BASIC CERTIFICATION STUDY GUIDE

Tax Year 2018

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BASIC SCENARIO 1: Jeff and Linda Arnold

Issue #1 – Who must make an individual shared responsibility payment?

A taxpayer who was without health insurance for any month in 2018 must make an individual shared responsibility payment (sometimes called the health care penalty), unless they qualify for an exemption. The penalty will generally appear on the return on which the individual is listed, either as taxpayer or as a dependent. However, if the taxpayer CAN claim someone as a dependent, the taxpayer cannot choose to leave the dependent off the tax return to avoid paying the shared responsibility payment. There is no health insurance requirement or penalty on a tax return when the taxpayer can be claimed as a dependent."

References:
Publication 4012 – pages H9, H15

Issue #2 – What exemptions might a client have to avoid paying the Shared Responsibility Payment?

The most common exemptions are:

- Short coverage gap – This is for someone who was without insurance for less than three consecutive months.
- Affordability - Taxpayers may be elifible for an affordability exemption. For more information, see the Center on Budget and Policy Priorities' online tool: http://www.healthreformbeyondthebasics.org/aca-exemptions-income-tool/
- Noncitizen – Generally, this will be someone filing with an ITIN, or a DACA (Dreamer) recipient.
- Low income – This most often applies to taxpayers with income below their filing threshold.
- A taxpayer may have received an exemption from the Marketplace. Although this is possible, it is very unlikely. Begining with tax year 2018, all exemptions that can be received from the Marketplace can now be claimed on the tax return.

If a client qualifies for an exemption, it can be entered on Form 8965 (Health Coverage Exemptions) and the Shared Responsibility Payment may be reduced or eliminated.

References:
Publication 4012 – pages H9, H10, H15

BASIC SCENARIO 2: Ava Harvard

Issue #3 – What are the rules regarding residency to claim a full-time college student for the Earned Income Credit?

The IRS lists some situations as "temporary absences" and considers that spouse/dependent to be living with the taxpayer. The most common temporary absences are illness, education (usually students away at college), business, vacation, military service, or detention in a juvenile facility. In these instances, the dependent will meet the residency test.

References:
Publication 4012 – pages C3, I4

Issue #4 – Can a full-time college student be the taxpayer's qualifying child or qualifying relative for Head of Household filing status, Credit for other dependents, Education credits and the Child tax credit?

The criteria for different tax benefits vary, so each one must be evaluated separately. Please reference the materials below for a complete list of requirements for each tax benefit to see what the age, relationship, residency, and support requirements are.

References:
Publication 4012 – pages B7, G12-G16, J4-J5
Publication 970 – pages 11 and 23

BASIC SCENARIO 3: Ellen Santos

Issue #5 – What is the most advantageous filing status for a widow who supports her grandchildren? The standard deduction varies depending on a taxpayer's filing status.

In this situation, you must first determine whether Ellen qualifies to file either as Married Filing Jointly or as a Qualifying Widower. If a taxpayer's spouse died in the current year (2018), they can still file MFJ in that year. In order to file as a Qualifying Widower, the spouse must have died in one of the two prior years (2016 or 2017) and the taxpayer must have a qualifying dependent who is the taxpayer's child or stepchild. Grandchildren do not qualify. Ellen's spouse died in 2014, so neither apply.

Next, determine if Ellen's grandchildren make her eligible to file Head of Household, rather than Single. Reference the materials below for Age, Relationship, Residency, Support, and any other tests to confirm if she can file as Head of Household.

References:
Publication 4012 – pages B6-B7

Issue #6 – What is the Additional Child Tax Credit for tax year 2018, and what is the criteria to be eligible for it?

In 2018, the maximum child tax credit is $2,000 per child. The Additional Child Tax Credit refers to the refundable portion of this credit which is capped at $1,400 per child. In order for a taxpayer to be eligible for this credit, the qualifying child must meet the following criteria:

- Be under age 17 at the end of the tax year.
- Be claimed as a dependent on the taxpayer's return.
- Is the taxpayer's son or daughter, adopted child, stepchild, eligible foster child, or a descendant of any of them, brother, sister, half-brother, half-sister, stepbrother, stepsister, or a descendant of any of them.
- Did not provide over half of his or her own support.
- Lived with the taxpayer for more than half of the tax year.
- Has a valid social security number by the due date of the return

References:
Publication 4012 – page G12

BASIC SCENARIO 4: Christopher and Amanda Drury

Issue #7 –Can taxpayers who have ITINs claim the Earned Income Credit if they have a qualifying child with a valid SSN?

ITIN holders are not eligible to claim all the same tax benefits as people with valid SSNs. In order to claim the EITC, all taxpayers and the dependent for whom the EITC is being claimed must have a valid SSN.

References:
Publication 4012 – pages I2-I3

Issue #8 – Can ITIN holders claim any tax benefits if they have a dependent child?

ITIN holders are eligible to claim the Child and dependent care credit, the Child tax credit (the child must have a valid SSN by the due date of the return and be listed as a dependent on the return) and the Credit for other dependents.

Note: [1]A taxpayer cannot claim both the Child tax credit and the Credit for other dependents for the same dependent. [2]For the Child tax credit and/or the Additional child tax credit, the qualifying child must have an SSN - not an ITIN. It's important to note the parent can have an ITIN and still get the credit, providing the qualifying child has a SSN.

References:
Publication 4012 – pages G5, G12, G14

BASIC SCENARIO 5: Matthew Rice and Ashley Tufts

Issue #9 – What are the correct filing statuses for an unmarried couple living together with children in the household?

First note that since Matthew and Ashley are not married, they cannot file a joint return. Each of their tax filing statuses must be considered separately.

Since Ashley is married, she can only file MFJ, MFS, or Head of Household if she meets all the qualifying tests. Although Ashely supports the family and meets the support test, she fails the relationship test, so she cannot file HOH.

Matthew is unmarried, so he can only file Single, or HOH, if he meets the requirements. Although he meets the relationship test with his sons to file HOH, since he does not provide more than half the cost of maintaining the home. Matthew cannot file HOH.

Reference:
Publication 4012 – page B6

Issue #10 – For an unmarried couple living together with children in the household, who can claim the children for the EITC?

As in Issue #9, Ashley and Matthew must be considered separately. The criteria to claim a child as a qualifying child for EITC is not identical to that of being considered a dependent or a qualifying person for filing status. In order to claim someone as a qualifying child for EITC, the following criteria must be met:

- Taxpayer(s) and qualifying child must have valid SSN.
- Child must be under age 19, or under age 24 if a full-time student, or any age if disabled.
- Is the taxpayer's son or daughter, adopted child, stepchild, eligible foster child, or a descendant of any of them, brother, sister, half-brother, half-sister, stepbrother, stepsister, or a descendant of any of them.
- Lived more than half the year with the taxpayer.
- Taxpayer must have lived in the US for at least half the year.
- Filing status cannot be MFS.

Note: There is no support test for EITC, except for married children who cannot provide more than ½ their own support.

References:
Publication 4012 – page I-4

BASIC SCENARIO 6: George and Helen Reed

Issue #11 – What options exist for a taxpayer to adjust their withholding so that little or no tax is due at the end of the year?

Federal taxes operate on a pay-as-you-go basis. Taxpayers who pay enough tax throughout the year can avoid a large tax bill and subsequent payment penalties when they file their return. The IRS provides an on-line withholding calculator to help taxpayers determine how much to withhold. If the taxpayer is an employee, they must update their W-4 and file it with their employer, to change their withholding amount.

For taxpayers who are self-employed, it may be necessary to make quarterly estimated tax payments. Those taxpayers can use IRS.gov/payasyougo to learn more about withholding and to determine if you should be making estimated tax payments.

Reference:
Publication 4012 – page K16

Issue #12 – What options are there for taxpayers who cannot pay their balance in full by the due date of the return?

The IRS encourages taxpayers to pay as much as they can at the time of filing. Any unpaid balance can by paid by using the Online Payment Agreement application on IRS.gov to request an installment agreement.

A taxpayer may also request an installment agreement by sending in form 9465 with their tax return. An installment agreement allows the taxpayer to make payments over time, rather than paying in one lump sum.

Note: Filing for a tax extension does not extend the due date for paying any balance owed.

References:
Publication 4012 – pages K14-K15

Issue #13 – When is a dependent student required to file a tax return?

Joshua is George and Helen's dependent, and his requirement to file a return is based on that status and the amount of his earned and unearned income.

As a dependent under age 65, Joshua must file a return if any of the following apply:

- Unearned income was over $1,050.
- Earned income was over $12,000
- Gross income was more than the larger of (a) $1,050 or (b) Earned income (up to $11,650) plus $350
- Other special situations apply (i.e. net self-employment earnings over $400).

In this case, although Joshua falls below the filing threshold for a dependent, he should still file a return in order to have his withholding amount refunded. No refund will be issued unless Joshua files a return.

Reference:
Publication 4012 – pages A2-A3

BASIC SCENARIO 7: Jacob and Martha Mills

Issue #14 – Are gambling winnings considered taxable income? Are gambling losses deductible?

Total gambling winnings are reported on Schedule 1, line 21. Certain gambling winnings are reported on Form W-2G (Certain Gambling Winnings). When a taxpayer itemizes their deductions, they have the ability to include gambling losses (to the extent of gambling winnings) as Miscellaneous Itemized Deductions. Gambling losses are not deducted directly from gambling winnings.

Note: While many other itemized deductions were eliminated or reduced by the Tax Cuts and Jobs Act, gambling losses are still allowed as itemized deductions. Taxpayers must have kept a record of their losses.

References:
Publication 4012 – pages D49, F3

Issue #15 – What are educational expenses are considered qualifying for the American Opportunity Credit (AOTC)?

The Quick Reference Guide and Manual both summarize the rules related to the American Opportunity Tax Credit (AOTC) and Lifetime Learning Credit. The criteria related to who may qualify and what expenses qualify for each of these education credits are not identical.

Note: The cost of course books is a qualifying expense for the American opportunity credit but not for the lifetime learning credit.

References:
Publication 4012 – pages J4- J5

Issue #16 – Is Social Security ever considered taxable income?

Social Security benefits are reported on Form SSA-1099 (Social Security Benefit Statement) (not to be confused with 1099-SA which is related to Health Savings Accounts). Social Security income can be both nontaxable and taxable income – it depends on the taxpayer's other income and their filing status. Even Warren Buffet doesn't pay taxes on his entire social security, but many Ladder Up clients are not required to pay taxes on their social security at all. The software will do the calculations for you. Make sure you finish the tax return in its entirety – enter **all** income, complete all worksheets, etc. before answering this question. The Manual provides details on how the taxable portion of Social Security benefits is determined if needed.

References:
Publication 4012 – page A-1
Publication 17 – page 85

Issue #17 – What is the Standard Deduction? What does it depend on?

The standard deduction depends on taxpayer's filing status and whether they are 65 or older or considered legally blind. While the vast majority of clients utilize the standard deduction (and the Tax Cuts and Jobs Act will likely mean even more clients will), they may opt to itemize their deductions on Schedule A (Itemized Deductions), if that produces a larger deduction.

References:
Publication 4012 – page F1

Issue #18 – What is included in total payments on line 18 of the 1040?

The total income tax liability is computed on line 11 and may be increased by other taxes (line 14), but can also be reduced by tax credits (both refundable and non-refundable). Taxpayers usually have already paid some of that tax liability through direct withholding from their income or through estimated payments. This question is asking how much the taxpayer has already paid the government.

Reference:
Publication 4012 –page K16

Issue #19 – Can refunds be split between accounts?

Taxpayers receiving a refund have the ability to deposit the refund in multiple accounts (e.g., checking and savings). Additionally, taxpayers have the ability to use their refund to purchase US Savings Bonds. The Manual indicates the procedures for the form (Allocation of Refund (including Savings Bond Purchases) used for this purpose.

Reference:
Publication 4012 – page K3

BASIC SCENARIO 8: Emily Clark

Issues #20 – What are the exemptions for having to pay the Shared Responsibility Payment?

The ACA requires individuals to have qualifying healthcare coverage (minimum essential coverage) for each month of the year unless they qualify for a coverage exemption. Taxpayers who do not obtain minimum coverage and don't qualify for one of the exemptions will have to pay an additional tax called the Shared Responsibility Payment (sometimes referred to as the penalty or the fee for not having insurance). If a client qualifies for one of the exemptions, it is entered on Form 8965 (Health Coverage Exemptions) and the Shared Responsibility Payment may be reduced or eliminated.

Reference:
Publication 4012 – page H15

Issue #21 – Which Educational Credit / Deduction can the taxpayer claim?

The Quick Reference Guide and Manual both summarize the rules related to the American Opportunity Tax Credit (AOTC) and Lifetime Learning Credit. The criteria related to who may qualify and what expenses qualify for each of these education credits are not identical. In order to see the amount of education credit, look at Schedule 3, line 15 of the return. This number is carried over from Form 8863 Education Credits.

Reference:
Publication 4012 – page J4

Issue #22 – Is federal income tax withholding only reported on W-2s?

Taxpayers typically have withholding from their jobs, which is reported on their W-2. However, they may elect to have withholding from other income sources, including: pensions, gambling winnings, social security, other government payments, etc. The total withholding amount will appear on page 2 of the 1040, line 16.

Reference:
Publication 4012 – page K16

Issue #23 – Can child care expenses affect a tax return?

If the taxpayer has qualifying children under the age of 13 (or dependent or spouse incapable of self-care), they may be able to claim a tax credit for the amounts paid to the childcare provider. The taxpayer must have the name, address, and identifying number for the provider, as well as the total amount paid to the provider. Further, the taxpayer is only eligible for the Credit for Child and Dependent Care Expenses while the taxpayer (and spouse) are at work or school.

In ProSeries, you will add the total year amount that the client paid under Part III of the Info Worksheet. When inputting the clients' dependent information there is a box for "Qualified child and dependent care expenses." That will bring up Form 2441 (Child and Dependent Care Expenses) in your Forms in Use section. You'll enter the provider information in Part 1 a-d.

Since the child care credit is nonrefundable, there is no need to enter "DC" and complete Form 2441 if the taxpayer has no taxable income; that is, if Form 1040, line 15, is zero.
The amount of child tax credit will appear on Form 2441, line 11.

Reference:
Publication 4012 – pages G5- G6

Issue #24 – What are the requirements to claim the Child Tax Credit?

Child Tax Credit or the Credit for Other Dependents: the qualifications for these two credits are similar to the requirements for qualifying child and qualifying relatives under the previous tax law – but there are some differences (in particular that to claim the new child tax credit the child must have a social security card). The other qualifying conditions are age, relationship, residency, and support and are listed in the YDCI.

Reference:
Publication 4012 – page G-12

Issue #25 – What are the exceptions to having to pay a penalty when money is withdrawn "early" from a retirement account?

Generally, the additional tax (10% penalty) applies if the taxpayer is under age 59 ½ years old at the time of distribution. There are exceptions if distributions are taken for certain reasons. The list of possible exceptions can be found in the instructions to Form 5329 (Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts) – but the rules are different for early withdrawals from IRA vs. 401(k) accounts.

The most common exceptions are to pay for medical bills in excess of 7.5% of AGI or for education. Generally, there is no exception if the funds are used to pay household expenses.

If no exception applies, the 10% penalty is assessed in the "Other Taxes" section of Schedule 4, line 59. ProSeries will calculate the penalty automatically, but if an exception is warranted, you'll need to complete a separate form in order to ensure the penalty is excluded from the tax return. Note that tax returns with exceptions to the penalty require advanced certification, so see your site leader if this comes up.

Reference:
Publication 4012 – page H4

BASIC SCENARIO 8: Extra Hints

After the Transfer:

Check for changes from year 2017 to 2018, for example, address changes, marital status, dependents, changes in employment. If a form is no longer needed, you should delete it from the return. If a new form is needed, look along the left-hand side of the screen under Common Forms, or use the Forms search feature along the upper toolbar.

Health care, ACA:

If a client qualifies for one of the exemptions, Form 8965 (Health Coverage Exemptions) will be filed and the Shared Responsibility Payment may be reduced or eliminated.

1099-G:

This form number refers to government payments. Both the prior year refund and unemployment use this form number, so you need to make sure you know what type of payment. Note also that the EIN will be different.