

## **2022 TAX TRAINING MISCELLANEOUS TOPICS**

### **OTHER TAXES**

There are a few additional taxes that are in scope for VITA:

- Self-employment tax
- Additional taxes on early distributions
- Repayment of First-time Homebuyers Credit

These taxes are not income taxes and cannot be offset by nonrefundable credits. They can, however, be offset by refundable credits, withheld income taxes, and estimated taxes.

### **SELF-EMPLOYMENT TAXES**

The self-employment tax is a 15.3% tax on net self-employment income for taxpayers filing Schedule C. This is comprised of Social Security taxes and Medicare taxes. In an employment context, these taxes are imposed one-half on the employer and one-half on the employee (withheld from the employee's paycheck). In a self-employed context, the self-employed person pays all of these taxes through the Self-Employment tax. This tax is automatically computed by TaxSlayer once the Schedule C income and expenses are entered. This is often a surprise to taxpayers who have not been self-employed before, so it may require some explanation. For many self-employed taxpayers, this is the only tax they owe as their income is offset in full by the standard deduction and credits.

### **ADDITIONAL TAXES ON EARLY DISTRIBUTIONS**

A 10% "additional tax" (really more like a penalty) is imposed on distributions from IRAs and other qualified plans (such as 401(k) plans) if distributed prior to the taxpayer attaining age 59½ unless one of the specified exceptions applies.

This issue arises when Form 1099-R reports the distribution has Code 1 in Box 7, which means the plan administrator knows the distribution was made prior to age 59½ and the administrator is not aware of any exception to the additional tax.

Pub. 4012, p. H-5 lists the exceptions, but the most common ones we see are distributions to cover higher education expenses and distributions to purchase a first home.

When you enter a Form 1099-R with Code 1 in Box 7, TaxSlayer will give you a warning that the additional tax may apply. You must go to the menu for Federal/Other Taxes/Tax on Early Distribution to claim any applicable exception. If you do not go to Other Taxes to claim an exception, TaxSlayer will automatically impose the 10% additional tax. So, whenever you get the warning from TaxSlayer, be sure to go through the list with the taxpayer on p. H-5 of Pub. 4012 to see if any exception applies.

### **FIRST TIME HOMEBUYERS CREDIT**

The First Time Homebuyers Credit was a special credit to aid in the purchase of a first home in 2008. The credit was in essence a loan that has to be repaid over a 15-year period beginning with the 2010 tax return. This is done on the tax return by filing Form 5405 (in TaxSlayer under Other Taxes). The IRS also provides a look-up tool for affected taxpayers to use to look up their prior repayments and the amount owed for the current year. There is a link to this tool on the TaxSlayer input page. The repayment is accelerated if the home is disposed of, which is also reported on Form 5405. If a repayment is required and Form 5405 is not included in the return, the return will reject.

## **ESTIMATED TAXES**

Estimated taxes are quarterly taxes that a taxpayer can pay during the year (in April, June, September, and January) if the taxpayer owes tax and does not have sufficient withholding to cover the taxes owed.

If sufficient taxes are not paid in during the year, the IRS and NC may impose an “estimated tax” penalty, so if you have taxpayers who owe significant amounts to the IRS or NC and are likely to be in the same position for 2023, encourage them to either adjust their withholding or start paying estimated taxes. Any estimated tax penalty is determined by the IRS and NC. For both Federal and NC, the taxpayer will generally avoid the penalty if they owe less than \$1,000. The penalty is also avoided if the taxpayer pays in through withholding and estimated taxes at least 90% of what they owe for 2022 or pays in 100% of last year’s tax owed, whichever is smaller.

Federal and NC estimated taxes are entered in TaxSlayer under Federal/Payments and Estimates/ Federal (or State) Estimated Taxes. You can also print out vouchers for taxpayers to pay their 2023 estimated taxes. For Federal, this is found in Federal/Payments and Estimates/Vouchers for 2023 Estimated Taxes. For NC, this is found in the state section of TaxSlayer in the NC return under Miscellaneous Forms/Estimated Payment Vouchers.

## **OTHER TOPICS**

Other topics, such as applying a refund to next year’s taxes, splitting refunds, direct deposit, etc. can be found in Pub. 4012. You should review Tabs H and K for these topics.

## **SCOPE OF SERVICE**

The following is a summary of the primary issues that cause returns to be out-of-scope (OOS) for VITA. A much more extensive list can be found in Pub. 4012, pp. 6-20.

- Sales of any investment or personal property other than stocks, bonds, mutual funds, or personal residences. Thus, sales of the following items are OOS: digital currency such as Bitcoin (as well as any other taxable transaction involving digital currency), raw land, timber, easements to property, and personal property. Sales of property as part of a business activity are generally in scope so long as the business operates at a profit, the total expenses including the cost of items sold is equal to or less than \$35,000, and the asset sold was not an asset actually used in the business.
- Self-employment taxpayers – The following are OOS:
  - Schedule C with a loss.
  - Total expenses in excess of \$35,000.
  - A return with both self-employment income and Marketplace insurance.
  - Taxpayer wishes to claim the deduction for business use of a home.
  - The business has expenses for wages paid to employees or contract workers, depreciation, or rental payments for property for more than 30 days.
  - Rental income, including VRBO and Airbnb (other than for Military rentals) and sales of previously-rented property.
  - Casualty or theft losses.
  - Charitable contributions of property other than cash of more than \$500.
  - Kiddie Tax – May apply to taxpayers under the age of 24 with AGI in excess of \$12,950 and unearned income in excess of \$2,300 (including scholarship income).
  - Solar and EV credits.

- Marketplace insurance where not everyone on the policy is on the same tax return (for example, the policy covers the parents and a 26-year-old child who files a return claiming him/herself).
- Marketplace insurance that covers a self-employed person if the cost of the policy is subsidized through the Premium Tax Credit.
- Foreign tax credit in excess of \$300.
- Depreciation (other than for Military rentals).

## RESOURCES

- <http://taxvolunteers.com/vita> - This resource is a webpage with links to an incredible amount of material. It includes links to many helpful sites, as well as Cheat Sheets and Check Lists for a variety of subjects.
- NC Resources – This can be viewed in a link located on [taxvolunteers.com/vita](http://taxvolunteers.com/vita). This has lots of training resources for preparing NC tax returns, including training videos, checklists, practice problems, and knowledge checks.
- Bogart Calculators – I refer to these often. Include Pension Exclusion Calculator for doing the simplified method, Dependent Qualification Calculator, and Education Benefits Calculator for optimizing education credits. You can reach this through a link on [taxvolunteers](http://taxvolunteers.com/vita) or directly at <https://cotaxaide.org/tools/>.