ANSWERS

SESSION 7 – REFUNDABLE CREDITS

Problem 1

1. **True.** Both Chris and Marcie are under the age of 25 and they have no qualifying children. Therefore, they do not qualify for the EIC. Note if either Chris or Marcie had been 25, they would have qualified.

Problem 2

1. **True.** Emma and Liam qualify as QCs of the Brooks and are under the age of 17. The CTC requires that the QCs have an SSN that is valid for employment. In addition, the taxpayers must have a Taxpayer Identification Number. Emma and Liam are U.S. citizens and thus have SSNs that allow them to work. Charles has an ITIN, which is a Taxpayer Identification Number. Thus, the Brooks are entitled to the CTC.
2. **True.** Grace is 18 years old and thus cannot qualify for the CTC, but she still qualifies as a QC of the Brooks. The issue with whether they can claim the ODC is the fact that her father, Charles, is a resident alien with an ITIN. As with the CTC, an ITIN is sufficient for a taxpayer to claim the Other Dependent Credit.
3. **False.** Unlike the CTC and ODC, the EIC requires that both the qualifying children and the taxpayers must have an SSN that is valid for employment. Because Charles has an ITIN (which does not allow a person to work in the U.S.), they are not eligible to claim the EIC.

Problem 3

1. **a.** To be a qualifying person for purposes of the EIC, the person must satisfy the QC tests other than the Support test. Rebecca satisfies all of the QC tests. However, John does not satisfy the age test, as he was 25 at the end of 2022 and is not disabled. Therefore, Rebecca is the only qualifying child for EIC purposes.
2. **False.** John is too old to be a QC. One of the QR tests is that the person cannot have gross income over $4,400. John's income exceeded this amount and thus he is not a QR. Thus, he does not qualify for either the CTC or ODC. Rebecca is a QC and qualifies for the ODC (too old for the CTC) in spite of the fact that she earned more than $4,400 since the $4,400 gross income test does not apply to QCs.

Problem 4

1. **c.** Barbara was not married during 2022 and therefore cannot file as MFJ. QSS is a more advantageous filing status than Head of Household. Barbara, however, does not qualify for QSS filing status because Jenny is not her dependent as Jenny provided more than half of her own support. In addition, Marie cannot be a qualifying person for QSS status because she is a

granddaughter. Can Barbara claim HoH status? Barbara provided more than half the cost of maintaining the home and was not married in 2022. The remaining test is whether she had a qualifying person living with her for more than half the year. Jenny cannot be a qualifying person for HoH purposes because she is not a Dependent of Barbara since she provided more than half of her own support. Is Marie a qualifying person for HoH purposes? Because Marie provided none of her own support, she is a QC of both Barbara and Jenny. She is not a QC of her father because she did not live with him for more than half the year and thus, he cannot claim her. Because Marie is a QC of both Barbara and Jenny, we turn to the Tiebreaker Rules. If Jenny chooses not to claim Marie, Barbara wins under the Tiebreaker Rules because her AGI is higher than Jenny's. Thus, c, Head of Household, is the correct answer. If Jenny claims Marie, the answer would be b, Single, as Barbara would not qualify for any other filing status.

2. **a.** Jenny is married and will not file a joint return. She cannot file as Single since she was married and has not gone to court to either attain a divorce or legal separation. Can she file as Head of Household? Jenny cannot file as HoH because Barbara paid more than half the costs of maintaining their home for more than half the year. Her only choice is MFS, so the answer is a.
3. **c.** As with the HoH question, the Tiebreaker Rules decide whether Marie is a QC of Barbara or Jenny. Because Barbara's AGI is higher, Jenny can allow Barbara to claim Marie. For the EIC, Jenny is filing MFS. To claim EIC on an MFS return, Jenny must be able to show that (1) she had a QC living with her for more than half the year, and (2) that she either lived apart from her spouse for the last 6 months or didn't live with the spouse at year-end and had entered into a written separation agreement. She satisfies both requirements, including both alternatives of the second test even though she cannot file as HoH. Marie is also a QC of Barbara for purposes of EIC, but only if Jenny does not claim her under the Tiebreaker rules. Who ought to take her for EIC purposes? That involves doing both Barbara and Jenny's returns both ways (claiming Marie or not claiming Marie) to see which is better. The result is that it is far better for Jenny to claim Marie even though allowing Barbara to claim Marie gives her not only the EIC but also HoH filing status. The primary reason is that Jenny's income results in a substantially larger EIC when claiming Marie than Barbara's EIC when Barbara claims Marie.

Problem 5

1. **d.** The health insurance costs are not a deducible expense for purposes of Schedule C as they are a personal expense unrelated to the business. However, they are eligible to be claimed as an adjustment to income as Self-Employed Health Insurance. In addition, Burt is entitled to any Net PTC from his Marketplace insurance if one is generated on Form 8962 when his 1095-A is reconciled with this tax return.

2. **c.** The return of a taxpayer with both self-employment income and Marketplace insurance is out-of-scope for VITA. The adjustment for Self-Employed Health Insurance is in scope. And “d” might create a bit of a “standards of conduct” problem and is clearly prohibited.

Problem 6

Questions

1. The amount of the Advance Premium Tax Credit is shown in Column C of Form 1095-A and here is $21,613. This is a bit of a gotcha question, as it is not asking about the total Premium Tax Credit, but only the Advance Premium Tax Credit that was paid during the year as shown in Column C of Form 1095-A. This is a favorite question on the certification tests.
2. a. Once you complete the tax return in TaxSlayer, you can find the answer to this in several places. One is Form 1040, Schedule 3, Line 9 which shows the Net PTC of $456. The other place to see this is on Form 8862 which is included in the Print Set for the return. I encourage you to look at this form whenever you have Marketplace insurance so that you can understand what happened on the return and explain it to your taxpayer. These results can vary wildly from one year to the next for taxpayers, as it depends on several factors, including how many people are covered by the policy, the income estimate provided to the Marketplace at the time of purchase, and the policy selected. When we see taxpayers with significant repayment obligations it is almost always because the income estimate they provided to the Marketplace ended up lower than their actual income, so they are forced to repay all or a portion of the repayment. Remember the repayment limits will usually apply in this situation to limit the amount actually repaid.