable income**.

Cancellation of Debt

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

Discharge of Qualified Principal Residence Indebtedness

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

Example:

Sarah lost her job and couldn't afford her mortgage payments. Her lender foreclosed on her home and canceled \$75,000 of the remaining loan balance.

Tax Result:

Since this was Sarah's **principal residence**, and the canceled debt meets the criteria for **Qualified Principal Residence Indebtedness (QPRI)**, she can **exclude** the \$75,000 from income — **no tax owed** on it.

However, **she must reduce certain tax attributes** (like capital loss carryovers or the basis in her remaining property) by the amount excluded.

Discharge of Qualified Principal Residence Indebtedness

- Qualified principal residence indebtedness includes:
 - Any debt incurred in acquiring, constructing, or substantially improving a principal residence that is secured by the principal residence
 - Any debt secured by the principal residence resulting from the refinancing of debt incurred to acquire, construct, or substantially improve a principal residence, but only to the extent that the amount of debt does not exceed the amount of the refinanced indebtedness
 - If debt was canceled, the taxpayer will receive 1099-C.
 - If canceled and forgiven or abandoned in the same year, they will receive 1099-C with the information that would be reported on 1099-A.

Example:

John bought a home in **2012 for \$250,000**. He took out a mortgage of **\$220,000 to acquire the property**. Over the years, he made payments and eventually refinanced.

Details:

- In 2019, John refinanced the remaining mortgage balance of **\$180,000** to get a lower interest rate.
- He **added \$20,000** to the new loan to remodel his kitchen and bathrooms (qualified improvements).
- The **new mortgage total is \$200,000** and is still secured by the same home, which remains his **principal residence**.

In **2025**, John faced financial hardship. His lender canceled **\$50,000** of the refinanced loan balance.

Tax Result:

- The original **\$180,000** refinanced debt qualifies because it came from the original loan used to **acquire** the home.
- The additional **\$20,000** used for **substantial improvements** also qualifies.
- So the **full \$200,000** of the refinanced mortgage qualifies as **Qualified Principal Residence Indebtedness**.
- The canceled **\$50,000** is **excluded from taxable income** under the QPRI exclusion.

Discharge of Qualified Principal Residence Indebtedness

Taxpayers return is in scope IF:

- The home was not used in a business or rental property
- Debt was not forgiven because bankruptcy was filed (1099-C, box 6, Code A)
- The taxpayer isn't in bankruptcy when he/she comes to the site for assistance
- Form 1099-C doesn't include interest amount in box 3
- The debt must be a mortgage used only to buy, build, or substantially improve the taxpayers primary residence.
- Mortgage was secured by the taxpayer's primary residence
- Mortgage was not more than \$750,000 (\$375,000 if MFS)

Discharge of Qualified Principal Residence Indebtedness

- **Exclusion Limit:**
 - The maximum amount that can be treated as qualified principal residence indebtedness for discharges **after 2020 and through 2025 is \$750,000 (\$375,000 in the case of a married individual filing a separate return).**
 - The maximum amount a taxpayer can treat as qualified principal residence indebtedness for debt discharged **after 2006 and before 2021 is \$2 million (\$1 million if married filing separately).**
 - Canceled qualified principal residence indebtedness cannot be excluded from income if the cancellation was for services performed for the lender or on account of any factor not directly related to a decline in the value of the residence or the taxpayer's financial condition.
 - **Form 982:** Used to exclude debt forgiven on principal residence

Example: Nadia and her husband bought a large home in 2022, taking out a mortgage for **\$900,000** to purchase and improve it. The debt was fully secured by their **principal residence**. In 2025, due to job loss and rising interest rates, they fell behind on payments. The lender eventually agreed to a **short sale** and **canceled \$300,000** of the outstanding debt.

Tax Result:

- Since the discharge happened **after 2020 and before the end of 2025**, the **maximum amount of qualified principal residence indebtedness** that can be excluded is **\$750,000** for joint filers.
- **\$150,000** of their \$900,000 mortgage exceeds this limit.

So:

- The **\$300,000** of canceled debt includes **some amount from above the \$750,000 cap**.
- Nadia can only **exclude canceled debt related to the first \$750,000** of qualified debt.
- Any portion of the canceled \$300,000 that ties to the **excess \$150,000 may be taxable income** (unless she qualifies for another exclusion like insolvency).

Practice Problem

Question:

Samantha received a **Form 1099-C** in 2025 for \$7,500 of canceled **nonbusiness credit card debt**. She states that the cancellation occurred as part of a **Chapter 7 bankruptcy** filing. She wants help preparing her tax return through the VITA program.

Which of the following best describes how this situation should be handled?

- A) This is **in scope** because it is nonbusiness credit card debt.
- B) This is **in scope** because the amount canceled is less than \$10,000.
- C) This is **out of scope** because the cancellation occurred in bankruptcy.
- D) This is **in scope** only if she was solvent before the cancellation.

Practice Problem

Question:

Samantha received a **Form 1099-C** in 2025 for \$7,500 of canceled **nonbusiness credit card debt**. She states that the cancellation occurred as part of a **Chapter 7 bankruptcy** filing. She wants help preparing her tax return through the VITA program.

Which of the following best describes how this situation should be handled?

- A) This is **in scope** because it is nonbusiness credit card debt.
- B) This is **in scope** because the amount canceled is less than \$10,000.
- C) This is **out of scope** because the cancellation occurred in bankruptcy.**
- D) This is **in scope** only if she was solvent before the cancellation.

Explanation:

Even though nonbusiness credit card debt is generally in scope for VITA, if the **cancellation occurred in bankruptcy**, the situation becomes **out of scope**.

Cancellation of Debt

- **Lenders must send Form 1099-C if they cancel a debt of \$600 or more.**
 - If the **canceled debt is less than \$600**, the lender might send a **letter or other notice** instead of a 1099-C.
 - No matter the amount, **taxpayers must report all canceled debt as income** on their tax return even if it's under \$600.
 - Interest on a cancellation of debt (1099-C) is Out of Scope.
- Sometimes, Form 1099-C will show an interest amount in Box 3. Because only **nonbusiness** credit card debt income is in scope, any interest on the account would not have been deductible. The amount shown in Box 3 is included in Box 2; therefore, the full amount shown in Box 2 should be reported as other income.

Practice Problem

Question:

When are lenders required to issue Form 1099-C?

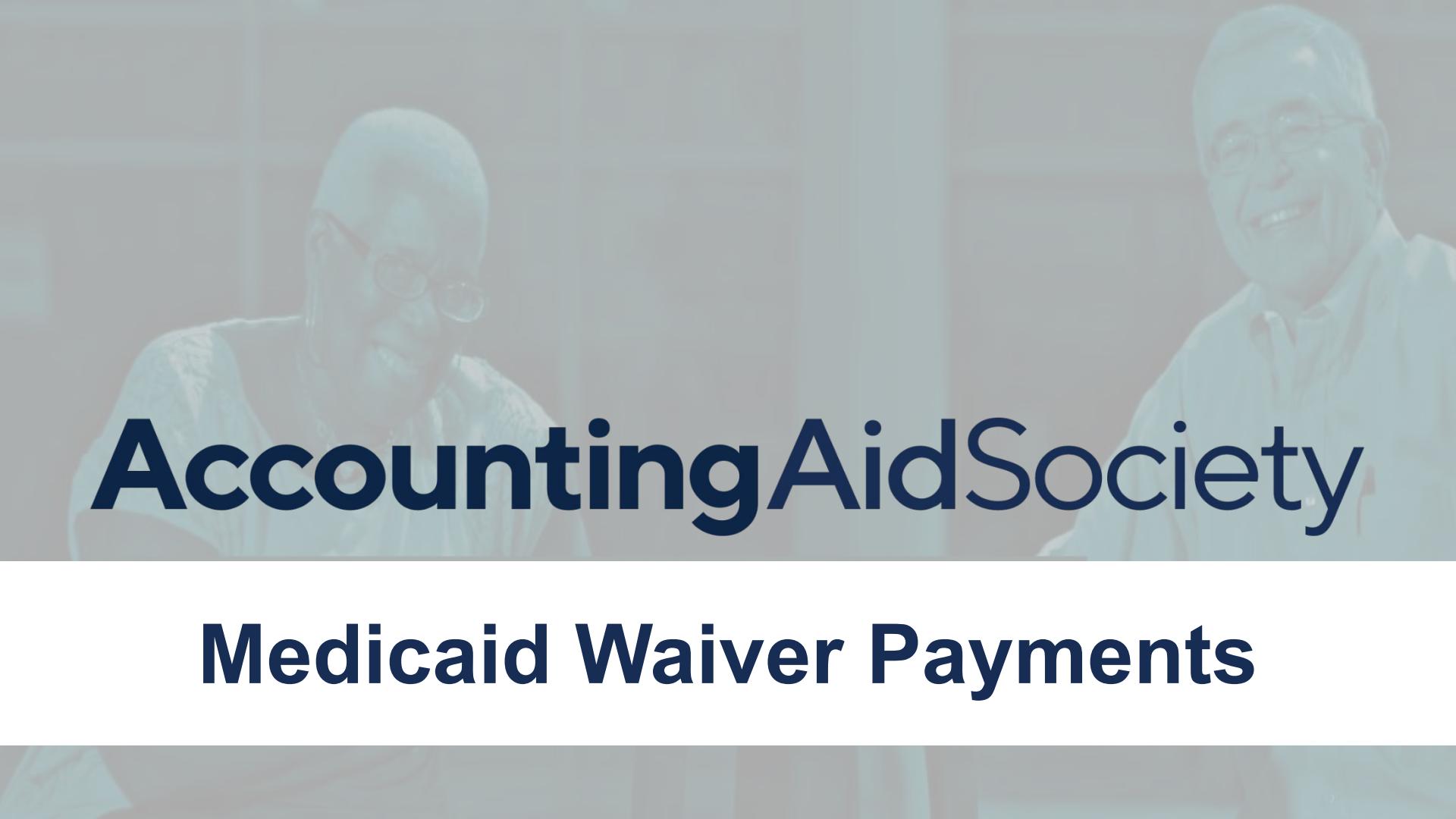
- A) Anytime a debt is canceled
- B) When any amount of debt is forgiven
- C) When a canceled debt is **\$600 or more**
- D) Only for business-related debt

Practice Problem

Question:

When are lenders required to issue Form 1099-C?

- A) Anytime a debt is canceled
- B) When any amount of debt is forgiven
- C) When a canceled debt is \$600 or more**
- D) Only for business-related debt



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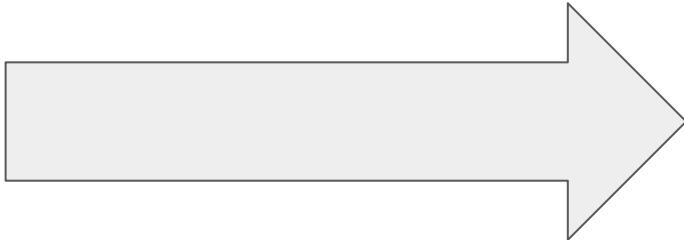
Medicaid Waiver Payments

Medicaid Waiver Payments

- A **medicaid waiver payment** typically refers to a payment made in relation to a **medicaid waiver program**, often part of a government health plan like Medicaid in the United States.
- Medical waiver payments are excludable from income and therefore aren't taxable for federal and state income.
- **You will still need to add the medicaid waiver payment to total household resources on the Michigan tax return.**
 - For the **Homestead property Tax Credit Claim** and **Home Heating Credit Claim**
- Although the payments are exempt from federal tax, the provider may receive a Form W-2 or other information return that includes the income.
- Accounting Aid Society recognizes certain agencies that issue medical waiver payments.
- Medical waiver payments can be still used for the calculation of earned income tax credit and additional child tax credit, if applicable.
- If you have a client with medical waiver payment income, consult the **4012-A page D12** on the proper way to enter it in the software.

Medicaid Waiver Agencies AAS Recognizes

- This is a list of the agencies AAS recognizes as qualified medicaid waiver programs found on the AAS resources page housed under advanced topics.
- If the taxpayer claims they receive income from a medicaid waiver program and their payer is NOT on this list then the taxpayer must have **written proof** of this claim for us to enter it as such.
- If the taxpayer cannot get written proof of their claim then their W2 will be entered normally and assumed to be taxable income.



Please note that Michigan Department of Health and Human Services (MDHHS) is not listed in the table. We are not aware that the MDHHS Home Help Program is a qualified Medicaid Waiver Program

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

(The table above is from the Michigan Department of Treasury Update, published November 2019)

Updated Medicaid Waiver Guidance Tax Years 2024 and 2025

- Accounting Aid Society will be revising its guidance on when to exclude **qualified Medicaid waiver payments** from gross income on 2024 and 2025 tax returns prepared at our tax sites.
- Payments may be excluded on tax year 2024 and 2025 returns if:
 - Code II (Medicaid waiver payments excluded from gross income under Notice 2014-7) is in Box 12 of Form W-2, **and**
 - It is confirmed with the taxpayer that they lived with the person they provided care for.
 - Qualified Medicaid waiver payments may be excluded from gross income only when the care provider and the care recipient reside in the same home.

Final Considerations

- A good rule of thumb is to enter the medicaid waiver payment **after** entering all other income the taxpayer may have.
 - Before entering it, take note of the refund or money owed.
 - Then, enter the medicaid waiver payment and check the box to include it for the calculation of earned income credit.
 - Take note of the refund/money owed.
 - Then uncheck the box and take note again of the refund/money owed.
- **ALWAYS choose the most advantageous outcome for the taxpayer based on the best refund or lowest amount owed!**

Final Considerations

GT Independence W2

- Recently, we have been seeing Forms W-2 from the employer GT Independence Services. The name of the individual being cared for is in the employer name section
- In Box 1, Wages, \$0.00 is entered
- In Box 14, Other, “2014-7 Income” is entered as the reason for the exclusion of wages in Box 1, referencing IRS Notice 2014-7
- Many taxpayers, however, have indicated that they *did not live with the individual for whom they provided care*
 - Tax returns should not be prepared for these taxpayers
 - They should be advised to get a corrected W-2
- Other taxpayers, as well, with W-2s from GT Independence Services should be advised that we cannot prepare the return until we get further information on the payments. This is another example where the taxpayer would need to provide written proof that these payments are under a qualified Medicaid Waiver Program before we will exclude the payments.

Practice Scenario

Your client George hands you his tax documents during the intake interview process. He tells you his W2 shows payments from a medicaid waiver program. When you consult the list of acceptable medicaid waiver program paying agencies provided by AAS you see that his payer is not on the list. George insists that it is a medicaid waiver. How should you move forward?

- A. Enter the income as a medicaid waiver in TaxSlayer. It is okay to take the client's word on this one.
- B. Since his payer isn't on AAS's list we can enter the W2 as normal and move on.
- C. Ask George to return to the tax site with written proof that his payer is a medicaid waiver program before finalizing the tax return.
- D. None of the above

Practice Scenario

Your client George hands you his tax documents during the intake interview process. He tells you his W2 shows payments from a medicaid waiver program. When you consult the list of acceptable medicaid waiver program paying agencies provided by AAS you see that his payer is not on the list. George insists that it is a medicaid waiver. How should you move forward?

- A. Enter the income as a medicaid waiver in TaxSlayer. It is okay to take the client's word on this one.
- B. Since his payer isn't on AAS's list we can enter the W2 as normal and move on.
- C. Ask George to return to the tax site with written proof that his payer is a medicaid waiver program before finalizing the tax return.
- D. None of the above

Practice Scenario

Jane is a foster parent providing care for a disabled adult in her home under a Medicaid waiver program. The payer listed is on the list AAS provides of acceptable medicaid waiver programs. She receives Form W-2 with \$12,000 in box 1. She lives with the person receiving care. Can this income be excluded?

- A. Yes, report all \$12,000 as taxable wages.
- B. No, it is excludable under IRS Notice 2014-7.
- C. Only \$6,000 is excludable.
- D. It depends on whether she itemizes.

Practice Scenario

Jane is a foster parent providing care for a disabled adult in her home under a Medicaid waiver program. The payer listed is on the list AAS provides of acceptable medicaid waiver programs. She receives Form W-2 with \$12,000 in box 1. She lives with the person receiving care. Can this income be excluded?

- A. Yes, report all \$12,000 as taxable wages.
- B. No, it is excludable under IRS Notice 2014-7.**
- C. Only \$6,000 is excludable.
- D. It depends on whether she itemizes.

Practice Problem

Troy earns \$10,000 from a part-time job and receives \$8,000 in Medicaid waiver payments for caring for his sister in his home. He wants to maximize his EIC. Can Troy choose to include the \$8,000 in his earned income for EIC purposes?

- A. No, excluded income can never be used for EIC.
- B. Yes, he can elect to include it for EIC only.
- C. Only if he's self-employed.
- D. Yes, but only if he is over 65.

Practice Problem

Troy earns \$10,000 from a part-time job and receives \$8,000 in Medicaid waiver payments for caring for his sister in his home. He wants to maximize his EIC. Can Troy choose to include the \$8,000 in his earned income for EIC purposes?

- A. No, excluded income can never be used for EIC.
- B. Yes, he can elect to include it for EIC only.**
- C. Only if he's self-employed.
- D. Yes, but only if he is over 65.



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Income (or Loss) from use of Rental Property

Income (or loss) from Rental Property

OUT OF SCOPE!

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

Income (or loss) from Rental Property

Examples of rental income:

- Taxpayer comes to the site and mentions they own a second house that they rent out. This would make the return out-of-scope.
- Taxpayer mentions that their cousin lives with them and pays them \$300 per month. Even with no lease agreement this would still be considered rental income and would make the return out-of-scope.

Practice Scenario

Rental income is In-Scope for the VITA program?

- A. Yes, rental income is always in-scope.
- B. Yes, but only for military families and with a military certification.
- C. No, rental income is never in-scope

Practice Scenario

Rental income is In-Scope for the VITA program?

- A. Yes, rental income is always in-scope.
-  B. Yes, but only for military families and with a military certification.
- C. No, rental income is never in-scope

Practice Scenario

Jamie comes in to the VITA site to file her taxes. She says she receives a W-2 as her only income. While talking about the Homestead Property Tax Credit, she asks if she can claim the taxes for both of the houses she owns. When asking about the other home she owns you find out she rents it out to a family.

Is Jamie's return Out of Scope for VITA?

- A. Yes
- B. No

Practice Scenario

Jamie comes in to the VITA site to file her taxes. She says she receives a W-2 as her only income. While talking about the Homestead Property Tax Credit, she asks if she can claim the taxes for both of the houses she owns. When asking about the other home she owns you find out she rents it out to a family.

Is Jamie's return Out of Scope for VITA?



- A. Yes
- B. No

Explanation: Because Jamie rents out her second home she would have to include the rental income on her tax return.

Practice Scenario

George comes in to the VITA site to file his tax return. During the interview he mentions that while he does not have any dependents, his cousin lives with him. George owns his house and his cousin pays him \$500 per month to stay there. They do not have any kind of lease agreement.

Would George's return be in scope for VITA?

- A. Yes
- B. No

Practice Scenario

George comes in to the VITA site to file his tax return. During the interview he mentions that while he does not have any dependents, his cousin lives with him. George owns his house and his cousin pays him \$500 per month to stay there. They do not have any kind of lease agreement.

Would George's return be in scope for VITA?

- A. Yes
-  B. No

Explanation: Even though there is no valid lease agreement between George and his cousin, the money he receives from his cousin would still be considered rental income.