2022 TAX TRAINING
INCOME

INTAKE SHEET
If anything is checked in the Unsure column, it is your responsibility to change the answer to Yes or No and put your initials beside the change.
Always ask the taxpayer about other income not shown, such as interest income on a checking account or anything else not reflected above.

GENERAL GUIDANCE
When entering tax reporting documents in TaxSlayer, you need to match the information contained in the reporting document. For example, if the address on a W-2 is different from that shown on the return, change the address entered on the W-2 to match the reporting document. Also, ALWAYS check the date of the reporting document for the correct tax year. Taxpayers love to give us documents for the wrong tax years.

If an entry in TaxSlayer has a red asterisk beside it, it is a required field. If not, it is not required, and don't enter it. Finally, watch out for TaxSlayer auto-filling entries to be sure the entry is correct. One example is Form 1099-R which automatically carries the gross distribution amount to the taxable amount line which is often not correct.

FORM W-2
Be sure to correctly enter the codes and amounts included in Box 12, as these drive other tax consequences in TaxSlayer.

Watch out for Medicaid Waiver Payments (MWP), which are amounts paid to the taxpayer (typically by an insurance company) for providing care to a relative who lives with the taxpayer. These are generally not taxable but you generally won't know that from the W-2. If you see a Form W-2 with no Federal withholding, this might be an indication it is an MWP, so ask.

Combat pay is reported in Box 12 with a code Q. This is out of scope for VITA unless you have a Military certification. Combat pay is nontaxable.

FORM 1099-G, BOX 2 – STATE REFUNDS
If the taxpayer receives a Form 1099-G with a number in Box 2, this is for a refund of state taxes received during 2022. For virtually all of our clients, this is not taxable. The only situation in which this could even be taxable is if the taxpayer itemized deductions in 2021 instead of taking the standard deduction. Itemizing deductions for Federal is unusual for VITA clients, so you seldom need to deal with this form.
See Pub. 4012, p. D-16 if you need to enter this form.

FORMS 1099-INT AND 1099-DIV
Generally, very straightforward. Two exceptions: (1) interest from US obligations such as US Savings Bonds; and (2) tax-exempt interest. Both of these create NC tax return issues that must be addressed in TaxSlayer to get the NC tax return correct.

Interest from US Savings Bonds and Treasury Bonds is not taxable by the states, so any such interest (either paid directly and reported on a 1099-INT or paid indirectly through an investment such as a mutual fund and reported on a 1099-DIV) must be subtracted from the state income as this is not taxable by the States. Enter the amount shown in Box 3 of a Form 1099-INT in the TaxSlayer input box entitled "Amount of interest on U.S. Savings Bonds and Treasury Obligations that you want subtracted from your state return" to subtract this interest income from an NC return. Do the same for any U.S. obligation interest that is reported on a Form 1099-DIV (you generally will need to review the notes in the brokerage statement to find this information).

Tax-exempt interest is interest paid on state or local government bonds. This is not taxable by the Federal government (and thus appears for example in Box 8 of a 1099-INT rather than Box 1). However, NC taxes this interest if the bond was issued by another state or an instrumentality of another state. You must add back to NC income the amount of tax-exempt interest attributable to other states. The problem is finding this information in the statement. On a Form 1099-DIV tax-exempt dividends are found in Box 12.

FORMS 1099-R, RRB, SSA-1099
Form 1099-R is used to report payments from annuities and retirement plans, such as pensions, 401(k) plans, and IRAs. Box 7, Distribution Code, is very important. Common Box 7 codes: Code 7 – Normal distribution; Code 4 – Payments to a beneficiary; Code 2 – Early distribution with a known exception; Code 1 – Early distribution with no known exception; Code 3 – Disability; Code G – Rollover; and Code Q – Roth distributions.

Three primary exceptions to just entering the information in TaxSlayer: (1) need to use the Simplified Method to determine the taxable amount of the distribution; (2) rollovers; and (3) Qualified Charitable Distributions.

SIMPLIFIED METHOD
The Simplified Method is used to determine the taxable amount of certain distributions reported on Form 1099-R. Generally, you will know that you need to use the Simplified Method if the following appears on Form 1099-R:

- Box 2a (Taxable amount) is blank;
- The box for "Taxable amount not determined" is checked in 2b; and
- There is a number shown in Box 9b (Total employee contributions).

If you have a Form 1099-R like this, get help the first time you do this. TaxSlayer provides a tool for performing the Simplified Method by clicking on "Click here for options" under the input for Box 2a. However, I encourage you to use an alternative tool that is easier and provides more data. The Annuity/Pension Calculator can be found at: https://cotaxaide.org/tools. The Review Problems associated with this session include two Simplified Method problems and the answers walk you through how to compute the taxable amount using the Simplified Method. See Pub. 4012, p. D-39 and 40 for more information.

ROLLOVERS
Rollovers are usually reported on Form 1099-R with a Code G in Box 7. If the taxpayer tells you that all or part of a 1099-R distribution was rolled over and Box 7 is not a Code G, you will still enter the 1099-R as a rollover. In TaxSlayer, the taxable amount shown in Box 2a should be reduced by the amount of the rollover (which should already be $0 if it has Code G). You also need to tell TaxSlayer this is a rollover in the "Rollover or Disability" section of the input page.

QUALIFIED CHARITABLE DISTRIBUTIONS
Taxpayers over the age of 70½ are permitted to make Qualified Charitable Distributions (QCD) from their IRAs. The taxpayer should tell you that they had their IRA make a charitable contribution directly to a charity on their behalf rather than distributing money directly to the taxpayer. If this was done, reduce the amount of any taxable amount shown in Box 2a by the amount distributed to the charity, but otherwise enter the 1099-R as shown on the form. After entering the 1099-R information and clicking Continue, you are brought back to the 1099-R menu. Click on the last item "Nontaxable Distributions" and then click the first box to notify the IRS that there was a QCD, which explains to the IRS why the amount shown as taxable is different from the amount shown on the return.

QCDs are a wonderful idea to suggest to your older taxpayers who are over the age of 70½, have an IRA, take the standard deduction, and make charitable contributions. The QCD is treated as satisfying the Required Minimum Distribution requirement (discussed below) but is not taxable to the taxpayer. So, it has the effect of giving these taxpayers a deduction for their charitable contributions even though they do not itemize. Plus, it's great for charities as well.

OTHER 1099-R ISSUES
Code 1 Distributions – If Box 7 has Code 1, this means it was a distribution prior to age 59½ that may be subject to an additional tax unless an exception applies. This will be discussed in the Miscellaneous Topics session.

Code 3 Distributions – These are disability retirement distributions. If the taxpayer has not yet reached the plan's minimum retirement age, this distribution is treated as wages (and thus earned income) rather than a retirement plan distribution.

Required Minimum Distribution (RMD) – With respect to IRAs (not including Roth IRAs) and defined contribution plans (such as a 401(k) plan), a taxpayer must begin taking distributions by a specific date under the RMD rules to avoid an additional tax of up to 50% of the required distribution amount (note that the additional tax is out-of-scope for VITA). The RMD date depends on the age of the taxpayer. For taxpayers born before July 1, 1949, the first distribution must be made by April 1 of the year following the calendar year the taxpayer turned age 70½. For taxpayers born on or after July 1, 1949, the first distribution must be made by April 1 of the year following the calendar year the taxpayer turned age 72. Note that a QCD qualifies as a distribution for RMD purposes.

SSA-1099
This form reports the Social Security benefits received by the person for the year. Just enter the information from the form into TaxSlayer. Watch out for voluntary withholding reported in Box 6. In the Description of Amount in Box 3 on the left side of the form, you may see a list at the bottom showing various years to which the benefits relate. If you see this, that means the taxpayer received a lump sum payment from Social Security that covers the current year as well as one or more back years. If you have this situation, get someone to help you with how to deal with Social Security Lump Sum payments as there are special tax rules that may reduce the tax owed on the lump sum.

FORM 1099-NEC AND SCHEDULE C
Form 1099-NEC is reporting income from services where the taxpayer was not treated as an employee. Be very careful about Scope here – if the taxpayer has a business that operates at a loss, has expenses in excess of $35,000, or wants to claim a deduction for business use of their home, it is likely out of scope.

Usually, we see nonemployee compensation reported on Form 1099-NEC, but taxpayers may also have business income not reported on this form, including income reported on Form 1099-K. In either case, the income and any related expenses are reported on a Schedule C, and the net self-employment income is generally subject to a Self-Employment Tax of 15.3%.

Common in-scope expenses include tools, office supplies, advertising costs, and fees. If the taxpayer is buying and reselling items, such as on eBay, the cost of the items is reported as supplies. Also included are deductions for the business use of a car/truck using a cents per mile deduction. Using actual expenses is out-of-scope. The cents-per-mile deduction includes items such as gas, oil, maintenance and repairs, and car washes. Since we can only use cent-per-mile, these expenses are not deductible. The only deductible items for VITA purposes beyond the cent-per-mile are tolls, parking charges, and the business portion of registration taxes.

Watch out for commuting miles which are not includible in the deductible miles. Commuting miles are the miles driven from home to the first job site and from the last job site to home. See Pub. 4012, pp. D-24 & 25.

Out-of-scope expenses include business use of a home, depreciation deductions, and deductions for actual car expenses rather than cents per mile.

SELF-EMPLOYED HEALTH INSURANCE
There is an adjustment to income for self-employed taxpayers for health insurance premiums. Amounts paid for health insurance for the taxpayer, the taxpayer's spouse, and dependents under the age of 27 generally qualify. This can include the taxpayer and spouse's premiums for Medicare (shown on Form SSA-1099) and supplemental Medicare insurance. However, if the taxpayer, spouse, or dependent is eligible to be covered (not based on whether this coverage is elected) by the health insurance

program of an employer, the health insurance costs of any person eligible for the employer coverage cannot be included as a qualifying health insurance premium expense.

Note that if the taxpayer qualifies for the self-employed health insurance deduction and has Marketplace insurance and received Premium Tax Credits, the return is out of scope.

This adjustment to income is entered in the General Expenses section of Schedule C in the box for “Health Insurance” (and hence why we are talking about it here). Although entered here, TaxSlayer will properly treat the health insurance premiums as an adjustment to income rather than a Schedule C deduction.
See Pub. 4012, p. E-5 for more details.

SCHEDULE D – CAPITAL GAINS AND LOSSES
A sale of investment or personal property is only in scope if it is a sale of stocks, bonds, mutual funds, or a personal residence. All other sales, including digital currency such as Bitcoin or real property not used as a personal residence, are out of scope.

Sales of stocks, bonds, or mutual funds are generally reported on a brokerage statement, which may also include interest and dividend reporting.

Capital gain/loss reporting is broken into 4 buckets: (1) short-term transactions (held for a year or less) where the broker reports the basis to the IRS; (2) short-term where the basis is not reported; (3) long-term where the basis is reported; and (4) long-term where the basis is not reported. You generally can report these by subtotal for the bucket using Adjustment Code M.

Any information needed that is not on the Broker’s statement must be provided by the taxpayer, which usually relates to the basis of the property.
Get help the first time you have a brokerage statement, as these can be quite complex.

SALE OF A HOME
In the case of a sale of a principal residence, any gain is not taxable for the vast majority of our clients. Gain up to $250,000 ($500,000 on a joint return) is excludable if two tests are met that relate to the ownership and use of the home by the taxpayer for 2 of the last 5 years.

If there is no gain after the exclusion and the taxpayer did not receive a Form 1099-S, the sale does not need to be reported on the tax return.

For a more detailed discussion of these rules and how to report gains and losses on the sale of a principal residence, see Pub. 4012, p. D-32-35.

MISCELLANEOUS INCOME ITEMS

Alimony – only taxable to the recipient if the date of the divorce or separation was before 2019.

Gambling winnings – generally reported on a Form W-2G. A taxpayer may take an itemized deduction (if itemizing) for gambling losses up to the amount of gambling winnings.

Scholarship income – derived from Form 1098-T and a determination of qualified educational expenses – reported as “Other Compensation” in TaxSlayer. See the Education session.

Form 1099-C – Cancellation of debt (COD). Simple to enter into TaxSlayer, but you must be sure the COD is in scope (only credit card debt and principal residence indebtedness) and that the taxpayer is not insolvent and not in bankruptcy. See Pub. 4012, pp. D-64 to 66 for credit card debt and EXT-1 to 5 for principal residence debt. Form K-1 – watch out for scope. See Pub. 4012, pp. D-51 through 53.