Tax-Aide Notes

Tax Year 2026

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Completing the Tax Return

Due date	Thursday, April 15, 2027
How long for direct deposit refund	3 weeks
How long for paper check refund	2 months
How long to process paper return	4 months
How long to process amended return	2-4 months
How long to save documents	3 years minimum 3 years is the statute of limitations for a tax audit. 6 years if the IRS suspects some income was not reported. Save all records for assets you continue to own.

Standard Deduction

Filing Status	65 or Blind	Federal	CA
Married Filing Jointly	Under 65	$32,200	$11,412
Married Filing Jointly	One 65 or over	$33,850	$11,412
Married Filing Jointly	Both 65 or over	$35,500	$11,412
Qualifying Surviving Spouse	Under 65	$32,200	$11,412
Qualifying Surviving Spouse	65 or over	$33,850	$11,412
Head of Household	Under 65	$24,150	$11,412
Head of Household	65 or over	$22,200	$11,412
Single	Under 65	$16,100	$5,706
Single	65 or over	$18,050	$5,706
Married Filing Separately	Any age	$5	$5,706
Married Filing Separately	65 or over	$5	$5,706

Who Must File?

- If taxable income is greater than the standard deduction.
- If taxable income + ½ of Social Security > $32,000 for MFJ, $25,000 otherwise.
- If taxpayer received a 1099-S (sold a home).
- If taxpayer received an HSA distribution.
- If there is more than $400 of self-employment income.
- If taxpayer received advanced payments of the Premium Tax Credit.
- If MFS and taxable income is > $5.
- Scholarship income is earned income when determining filing requirement (otherwise unearned).

Who Should File?

- To help prevent identity theft
- If taxpayer had taxes withheld
- If taxpayer paid estimated taxes
- If taxpayer is eligible for a refundable tax credit
  - American Opportunity Credit
  - Additional Child Tax Credit
  - Earned Income Credit
  - Premium Tax Credit
- If taxpayer files a state return
- To be eligible for distributions only given to tax filers (e.g., COVID relief)

Dependents

If you may be claimed as a dependent by another taxpayer, you must file as a dependent whether you are being claimed or not.

A dependent must file if:

Single with taxable income (under 65) $15,750
Single with taxable income (65 or over) $17,750
Single with unearned income (under 65).....$1,350
Single with unearned income (65 or over).....$3,350

Married with taxable income (under 65) $15,750
Married with taxable income (65 or over) $17,350
Married with unearned income (under 65) $1,350
Married with unearned income (65 or over) $2,950

In California, a dependent must file if their income is greater that their standard deduction.

Kiddie Tax

- Applies if:
  The child is taxpayer's dependent, and
  The child is required to file a return (taxable scholarship is earned income), and
  Is under 18 or full-time student and under 24, and
  Has unearned income of (taxable scholarship is unearned income).....$2,700

Intake Interview

- Tax-Aide sites only require one spouse to be present (VITA sites require both spouses), but both spouses need to sign the return.

Out of Scope

- Form W-2, box 12 codes FF, Q, R, T, Z
- Form 1099-R, box 7 codes 5, 8, 9, A, E, J, K, N, P, R, T
- Form K-1 - Anything other than interest, dividends, capital gains/loss, royalty income, and associated foreign tax credits.
- Casualty and theft losses (except loss from declared disaster) (see sched A, line 15)
- Donations of non-cash items totaling more than $5,000 (see sched A)
- Contributions of motor vehicles, boats, airplanes over $500 (see form 1098-C)
- Schedule C with Marketplace health insurance.

Digital Assets

- Buying, holding, inherited, or gifted digital assets is not taxable and is in scope.
- Received as payment for work, service, award, or sale of property is out of scope.
- Sell, exchange, or dispose of digital asset is out of scope.

Possible Dependents

- Anyone who lived with the taxpayer, or
- Anyone who the taxpayer supported.

Things to Check For

- Capital Loss Carryover
  - Form 1040, line 7, Capital Gain, will be -3000.
  - Schedule D, line 21 will be -3000 and it will be less than line 16.
  - The amount to be carried forward can be found on the Capital Loss Carryover Worksheet, lines 8 and 13.

- Last year's refund was used to pay this year's taxes.
  - Form 1040, line 36, amount applied to next year's estimated tax, will not be blank or zero.
- Identity theft pin was used last year.
  - It will be entered to the right if the taxpayer's signature on form 1040.
- Owed money on California return last year.
  - Form CA 540, line 111, Amount You Owe, will not be blank or zero.
  - Enter in this year's Taxes You Paid section.
- Taxpayer made any large purchases last year (large amount of sales tax)?
- If taxpayer is 73, make sure they withdrew RMD.
- If taxpayer is 65 and no SSA-1099, ask about Medicare payments.
- Taxpayer received Advanced Premium Tax Credit.
- Intake/Interview asks if the taxpayer or spouse is disabled. This is not entered in TaxSlayer, but if it is checked, the counselor should determine if the taxpayer or spouse is eligible for the Credit for the Elderly or the Disabled.

Basic Information

Deceased Taxpayer

- When a refund is due and the surviving spouse is filing the tax return, use direct deposit. A check may have both spouses' names making it difficult to deposit.
- When someone other than the surviving spouse is filing the tax return and a refund is due, complete form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer.
  - Print an extra copy of form 1310 to be mailed to the IRS.

Name

- Omit punctuation marks except hyphens.

Filing Status

- If married, taxpayer may be able to file MFJ, MFS, or HoH.
- If single, taxpayer may be able to file Single, HoH, or QSS.
- If a spouse dies and the surviving spouse remarries, the deceased spouse must file as MFS.

Marriage

- If there is no court ordered separation, the taxpayer can file MFJ, MFS or HoH, never single.
- A married person is married even if their spouse lives in another country. If the spouse is a non-resident alien, taxpayer must file as MFS, HoH, or elect to treat the spouse as a resident alien, in which case, the taxpayer can file as MFJ.
- Legally married same sex couples are considered married, but registered domestic partners and civil unions are not.

MFS Restrictions

- For MFS to be in scope, the following must be true:
  - Must have lived apart for the entire year,
  - All finances are separate, and
  - No intention of getting back together.
- If one spouse files MFS, then the other spouse must also file MFS.
- If one spouse itemizes deductions, then the other spouse must itemize deductions.
- Cannot claim Earned Income Credit unless lived apart past 6 months.
- Cannot claim Child and Dependent Care Credit.

- Cannot claim American Opportunities credit or Lifetime Learning Credit.
- Cannot claim student loan interest deduction.
- Each spouse is limited to $1500 of capital losses.
- May be advantageous to file MFS in cases where there is a significant deductible expense that must be greater than a percentage of AGI (e.g. medical expense deduction).
- MFJ cannot be amended to MFS after the due date (April 15), but MFS can be amended to MFJ.
- If a taxpayer is filing MFS and not living with their spouse, the taxpayer is not liable the spouse's tax obligations. When filing MFJ, both spouses are liable for the taxes due.
- A taxpayer must file a tax return when filing MFS and taxable income is greater than $5.

Dependents

- Add an entry in TaxSlayer for:
  - All dependents (qualifying child or qualifying relative).
  - Anyone that would be a dependent except:
    - Is being claimed as a dependent by someone else
      - ➢ May qualify for Child and Dependent Care Credit, EIC, QSS, or HoH
    - Did not meet the qualifying relative income test
      - ➢ May qualify for Child and Dependent Care Credit or QSS
    - Did not meet the qualifying child joint return test
      - ➢ May qualify for Child and Dependent Care Credit or QSS
    - Did not meet the qualifying child support test
      - ➢ May qualify for EIC
- For number of months this person lived in your home, use
  - **Divorce/Separation** for non-custodial parent claiming the child as a dependent.
  - **Other reasons** for a qualifying relative who did not live with the taxpayer.

Questions for Taxpayer/Spouse

- Can be claimed as a dependent on someone else's return.
  - Tax return will be filed as a dependent.
  - Taxpayer cannot claim the personal exemption.
  - Taxpayer cannot claim any dependents or use a filing status that requires dependents.
  - The standard deduction is lower.
- Taxpayer was a nonresident alien for any part of the year.
  - If checked
    - Tax return is out of scope (Duck Book, p14).
    - The taxpayer will be ineligible for the Earned Income Credit, Credit for the Elderly or Disabled, American Opportunity Credit, and the Lifetime Learning Credit.
  - If this is not checked
    - A taxpayer with an ITIN will be treated as a resident alien for tax purposes.
- Taxpayer or Spouse was affected by a natural disaster during the current tax year.
  - Checking this box adds a drop-down box to select which disaster the taxpayer experienced, which allows tax relief based on the disaster relief act for that disaster, for example:
    - Allow last year's earned income to be used for the earned income credit and the additional child tax credit.
    - Increase the limit on charitable contributions.
    - Suspend tax on early distributions from an IRA.

Questions for Dependent

- For number of months this person lived in your home, use
  - **Divorce/Separation** for non-custodial parent claiming the child as a dependent.
  - **Other reasons** for a qualifying relative who did not live with the taxpayer.

- Not Your Dependent
  - Would be qualifying child except child provides half of their own support.
  - The non-custodial parent is claiming the child, but the child qualifies the taxpayer for HoH, dependent care credit, or EIC.
  - The child is not a dependent but qualifies the taxpayer for HoH or QSS.
- Do not wish to claim this dependent for Earned Income Credit.
  - This is a rare corner case; don't use.
- Multiple Support Declaration
  - Multiple support declaration is used when no one person provides more than half the support for the person, but multiple taxpayers could claim the person as a dependent otherwise.
  - Check this checkbox if the taxpayer is the one that will claim the dependent.

Income Section

W-2 – Wages
W-2G – Gambling Income
1099-B – Brokerage Statement, Capital Gains
1099-C – Cancelation of Debt
1099-DIV – Dividends
1099-G – CA Income Tax Refund
1099-INT – Interest
1099-K – Payment Cards
1099-LTC – Long Term Care
1099-NEC and 1099-MISC – Non-employee Compensation
1099-R – Retirement or Pension Distribution
1099-S – Sale of Home
SSA-1099, RRB-1099 – Social Security
Schedule C
Schedule K-1
Jury Duty Pay

- If AGI is $0, return cannot be filed electronically.
  - Add $1 of interest, enter payer as "TO E-FILE."

W-2 – Wages

- Box 10: this is used by employers to report dependent care benefits paid to the taxpayer. This is taxed as income unless offset with expenses on Form 2441 Child and Dependent Care Expenses.
- Box 12: see pub 4012, D-11 for a description of the codes in this box.
- Box 14: CA SDI is automatically carried to schedule A, line 5a.
- Box 14: if this box contains **SDI**, enter it as **CA SDI**.
- Box 14: if this box contains **VD**, **VPDI**, or **VI**, enter it as **CA VP**.
- Box 19 or 20: if **CA SDI** is entered in these boxes, move it to box 14.
- Statutory Employee Box: if this box is checked, TaxSlayer will direct you to enter or select a schedule C when the W-2 form is saved. Statutory employees receive Form W-2 for their pay and have taxes withheld; however, they report their income and deduct their expenses on Schedule C. Copy box 1 to Schedule C income.
- Retirement Plan Box: If this box is checked, the employee participated in the employer's retirement plan.
- State Section: If this section is blank, select **California**, enter the state EIN, and copy the wages from box 1 to box 16. If this is not done, these wages will not be applied towards earned income in California.

- If taxpayer has an ITIN and it does not match the SSN on the W-2, use the ITIN for the return and enter the SSN on the W-2 as shown.

Medicaid Waiver Payments (MWP)

- Also called In Home Support Services (IHSS).
- May be excluded from income if the care provider and care receiver reside in the same home.
- May be included in earned income for EIC and ACTC even if excluded from income.

- Employer's name on W-2 is person being cared for.
- Employer's address will be P.O. Box 1717, West Sacramento, CA.
- Employer's EIN will be 94-2629822.

- If box 1 is empty, copy value from box 3.
- To exclude the Medicaid Waiver Payment from taxable income:
  - To exclude MWP from taxable income, copy the value from box 1 to the MWP box under box 14.
    - If care provider did not live with care receiver all year, pro-rate the value based on time together.
  - To include the excluded MWP for EIC and ACTC:
    - Check the box directly above the MWP box.
    - This may give the taxpayer too much income to qualify for the credit, so make sure the amount of the refund increases.
- On a CA return, MWP can be either included or excluded as earned income.
  - Box 1 is the taxable income (always enter as shown on W-2)
  - Box 16 is earned income (copy from box 1 or change to 0 to exclude from earned income).
- Try each combination to see what works best for taxpayer:

Federal Not Taxable	Federal Not Earned	CA Not Earned
Federal Not Taxable	Federal Not Earned	CA Earned
Federal Not Taxable	Federal Earned	CA Not Earned
Federal Not Taxable	Federal Earned	CA Earned
Federal Taxable	Federal Earned	CA Earned

  - The other combinations where it is taxable on the federal return are never advantageous to the taxpayer.

W-2G – Gambling Income

- Losses up to the amount of winnings are deductible if the taxpayer itemizes deductions.
- Go to Income->Other Income->Gambling Winnings W2-G.
  - Both winnings and losses can be reported on this page.

1099-B – Brokerage Statement, Capital Gains

- Brokers are required to track cost basis on shares purchased on or after January 1, 2011.
- Make up to 4 entries in TaxSlayer; one for each category of sale:

Code	Abbr	Description
A	STR	Short term with basis reported to IRS
~~B~~	~~STN~~	~~Short term with basis not reported to IRS~~
D	LTR	Long term with basis reported to IRS
E	LTN	Long term with basis not reported to IRS

  - **Description of Property**, enter broker name appended with the corresponding abbreviation strings shown above.
  - **Date Acquired**, select **Various Short Term** or **Various Long Term**.
  - **Date Sold**, enter the date of the latest sale.

- Do not select the **M** option for reporting multiple entries on one line (even thought this is what it is for) because it causes form 8453 to be printed with the tax return. This form is used for sending additional information to the IRS and it is not used by Tax-Aide. The IRS will ask for additional documentation if they want it.
- If there is a wash sale, enter it as a positive number in the **Adjustments** field and check code **W**.

- Losses on the sale of investment assets are deductible; losses on personal-use assets are not.
- Gains on the sale of all assets are taxable.
- In community property states (e.g., California), when either spouse dies, the basis of community property (e.g., stock) becomes the current fair market value of the property.
  - Basis on brokerage statement is likely to be the original basis, not the stepped-up basis.
  - If taxpayer is widowed, look for stocks that were purchased before the death of the spouse and verify the basis with the taxpayer.
- If taxpayer cannot provide the basis on property received as a gift, it is out of scope.

Capital Loss Carry Forward

- To determine if there is a capital loss to be carried forward, on last year's return:
  - Form 1040, Line 7, Capital Gain, will be -3000.
  - Schedule D, line 21 will be -3000 and it will be less than line 16.
  - The amount to be carried forward can be found on the Capital Loss Carryover Worksheet, lines 8 and 13.
- When determining the amount of loss to carry over to next year, you reduce it by the amount you are allowed to deduct this year whether you need it or not and whether you filed this year or not.

Inherited Assets

- Are always treated as a long-term gain or loss.
- For the date acquired, select **Alternate Option->Inherited - Long Term**.
- Basis is the fair market value on the date of death of the owner.

1099-C – Cancelation of Debt

- Cancelation of debt is only in scope for:
  - ~~Principal residence (mortgage must be<= $750,000) (not a second home)~~
    - ~~Complete form 1099-C and 982~~
    - ~~On form 982, check box for "Discharge of qualified principal residence indebtedness."~~
  - Credit card
    - Complete form 1099-C
  - ~~Student loan forgiveness (2020-2026)~~
    - ~~Should not have received form 1099-C~~

1099-DIV – Dividends

- Enter payer's name (abbreviation is OK).
- EIN and address are not needed.
- Box 1a, Total Ordinary Dividends,
  - If 50% of the dividends are from U.S. government obligations, then none of the dividends are taxable in California.
    - Scroll down to **State Exempt Dividends**.
      - Enter amount that should not be taxed in California.
      - Select **California** for the state.
- Box 12, Exempt Interest Dividends
  - Taxable in California if from out of state bonds.

        - Determine what percentage was earned outside CA to determine how much is not exempt.
        - Scroll down to **Taxable State Dividend**.
        - Select **Add Dividend Item**.
            - Select **California** for the state.
            - Enter amount of the dividend that should be taxed in California.

1099-G – CA Income Tax Refund

A state income tax refund is only taxable to the extent that the taxpayer benefited from claiming the state income tax as a deduction in the tax year that the state income tax was overpaid.

Not taxable if:

- Did not itemize.
- Used sales tax deduction, or should have used sales tax deduction.
- SALT tax was reduced by more than the amount of the refund because of the SALT limit.

1099-INT – Interest

- Enter payer's name (abbreviation is OK).
- EIN and address are not needed.
- Box 3, Interest on U.S. Savings Bonds and Treasury obligations
    - Not taxable in California.
    - Go to **Amount of Interest on U.S. Savings Bonds you want subtracted from state return** below box 3.
    - Copy amount from box 3.
    - Select **California** for the state.
- Box 5, Investment Expense
    - TaxSlayer knows this is deductible on CA return; do not add as a deduction.
- Box 8, Tax Exempt Interest
    - Taxable in California if from out of state bonds.
        - Determine what percentage was earned outside CA to determine how much is not exempt.
        - Scroll down to **Taxable State Interest**.
        - Select **Add Interest Item**.
        - Select **California** for the state.
        - Enter amount of the interest that should be taxed in California.

1099-K – Payment Cards

- Determine if personal (non-taxable) or business (taxable) transaction.
- If business income
    - Select Income->Form 1099-K; Continue to get to Schedule C.
    - Enter in schedule C, Income, second line.
- If non-taxable income (sale at a loss, personal transaction, etc.)
    - Select Income->Form 1099-K
    - Enter amount that is non-taxable in box.
    - Click Cancel to skip the Schedule C
    - Amount will appear on Schedule 1, above line 1.
- If personal transaction (non-taxable), enter as income then subtract as an adjustment.
    - Select Income > Other Income > Other Income Not Reported Elsewhere.
        - Select ~~**Other Income**~~.
        - Description is "F1099 Personal Loss" or "F1099 recv in error".
        - Enter amount as a positive number.
    - Select Deductions > Adjustments > Other Adjustments > Adjustments Not Listed Above.
        - Enter as ~~**Other Adjustments Not Listed Above**~~.
        - Enter same message.

        - Enter amount as a positive number.
- Out of Scope if:
    - Payment for personal property sold for more than original cost.
    - Payment from a hobby.
    - Rental income.

1099-LTC – Long Term Care

Long-term care benefits are either reimbursements for actual expenses incurred or a per-diem allowance. See checkbox on 1099-LTC.

- Reimbursements
    - Not-taxable if they do not exceed the cost of care.
    - Do not need to be reported.
- Per Diem
    - Form 8853, section C needs to be entered in TaxSlayer to determine taxability.
        - In TaxSlayer page for form 8853, scroll down to **Long Term Care Contracts**. This is the section C information.
    - Per diem payments are not taxable if less than $430/day (see form 8853, line 21) or less than the cost of care.
    - Must be subtracted from medical expenses on Schedule A.

1099-NEC and 1099-MISC – Non-employee Compensation

- Enter amount in the TaxSlayer in the form or box that directs the income to the correct location even if different from the paper 1099-NEC or 1099-MISC.
    - Use 1099-NEC for business income.
    - Use 1099-MISC for non-business income.
    - 1099-MISC, box 2, royalties for use of property, leave in box 2 so it will go to schedule E.
    - 1099-MISC, box 2, royalties for self-employment (writers, singers, etc.) move to 1099-NEC, box 1 so it will go to schedule C.
    - 1099-MISC, box 3 that is for self-employment, move to 1099-NEC, box 1.
    - 1099-NEC, box 1, non-business income (e.g., honorarium), move to 1099-MISC, box 3.

1099-R – Retirement or Pension Distribution

- Used for IRA and pension distributions.
    - The IRA/SEP/SIMPLE checkbox in box 7 tells you which one it is.
    - CSA 1099-R is always a pension.
- RRB 1099-R is the equivalent of form 1099-R for railroad employees,
    - Entered on a separate page in TaxSlayer.
- CSA 1099-R is the equivalent of form 1099-R for U.S. government employees (civil service)
    - Entered on 1099-R page in TaxSlayer.
- Taxable amount not determined is always checked for a traditional IRA.
    - Taxpayer needs to know if there is a basis, otherwise fully taxable.
- Does not carry to the form 8880 checkbox
    - Distributions will normally offset contributions and therefore reduce the Saver's Credit.
    - If the 8880 checkbox is checked, this distribution will not offset the contributions.
    - See pub 4012, G-18 for distributions that should have the 8880-checkbox checked.
        - Rollover or converted to Roth
        - Pension where contributions were required (not voluntary)
        - Military Retirement Plan
        - Inherited form someone other than your spouse (e.g., code 4).
- Box 2a

    - If box 2a Taxable Amount is less than box 1, Gross Distribution, make sure taxable amount is carried forward to box 16, State Distribution. (I think California ignores box 16 and uses the box 2a).
    - If box 2a is $0 or blank and **Taxable Amount Not Determined** is checked
        - If box 5 or 9b has a value and not an IRA, use the Simplified Method.
        - Otherwise, make the whole amount taxable.
- Box 5
    - On CSA 1099-R, this is always health insurance premium amount.
    - If health insurance premium
        - If PSO, subtract from taxable amount.
        - Otherwise, enter on Schedule A as a medical expense.
    - Or, it is the amount of employee contribution (from 9b) that is not taxable.
- Box 7
    - See pub 4012, D-52 for a description of the codes in this box.
- Box 9b
    - This is the amount of after-tax contributions that were made.
    - If taxable amount not determined, the taxable amount of the distribution in box 2a needs to be calculated.

Simplified Method

- Once an annuity starts, the calculation does not change. For example, when one spouse dies after starting the annuity and it started as a joint annuity, it remains a joint annuity for life.
- Annuity start date is the month and year of the first payment.
- TaxSlayer Tool
    - Will carry forward to next year.
    - Plan cost at annuity start date is from 1099-R, box 9b.
    - **Starting date of annuity** is the date of retirement.
    - Death benefit exclusion can be ignored.
    - **Check if annuity benefits are based on**… Check if joint or survivor annuity.
    - **Combined calculated age**… Let TaxSlayer fill in.
    - Adjust the calculated age… Ignore
    - **Number of months paid in 20xx**… Enter 12 unless first year of annuity.
    - Amounts previously recovered… Ignore
    - **Public Safety Officer**… Enter cost of insurance for taxpayer, spouse, dependents.
- Colorado Tool
    - Will print entries to be made in TaxSlayer tool so it can be carried forward.
    - **Annuity start date** is the date of retirement.
    - **Gross distribution** is from 1099-R, box 1.
    - Total annuity contributions is from 1099-R, box 9b.
    - If PSO is checked,
        - Annual cost of insurance to exclude appears.
        - Enter cost of insurance for taxpayer, spouse, and dependents.

Early Withdrawal

- If code is 1, this is an early distribution.
- Medical exemption can only be used for expenses over 7.5% of AGI.
- Medical or education exemptions do not need to be directly used for expenses as long as expenses occur during the same year.
- To enter an exemption, go to form 5329.
    - Complete Part 1.
    - See pub 4012, H-7 for a description of the exemptions.
        - Medical expenses in excess of 7.5% of AGI.
        - Healthcare insurance premiums if unemployed for 12 consecutive weeks.
        - Purchase home if did not own a home in previous two years.
            - For taxpayer, spouse, child, or grandchild.

        - Lifetime limit of $10,000.
    - College and graduate school expenses.
        - For taxpayer, spouse, child, or grandchild.
        - At least half-time student.
        - Tuition, books, and room and board.
    - Emergency expenses.

Qualified Charitable Distribution (QCD)

- Must be 70½ years old.
- Enter 1099-R for the IRA where QCD was taken.
- Subtract amount of QCD from box 2a, Taxable Amount.
- Make sure taxable amount is carried forward to box 16, State distribution.
- Go to Income->IRA/Pension Distribution->Nontaxable Distributions.
- Check the box **Check here to mark this as a Qualified Charitable Distribution …**
- Do not enter as a charitable deduction.

Disability Pension

- Disability pay is treated as wages until the taxpayer reaches retirement age.
- If code is 3, it should be treated as wages.
    - The entire distribution is taxable (even if 9b is not $0).
    - Copy box 1 to box 2a.
    - Check the box to report on 1040, line 1.
        - This will qualify the taxpayer for EIC.
        - For CA return, this is not handled automatically by TaxSlayer.
            - Go to State->Credits->CA Earned Income Credit.
            - Enter the amount from box 2a into the first field.
- If taxpayer is over company retirement age
    - Employer should have entered code 7 if disability pension
    - Code will usually be changed to code 7 when the person reaches retirement age so should not see this.
    - Compute taxable amount using simplified method.

Public Safety Officer (PSO)

- PSO is a
    - Police or law enforcement officer
    - Firefighter
    - Chaplain
    - Member of a rescue squad or ambulance crew.
- PSO can exclude up to $3,000 from retirement distribution for premiums for healthcare insurance.
    - Includes health, dental, LTC (full amount of LTC; not limited like schedule A).
    - Includes Medicare.
    - Includes healthcare for taxpayer, spouse, and dependents.
- PSO must have retired at normal retirement age or because of disability.
- Retirement plan must be from PSO's employer.
- Cannot deduct same premiums as itemized deduction (can deduct amount that exceeds $3000).
- If premiums are paid directly from plan, they are usually shown in box 5.
- Select Are you a public safety officer…

Military Pension

- Up to $20,000 of some military pensions may be CA tax-free.
- Qualifying military pension: DFAS, EIN 34-0727612; USCG Pay, EIN 52-9980000.
- You must ask if the pension was for "serving in uniform"; civilian pensions don't qualify.
- See Duckbook page 103

- Applies to tax years 2025-2029.
- Maximum MAGI is:
  - MFJ.....$250,000
  - Otherwise.....$125,000

Rollover

- Box 2a should be the amount that is taxable, which is any portion that is not rolled over.
  - Typically, box 2a is $0 because the entire amount is rolled over.
  - Any amount withheld in box 4 is probably not rolled over and is taxable (ask taxpayer how much they re-deposited).
- Check the box **Does not carry to form 8880**.
- Check the **Rollover** box and enter the amount of the rollover.
  - The amount of the rollover is the amount in box 1 minus the amount in box 2a.
  - Same as box 1 if the whole withdrawal is rolled over.

Traditional IRA with Basis

- Get the total value of all IRAs as of December 31st of this year.
- Get the total basis of all IRAs as of December 31st of prior year.
- Taxpayer needs to provide form 8606, which tracks the current basis.
  - Form 8606 was generated with the tax return the last time:
    - An after-tax contribution was made, or
    - A withdrawal was made reducing the basis.
- Use the **IRA Worksheet (Form 8606)** in the Colorado Toolbox to compute the amount of basis that is withdrawn.
- In TaxSlayer, go to form 8606 and enter the change in basis.
- In TaxSlayer, on form 1099-R, reduce the taxable amount by the change in basis.

1099-S – Sale of Home

- The taxpayer must report the sale of a home if:
  - The taxpayer received form 1099-S (even if there is no gain).
  - The taxpayer cannot exclude all of the gain.
- There is no deduction for a loss on the sale of a home.
- Gain is taxed at capital gains rate.
- Taxpayer may exclude some gains from the sale of a home if:
  - The taxpayer (either spouse) owned the home for at least 2 of last 5 years.
  - The taxpayer (both spouses) lived in the home for at least 2 of last 5 years.
  - The taxpayer has not used this exclusion on another home in the past 2 years.
  - The amount of the exclusion is:
    - MFJ $500,000
    - Other Filing Status $250,000
- When entering the 1099-S:
  - 5 years is 5 * 365 = 1825 days.
  - Check the box that you qualify for the maximum exclusion.

Cost Basis

- In a community property state (e.g., California), when either spouse dies, the fair market value at the date of death becomes the basis of the entire property, including the part belonging to the surviving spouse.
- Otherwise, the basis is
  - Purchase price.
  - Add fees and expenses paid at purchase.
  - Add cost of improvements that increased the value.
  - Exclude cost of routine repairs.

SSA-1099, RRB-1099 – Social Security

- RRB-1099 is the equivalent of form SSA-1099 for railroad employees.
- Canadian and German social security are treated as U.S. social security for tax purposes. Convert foreign values to U.S. dollars (see Foreign Currency Conversion).
  - Canada Pension Plan: NR-4 codes 46, 47, and 48
  - Quebec Pension Plan: NR-4 codes 49, 50, and 51
  - Canada Old Age Security: NR-4(OAS) codes 44 and 45; NR-4 code 86 (TY21 only)
  - Germany Old Age, Disability, and Survivors Security

Lump Sum

- Location of previous tax year information:
  SSA payments received in earlier year.....1040, line 6a
  Portion of this year's SSA for earlier year.....SSA-1099, box 3
  Adjusted gross income for earlier year.....1040, line 11
  Exclusions/Adjustments claimed in earlier year.....1040, line 10
  Tax-exempt interest received in earlier year.....100, line 2a
  Taxable benefits reported in earlier year.....1040, line 6b
- If Adjustments is not $0, see Schedule 1, line 21 to see if Student Loan Interest was used. If so, subtract it from Adjustments.

Schedule C

- Accounting method must be set to **Cost** (report income when received, deduct expenses when paid).
- Method used to value closing inventory must be set to **Cost**.
- Taxpayer must materially participant in the business.
- Notary fees are exempt from self-employment taxes (enter as business income, then go to the Federal Section then Other Taxes->Self-Employment Tax and enter same amount in **Exempt Notary Income**).
- Meals are an expense only when traveling away from home.

Withholding

If a form shows income tax withheld, it is entered in Federal->Payments & Estimates->Other Federal Withholding.

Business Codes

Rideshare service (Uber, Lyft).....485300, 485999
Courier messenger (GrubHub, DoorDash).....492000
Document preparation.....561410
Independent artist, writer, or performer.....711510
Home healthcare.....621610
Other personal and household repair (handyman).....811490
Landscaping.....561730
Working with kids.....611100
Educational.....611000
All other personal services (last resort).....812990

Health Insurance

- Marketplace insurance is out of scope. This is common for Gig workers.
- Deduction is only available when business owner is not eligible for subsidized insurance from
  - Their own current employer (retiree health insurance is OK)
  - Their spouse’s employer.
  - Their dependent’s employer.
  - Eligibility is tested month-by-month.
- Eligible insurance

    - Must be paid by the taxpayer.
    - Must not be subsidized
    - Can be for taxpayer, spouse, dependents, and taxpayer's children under 27.
    - Includes insurance for health, supplemental, drugs, vision, dental, Medicare, and LTC.
- Enter cost of health insurance in **General Expenses->Health Insurance**.
    - Include Medicare payments from form SSA-1099; do not enter them on SSA-1099 page.
- Enter cost of Long-Term Care Insurance in **General Expenses->Long-Term Care Insurance**.
    - Apply the age-based limits to LTC premiums for each person separately:

Age < 41	$480
Age 41 – 50	$900
Age 51 – 60	$1,800
Age 61 – 70	$4,810
Age >= 71	$6,020

- TaxSlayer will use what it can to offset business profit and automatically carry the rest as a medical deduction on Schedule A.
- Entry does not actually end up on Schedule C, but rather Self-employed Health Insurance Deduction on Schedule 1, line 17; but do not enter directly as an adjustment in TaxSlayer.

Vehicle Expenses

Business mileage rate.....72.5 cents
Included in mileage rate:

- Car depreciation and lease payments
- Gas and oil
- Repair and maintenance
- Regular car insurance
- Car registration
- Car washes

In addition to standard mileage, the taxpayer can deduct:

- Business part of car loan interest.
- Property tax on car (license fee).
- Parking fees, tolls.

For hire drivers can deduct:

- Cellular service.
- Extra liability insurance if separate from main insurance.

Qualified Business Income (QBI)

- TaxSlayer handles automatically.
- Deduction for pass through businesses (e.g., sole proprietor).
- Deduct up to 20% of income if income is less than $383,900 for MFJ and $191,950 otherwise.

Out of Scope

- Cannot omit any expenses to prevent showing a loss
- Business cannot be a Limited Liability Company (LLC) or other legal entity
- Cash accounting method must be used (see schedule C)
- Taxpayer must materially participant in the business (see schedule C)
- Employees or payments to individuals > $600. (see schedule C)
- Depreciated assets (see schedule C)
- Eligible for Premium Tax Credit
- Purchasing assets costing > $2,500

- Expenses in excess of $50,000 (see schedule C)
- Home office (see schedule C)
- Inventory (items made or bought for resale. You can expense an item when it is purchased. Inventory is usually expensed when it is sold). (see schedule C)
- Medical insurance from the Marketplace.
- Net loss (see schedule C)
- Vehicle rental or lease of more than 30 days (see schedule C)
- Vehicle, except standard mileage (see schedule C)

Schedule K-1

- Form 1041 Income from an estate or trust.
- Form 1065 Income from a partnership.
- Form 1120-S Income from an S corporation.

- Only interest, dividends, capital gains/loss, royalty income, and associated foreign tax credits are in scope.
  - The following are in scope:
    - Interest income
    - Dividend income
    - Qualified Dividends income
    - Net short-term capital gains and losses (schedule D)
    - Net long-term capital gains and losses (schedule D)
    - Tax-exempt interest income
    - Royalty income (schedule E)
    - Foreign tax credit
  - The following are out of scope:
    - Business income
    - Rental income
    - Deductions
    - Expenses
    - Credits

Jury Duty Pay

- Jury duty pay must be entered as income even if the taxpayer turned it over to their employer.
- Go to Income->Other Income->Other Income Not Reported Elsewhere
  - Select **Jury Duty Pay** from the drop-down list.
  - Enter amount of jury duty pay.
  - Do not check the **Earned Income** checkbox (not earned income for EIC).
- If the taxpayer turned over their jury duty pay to their employer:
  - Go to Deductions->Adjustments->Other Adjustments
  - Enter amount of jury duty pay.

Adjustments Section

Student Loan Interest
Alimony
Educator Expenses
Expenses for Performing Artists
Expenses for Qualifying Government Employees
Expenses for Reservists
Health Saving Account
IRA Deduction

Medical Saving Account
Moving Expenses
Non-Deductible IRA (form 8606)
Penalty for Early Withdrawal of Savings or CD
Self Employed Health Insurance
Student Loan Interest

Alimony

Divorce in 2018 or Before

- Taxable income to the recipient.
- Deductible expense by the payer.

Divorce After 2018

- Not taxable
- Not deductible

California

California did not change the law; alimony is still taxed as income by the recipient and deductible as an expense by the payer. TaxSlayer will figure this out based on the new entry for the date of the divorce decree next to the alimony entry.

Educator Expenses

- $350 per spouse.
- Eligible educators are teacher, counselor, principal, or aide.
- For supplies used in the classroom or educator's own professional development.
- Not for home schooling.
- Must work with grades K-12; Since 2026, it includes pre-K
- Must have worked 900 hours.

IRA Deduction

In **Adjustments->IRA Deduction**, the question about whether the taxpayer has a retirement plan refers to a retirement plan at work (e.g., 401K). See form W-2, box 13 to get answer.

Student Loan Interest

- Deductions->Adjustments->Student Loan Interest.
- Reported on form 1098-E if taxpayer paid more than $600.
- Limited to $2,500 (same limit for single and MFJ).
- Loan can be for taxpayer, spouse, or dependent.
- Taxpayer cannot file MFS.
- Taxpayer cannot be claimed as someone's dependent.
- Loan cannot be from a relative.
- Loan is to attend eligible educational institution.
- Loan is for tuition, fees, books, supplies, room and board, living expenses, food, or transportation.
- Subtract nontaxable reimbursements from loan amount.
- Student interest deduction can only be taken by person legally responsible for the loan.
- Interest payments on student loan can be paid by others and deducted by taxpayer.
- Maximum MAGI is:
  - MFJ.....$175,000-$205,000
  - Otherwise.....$85,000-$100,000

Deductions Section

Car Loan Interest
Enhanced Deduction for Seniors
Mortgage Interest
Miscellaneous Expenses
Medical Deductions
Qualified Overtime
Qualified Tips
Taxes You Paid
Charitable Donations

- Gains from the sale of personal property (for example, home, car, or boat) are included in gross income, but losses from the sale of personal property are not deductible.
- Causality and theft losses are out of scope, unless they are derived from a federally declared disaster.
- Investment interest is out of scope.

Car Loan Interest

- Applies to 2025-2028
- Schedule 1A, part IV
- Qualified interest up to $10,000
- SSN not required
- MFS is allowed
- New passenger vehicle (car, truck, motorcycle)
- Interest cannot be paid to relative
- VIN # is required
- Must be built in U.S.
  - Lookup VIN: https://vpic.nhtsa.dot.gov/decoder/
- Maximum MAGI is:
  MFJ.....$200,000
  Otherwise.....$100,000

Enhanced Deduction for Seniors

- Applies to 2025-2028
- Schedule 1A, part V
- $6,000 for each taxpayer 65 and older
- SSN required
- MFS is not allowed
- New passenger vehicle (car, truck, motorcycle)
- Interest cannot be paid to relative
- VIN # is required
- Must be built in U.S.
  - Lookup VIN: https://vpic.nhtsa.dot.gov/decoder/
- Maximum MAGI is:
  MFJ.....$150,000
  Otherwise.....$75,000

Mortgage Interest

- Interest and points paid during the current tax year are deductible.
  - Interest on loan up to $750,000 loan ($1,000,000 if loan originated before 12/15/2017) is deductible.
  - If the loan is greater than $750,000, the interest must be divided into deductible and non-deductible portions.

- Use deductible amount from last year's taxes; it won't change until balance drops below $750,000.
- Seller-financed mortgage is entered at Deductions->Itemized Deductions->Mortgage Interest and Expenses->Mortgage Interest Not Reported on Form 1098.
- Private Mortgage Insurance (PMI) will be deductible starting in 2026; not previous years.
  - Deductions->Itemized Deductions->Mortgage Interest and Expenses-> Mortgage Interest Information.

Miscellaneous Expenses

- Except gambling losses, miscellaneous expense deductions are suspended until 2025 for federal tax return.
- Continue to enter miscellaneous deductions into TaxSlayer because California state tax return still allows miscellaneous expense deductions.

Medical Deductions

Medical mileage rate .....20.5 cents

- Threshold for itemized medical deductions is 7.5%.
- Expenses must be for the taxpayer, spouse, or dependents.
- On SSA-1099, Medicare payments are automatically carried forward as a deduction for medical insurance. They are not shown on the medical deductions, but they are shown on Schedule A.

Qualified Overtime

- Applies to 2025-2028
- Schedule 1A, part III
- Qualified overtime up $25,000 for MFJ, otherwise $12,500
- Cannot be MFS
- Overtime limited to 50% of standard pay
- Overtime pay must be included in total wages on W-2, box 1 or 1099-NEC (unlikely).
  - For self-employed taxpayer, it must be in 1099-K, 1099-NEC, or 1099-MISC.
- Taxpayer must tell us their overtime.
- In TaxSlayer, only enter the ½ part of time-and-a-half or double-time on OBBB/Overtime page.
- Maximum MAGI is:
  MFJ.....$300,000
  Otherwise.....$150,000

Qualified Tips

- Applies to 2025-2028
- Schedule 1A, part II
- Qualified tips up to $25,000
- Must be a qualified trade
- Cannot be MFS
- To be eligible for deduction, tips must be reported on a tax form:
  - For an employee, tips must be reported on W-2, box 7 or 8, or Form 4137, or Form 4070.
  - In TaxSlayer, you usually enter the amount from W-2, box 7 in first box on OBBB/Tips page.
  - For self-employed, tips must be reported on 1099-NEC, 1099-MISC, or 1099-K.
    - These forms do not break out tips so take taxpayer's word for how much is tips.
    - Amount of tips entered in TaxSlayer must be limited to net profit of business.
    - In TaxSlayer, enter amount of tips in 3rd box on OBBB/Tips page.

        - Go to Schedule C, Qualified Business Income Deduction. Enter the amount of tips entered in Schedule 1A as a negative value.
- Maximum MAGI is:
  MFJ.....$300,000
  Otherwise.....$150,000

Taxes You Paid

- To be deductible, a tax must be:
  - Imposed on the taxpayer,
  - Paid by the taxpayer,
  - Paid during the tax year.
  - For example, property tax on all property owned by the taxpayer.

State and Local Income Tax

- Enter money owed on last year's state return.
- Enter final estimated state tax payment from previous tax year if made after January 1.
- Do not enter the following taxes here (TaxSlayer handles automatically from entries elsewhere):
  - State and local taxes from W-2 and 1099s
  - CA SDI from W-2, box 14
  - Estimated state tax payments

Sales Tax

- Always enter sales tax if itemizing federal or state.
  - For low-income taxpayers, the default sales tax is frequently more than state income tax owed, and thus, will increase their federal deductions.
- To enter the default sales tax
  - Go to the **Taxes You Paid** page under itemized deductions.
  - In the Sales Tax Deduction section, click on Add sale tax you paid.
  - On the sale tax page
    - Enter the zip code
    - Entre the number of days the taxpayer lived in California during the year.
    - If the taxpayer made any large purchases, enter the sales tax paid on the item in the sales tax calculator in the field "General sales taxes paid".
    - Leave the rest of the fields blank and TaxSlayer will figure them out.

Charitable Donations

Charity rate .....14 cents

Credits Section

- Federal credits do not apply to the state tax return. The state has its own credits.
- California does not have energy credits; it uses rebates to encourage energy saving investments.

The dependent related credits are discussed in the Dependents section.

- Child and Dependent Care Credit
- Child Tax Credit and Additional Child Tax Credit
- Credit for Other Dependents
- Earned Income Credit

Refundable Credits

- Child Tax Credit and Additional Child Tax Credit
- American Opportunity Credit (40% refundable)

- Credit for federal tax on fuels
- Earned Income Credit
- Premium Tax Credit (PTC)

Non-Refundable Credits

- American Opportunity Credit (60% non-refundable)
- Child and Dependent Care Credit
- Child Tax Credit and Additional Child Tax Credit
- Clean Vehicle Credit
- Credit for the Elderly or Disabled
- Credit for Other Dependents
- Foreign Tax Credit
- Lifetime Learning Credit
- Retirement Savings Contribution Credit

California Credits

All California tax credits are non-refundable except

- Earned Income Credit

- Foster Youth Tax Credit
- Young Child Tax Credit

Clean Vehicle Credit

- Out of scope (form 8936)
- Expires 1/1/2033.
- Non-refundable credit.
- No carryover of unused credit.
- New vehicle only.
- Vehicle final assembly must be in North America.
- $3,750 for a new car. Additional $3,750 for some batteries.
- MSRP must be < $80,000 for pickup truck, SUV, or van.
- MRRP must be < $55,000 for other vehicles.
- MAGI must be < $300,000 for MFJ.
- MAGI must be < $225,000 for HoH.
- MAGI must be < $150,000 for single.

Credit for the Elderly or Disabled

- Non-refundable credit.
- Taxpayer or spouse must be:
  - 65 and older (handled automatically by TaxSlayer), or
  - Disabled (not handled automatically).
- Maximum AGI is:
  MFJ (both spouses qualify) $25,000
  MFJ (one spouse qualifies) $20,000
  Single, HoH, QSS $17,500
- Maximum non-taxable SS or pension:
  MFJ (both spouses qualify) $7,500
  MFJ (one spouse qualifies) $5,000
  Single, HoH, QSS $5,000

Education

- Student must be the taxpayer, spouse, or a dependent.
- Expenses are claimed by the person that claims the student as a dependent.
- Expenses can be paid by anyone.

- Scholarships are reported on the student's tax return.
- Tax free education assistance must be subtracted from expenses used to claim a credit.
  - Alternatively,
    - The taxpayer can claim the educational assistance as income, and
    - Claim educational credit for all of the expenses.
    - This may trigger Kiddie Tax.
- Scholarships are taxable except when used for qualified expenses (tuition and required expenses).
  - To enter scholarship as taxable income, go to Income->Other Income->Other Compensation->Scholarships and Grants.

American Opportunity Credit

- 40% refundable credit.
- Replaced the HOPE scholarship credit in 2008.
- Available for each eligible student.
- Student must be at least ½ time for one full academic term.
- Applies to the first four years of post-secondary education (college).
- Expenses allowed
  - Any required expenses regardless where bought.
  - Tuition, course related material
- Maximum of $2,500 per student
  - 100% of first $2,000 of expenses, and
  - 25% of next $2,000 of expenses.
  - Phased out for higher incomes ($160-180K MFJ, $80-90K otherwise).

Lifetime Learning Credit

- Non-refundable credit.
- Calculated per taxpayer, not per student.
- Must be related to job improvement.
- Expenses allowed
  - Only include what was required to be paid to the school.
  - Tuition, fees, books
- Maximum of $2,000 per return
  - 20% of first $10,000
  - Phased out for higher incomes.

Scholarships

- If scholarship exceeds expenses
  - Taxable amount is reported on student's taxes.
  - Income->Less Common Income->Other Compensation->Scholarships and Grants
  - Goes to 1040, line 1, but not counted as earned income.
- If expenses exceed scholarship
  - Excess expenses are deductible by the person that claims the student as a dependent.
  - Deductions->Credits Menu->Education Credits

Foreign Tax Credit

- TaxSlayer will collect all foreign tax credit entries and limit them to $300 for single or $600 for MFJ (1099-DIV, Credits Menu, etc.).
  - If they exceed $300/$600, they are rounded down.
- To enter manually, go to Deductions->Credits Menu->Foreign Tax Credit.
  - Entry is limited to $300/$600.
  - Form 1116 is out of scope.
- Alternatively, foreign taxes can be deducted as Deductions->Itemized Deductions->Taxes You Paid->Other Taxes.

Retirement Savings Contribution Credit

- Non-refundable credit.
- Contributions to
  - Traditional IRA
  - Roth IRA
  - Voluntary contributions to an employer retirement plan.
- Eligible contributions are reduced by distributions in current year and two prior years.
- Eligibility
  - Age 18 or older
  - Taxpayer cannot be claimed as a dependent
  - Not a full-time student.
- TaxSlayer automatically calculates credit for amounts in W-2, box 12.
- Enter in TaxSlayer:
  - For traditional IRA not on W-2, Deductions->Adjustments->Traditional IRA Contributions.
  - For Roth IRA, Deductions->Credits->Credit for Qualified Retirement Savings Contribution.
- Maximum credit is $2,000 if MFJ; otherwise, $1,000.
- Maximum MAGI

  MFJ.....$85,000
  HoH.....$60,375
  Single, MFS, or QSS $40,250

Health Insurance Section

- The taxpayer will have form 1095-A if they are insured through the Marketplace.
- If everyone listed on 1095-A is not included on the tax return, the return is out of scope.
- Shared Responsibility Payment is reduced to $0 (federal only).
- MAGI for ACA is:
  - AGI +
  - Tax exempt interest +
  - Non-taxed Social Security income

Form 1095-A

- This form is from the market place.
- If you purchased health insurance from the marketplace, you will receive this form. It contains the information needed to determine eligibility for the PTC.
- PTC is only available to people who purchased health coverage through the marketplace.

Form 1095-B

- This form is from your health insurer.
- This form provides verification that you have minimum essential health coverage.

Form 1095-C

- This form is from your employer.
- This form provides information on what health coverage was offered and whether or not the employee took advantage of it.

Premium Tax Credit (PTC)

- Households with income < 150% of FPL receive a subsidy of 100% of the second lowest cost silver plan.
- Households with income 150% - 400% of FPL receive reduced subsidies.

- Households > 400% spend no more than 8.5% of their household income if they bought the SLCSP.

- Eligibility for PTC
  - Coverage is for the taxpayer, spouse, or dependent
  - Coverage is purchased through the Marketplace.
  - Not eligible for another MEC plan or the available plan is unaffordable.
    - A plan is unaffordable if the premium for self only coverage is more than 9.86% of household income.
    - Use form 1095-C to show employer plan is unaffordable.
  - Household income is between 100% - 400% of poverty level (upper limit is suspended for 2022-2025).
  - Cannot be claimed as a dependent on another tax return.
  - Premiums will be paid by due date of tax return.
- Household income is the MAGI of the taxpayer (and spouse) plus the MAGI of all dependents required to file a federal tax return. MAGI is AGI plus non-taxable Social Security (but not SSI) and tax-exempt interest.

Federal Poverty Level

See pub 4012, H-24 for the poverty levels used this tax year

California Section

Alimony

If taxpayer paid alimony:

- Go to **Basic Information->Additional Personal Information**.
- Fill in the field **Enter the name of the person you paid alimony to**.

California Lottery Winnings

California does not tax winnings from the California Lottery.

- If winnings from the lottery were included as income on the federal return:
  - Go to **Subtractions from Income->California Lottery Winnings**.
  - Enter the amount of the winnings.

Deceased Taxpayer or Spouse

If the taxpayer or spouse died during the tax year:

- Go to **Basic Information->Complete if the taxpayer or spouse listed on the return is deceased**.
- Fill in the information about the person representing the deceased person.

Estimated Tax Vouchers

- Go to **Miscellaneous Forms->Estimated Payment Vouchers, Form 540ES**.
  - 30 percent First quarter (April 15)
  - 40 percent Second quarter (June 15)
  - 0 percent Third quarter (September 15)
  - 30 percent Fourth quarter (January 15)

Head of Household

If filing as Head of Household:

- Go to **Basic Information->Complete California form 3532 (Head of Household)**. Note; this option does not appear in the Basic Information section unless the taxpayer is filing HoH.

Health Savings Account (HSA)

California law does not conform to the federal HSA provisions. As a result, a taxpayer must reverse the federal treatment of deductions, interest, and contributions related to their HSA on their California income tax return.

Healthcare Coverage

- Go to **Healthcare Forms ->Health Care Shared Responsibility Tax (form 5853).**

Last Name Changed

If taxpayer's last name changed since last year:

- Go to **Basic Information->Additional Personal Information**.
- Fill in the field Enter the prior year last name.

E-Filing Section

- Recommend direct deposit for refunds and paper check for amount due.
- The PIN for Global Carry Forward can be any 5-digit number except all zeros. It is not used for anything.

Printing

Print the return:

- Print single sided, otherwise it is too difficult to print vouchers.
- From **Client List** page by:
  - Select the printer icon drop-down menu, select **Print Return**.
- From the Tax Return Summary page by:
  - Select **View/Print Return**.
  - Select **Print your 20XX Tax Return** from the next page.
- From **Submission** page by:
  - Select **One Copy - Federal and State**.

You can print a return as it was sent to the federal or state government by:

- From the **Client List** page.
- From the **Tools** drop-down list, select **Client Status**.
- Scroll down to the section **Federal Transmissions or State Transmissions**.
- Click the printer icon on the right of the transmission you want to print.

Print Sets

- Client List Page
  - **Print Return** – This is the normal print set we use for taxpayers. It is the same as printing from the Summary Print Page.
  - **PAPER FILE COPY** – This print set prints only the pages of the federal and state returns that need to be filed when filing a paper return, however, there is a "File Copy Only Do Not Mail" water mark printed on every page
  - **TAXPAYER COPY PRIN**T–This print set is similar to **Print Return**, except there is a "File Copy Only Do Not Mail" water mark printed on every page and pages such as the invoice, W-2s, and work sheets are left out.
  - **QUALITYREVIEW** - This print set is similar to **Print Return**, except the invoice page is left out.

- Summary Print Page – Printing from this page prints the normal print set we use for taxpayers.

- Submission Page
  - **PAPER FILE COPY**–Same as above.
  - **TAXPAYER COPY PRINT** - Same as above.

- **QUALITY REVIEW**- Same as above.
- **One Copy – Federal and State**–Same as **Print Return** above.
- **Two Copies – Federal and State**–Same as above except there are two copies of every page. The copies are page-by-page, not one copy of the return, then another copy of the return.
- **Three Copies – Federal and State**–Same as above but three copies of every page.
- **One Copy – Federal Only**–Same as Print Return, except the state return is left out.
- **One Copy – 1040 Only**–Prints the form 1040 and the associated schedules 1-3.
- **One Copy – State Only** –Prints only the state return. The federal return and all the preliminary information are left out.
- **One Copy – F8879 Only**–Prints the federal signature page.
- **Signature Documents**–Prints the federal and state signature documents.
- **Print Invoice**–Prints the invoice page.

Signature

- Tax-Aide sites only require one spouse to be present (VITA sites require both spouses), but both spouses need to sign the return.
- To E-file the return, both spouses need to sign form 8879 for both the federal and state returns.
  - When only one taxpayer is present, if the taxpayer is known to you, the taxpayer may sign for the spouse as: "*present spouse's signature* **for** *absent spouse's name*".
  - If the taxpayer is not known to you, the taxpayer must return with form 8879 signed by both taxpayers. The spouse does not need to come in.
- If the taxpayer is filing a paper return, they can sign the return at home before they mail it.

Power of Attorney

- If the person has a power of attorney for the taxpayer, they can sign for the taxpayer as: "*taxpayer's name* **by** *POA person's signature*".
- Tax-Aid policy is not to include POA in electronic return and not to send it with form 2848.
  - IRS may contact taxpayer to request it later.

Deceased Taxpayer

- A surviving spouse may sign for the deceased as "*surviving spouse's signature* **as surviving spouse**".
- An executor can sign using their own name and title. The title is typically "**Executor**".
- When someone other than the surviving spouse is filing the tax return and a refund is due, complete form 1310 Statement of Person Claiming Refund Due a Deceased Taxpayer.
  - In some cases, TaxSlayer may block electronic filing and return will need to be filed by paper.

Minor Child

- A child's parent or legal guardian may sign a child tax return for the child as: "*child's name* **by** *parent's signature* **parent for minor child**".

Paper Filing

- Print an extra copy of the return for the taxpayer to keep.

Federal Return

- Print single sided.
- The federal and state copies can be printed with the **PAPER FILE COPY** print set.
  - Include 1040 and all schedules; no worksheets.
  - Assemble schedules in sequence number order (upper right corner) behind 1040.
  - Put W-2 and forms showing withholding in front of 1040.
    - Include copy B of all W-2 forms.

        - Include any other forms showing tax withheld (e.g., 1099, W-2G).
        - If bank deposit information is X-ed out on form 1040, attach a voided check.
    - Sign return
    - If you owe money, pay separately using any of the ways the IRS allows you to pay.
        - You can use form 1040-V if you want to mail a check.
    - The mailing address for the return is listed in the Duck Book immediately following the table of contents.

California Return

- Print state and federal return single sided.
- The state and federal copies can be printed with the **PAPER FILE COPY** print set.
    - Put W-2 and forms showing California withholding in front of 540.
    - If the Federal return contains only a 1040 and Schedules A and B, it does not need to be included with the CA return; otherwise include entire federal return.
    - If itemizing for state but not federal, print the Schedule A to include with the CA return
- Sign return
- If you owe money, enclose payment with return (do not staple to return).
- The mailing address for the return is listed in the Duck Book immediately following the table of contents.

Which Returns Cannot Be E-Filed

- Federal returns more than two years prior to the current tax year.
- Taxpayer cannot find their identity protection PIN.
- The first four character of the last name are incorrect on any tax form.
- A substitute W-2 form is used.
- Deceased taxpayer is due a refund, and the return is not being filed by the spouse (see form 1310), TaxSlayer may block electronic filing and it will be necessary to file by paper.

Amended Return

- Amended federal returns more than two years prior to the current tax year.
- Amended state returns for tax years prior to 2024.

EIN

- Missing or invalid EIN on a W-2 form.
- No EIN for education institution in education credit.
- No EIN for child care provider.

SSN

- SSN is incorrect on any tax forms.
- MFS return when spouse's SSN is not known.
- No SSN for child care provider.
- No SSN for person receiving seller financed mortgage payments.
- No SSN for person receiving alimony payment.
- No ITIN for taxpayer and/or is submitting form W-7 with return.

Amended Return

When to File

- After the original return has been processed (confirm using Where's My Refund, online account, etc.).
    - If there is a balance due, file before the due date even is original return has not been processed yet.
- Within 3 years of original return.

How to File

- E-filing an amended California return is allowed, but not supported by TaxSlayer before 2024.
- Amended returns must be filed by paper if:
  - It is beyond the most recent two tax years (only amended returns for the two most recent prior years can be e-filed).
  - The original return was a paper return filed in the current processing year.
  - The primary Social Security number is different from the one provided on the original return,
  - The spouse's Social Security number (if applicable) is different from the one provided on the original return.
  - The original return was filed as a surviving spouse.
  - Responding to an IRS notice and including other changes to the return not included in the notice (send to address on notice)
  - Your site did not prepare the original return and you are unable to recreate the original return with all documents.

Dependents

These are the dependent related tax benefits.

Child and Dependent Care Credit
Child Tax Credit and Additional Child Tax Credit
Credit for Other Dependents
Exemption for Dependent
Earned Income Credit
Head of Household Filing Status
Qualifying Surviving Spouse Filing Status

Dependent Benefits

Normally, for unmarried parents, the custodial parent claims the dependent and gets the tax benefits. But, when the non-custodial parent claims the dependent, the following table show who gets the tax benefits.

Tax Benefit	Custodial Parent	Non-custodial parent with form 8332
Child and Dependent Care Credit	✓	
Child Tax Credit		✓
Credit for Other Dependents		✓
Dependency		✓
Earned Income Credit	✓	
Education Credits		✓
Head of Household	✓	
Medical Expenses	✓	✓
Premium Tax Credit		✓

Qualifying Child

The following 5 tests must be met to claim a qualifying child.

- **Relationship** – The child must be the taxpayer's child, stepchild, foster child, adopted child, brother, sister, half-brother, half-sister, stepbrother, stepsister, or a descendant of any of them.
- **Age** – The child must be:
  - Any age if permanently and totally disabled, or
  - Younger than the taxpayer (or spouse if filing jointly) (e.g., younger brother, but not older brother), and
    - Under age 19 at the end of the year, or
    - Under age 24 at the end of the year, a full-time student during any 5 months of the year.
- **Residency** – The child must have lived with the taxpayer in the U.S. for more than half of the year.
- **Support** – The child must not provide more than half of their own support.
  - The parent does not need to provide more than half the support for the child.
  - A scholarship is not considered support.
  - Income received by the child, but not spent on their own support is not considered support.

- **Joint Return** – The child must not be filing a joint return for the year (unless it is filed only to get a refund of income tax withheld or estimated tax paid).

Qualifying Child of More than One Person

The custodial parent can release a child to the non-custodial parent with form 8332. This allows non-custodial parent to claim:

Exemption for dependent
Child tax credit and additional child tax credit
Credit for other dependents
Education credit
Premium tax credit

But not:

Head of household status
Earned income credit
Child and dependent care credit

Tie Breaker Rules

When a child is the qualifying child of more than one person, the following rules determine which person can claim the child:

- If only one of the persons is the child's parent, the child is the qualifying child of the parent.
- If the parents are filing MFJ and can claim the child as a qualifying child, the child is the qualifying child of the parents.
- If both parents can claim the child as a qualifying child,
  - Either parent can claim the child if the other parent agrees not to claim the child; otherwise.
    - The child is the qualifying child of the parent with whom the child lived for the longer period of time during the year.
    - If the child lived with each parent for the same amount of time, the child is the qualifying child of the parent who had the higher adjusted gross income (AGI) for the year.
- If no parent can claim the child as a qualifying child, the child is treated as the qualifying child of the person who had the highest AGI for the year.
- If a parent can claim the child as a qualifying child but no parent does, the child is the qualifying child of the person with the highest AGI, but only if that person's AGI is higher than the highest AGI of any of the child's parents who can claim the child.

Qualifying Relative

The following 4 tests must be met to claim a qualifying relative. Unlike a qualifying child, a qualifying relative can be any age.

- **Not a Qualifying Child** – The relative cannot be the taxpayer's qualifying child or the qualifying child of any other taxpayer unless that taxpayer does not file a tax return.
- **Relationship Test** – The relative either:
  - Must live with the taxpayer all year as a member of the taxpayer's household and not married, or
  - Must be related to the taxpayer in one of the following ways:
    - The taxpayer's child, stepchild, foster child, or a descendant of any of them,
    - The taxpayer's brother, sister, half-brother, half-sister, stepbrother, or stepsister,
    - The taxpayer's father, mother, grandparent, or other ancestor, but not foster parent,
    - The taxpayer's stepfather or stepmother,
    - A son or daughter of the taxpayer's brother or sister,

        - A son or daughter of the taxpayer's half-brother half-sister,
        - A brother or sister of the taxpayer's father or mother,
        - The taxpayer's son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law.
    - Relationships established by marriage and not ended by death or divorce.
- **Gross Income** – The relative's gross (taxable) income for the year must be less than $5,300.
- **Support** – The taxpayer must provide more than half of the relative's support for the year.
    - A scholarship is not considered support.
    - Income received by the relative, but not spent on their own support is not considered support.
    - If two or more people could claim the person except for the support test, and together they provide more than half the support, one of them can file form 2120 Multiple Support Agreement and claim the person.

Child and Dependent Care Credit

The Child and Dependent Care Credit is a non-refundable credit.

Eligible if taxpayer paid someone to take care of their dependent so they could work or look for work.

If the taxpayer received dependent care benefits from their employer (see form W-2, box 10), it is not taxable to the extent it is used to pay for expenses.

If expenses exceed employer benefit or taxpayer did not receive employer benefit, then remainder may be covered by the Child and Dependent Care Credit.

Credit is 20% to 35% of taxpayer's expenses.
Credit percentage is reduced if AGI is greater than $125,000.

The following 5 tests must be met to claim the Child and Dependent Care Credit:

- **Qualifying Person** – The taxpayer must have a dependent that is one of the following:
    - **Qualifying Child** – The person is the taxpayer's qualifying child,
        - Is under 13 at the time of the care was provided, and
        - Is the taxpayer's dependent, or
    - **Spouse** – the person is the taxpayer's spouse and
        - Is not physically or mentally able to care for them self, and
        - Lived with the taxpayer for more than half the year, or
    - **Dependent** – a person who was not physically or mentally able to care for them self, lived with the taxpayer for more than half the year, and
        - Was the taxpayer's dependent, or
        - Would have been the taxpayer's dependent, except
            - The dependent had gross (taxable) income greater than $5,050
            - The dependent filed a joint return, or
            - The taxpayer could be claimed as a dependent on someone else's return.
- **Earned Income** – Credit is limited to amount of earned income.
    - Taxpayer (and spouse if married) must have earned income.
    - A taxpayer's spouse is treated as having earned income for any month the spouse is physically or mentally incapable of self-care, or is a full-time student.
        - Complete the additions to income if the taxpayer or spouse was full-time student or disabled.
        - The spouse's income is considered to be $250 for each month if there is one qualifying person in the home or $500 each month if there are two or more qualifying people.

- **Work Related Expense** – The expenses must be to enable the taxpayer (and spouse, if MFJ) to work or look for work and the expenses are for a qualifying person's care. The expenses are limited to:
  - The amount of the expenses cannot be more than the smaller of the taxpayer or spouse's earned income for the year.
    Maximum amount of expenses for one qualifying person $3,000
    Maximum amount of expenses for two or more qualifying persons $6,000
  - Not for K-12 school expenses (after school care and preschool is OK).
- **Joint Return** – Married taxpayers must file as MFJ (there are some exceptions).
- **Provider Identification** – The taxpayer must provide the name, address, and taxpayer ID of the person or organization that provided the care.
  - Provider cannot be someone the taxpayer can claim as a dependent.
  - Provider cannot be taxpayer's child who is under 19.
  - Provider cannot be taxpayer's spouse.
  - Provider cannot be the non-custodial parent of the qualifying child.

Child Tax Credit and Additional Child Tax Credit

The Child Tax Credit (CTC) is a non-refundable credit.

The Additional Child Tax Credit (ACTC) is a refundable credit. The taxpayer may be able to take the ACTC if the taxpayer is not able to claim the full amount of the CTC (because the CTC is not refundable).

If not qualified for the CTC or ACTC, the taxpayer may be able to claim the Credit for Other Dependents.

The following 3 tests must be met to claim the CTC and ACTC:

- **Qualifying Child** – The child must be the taxpayer's qualifying child, and must be under 17.
- **Citizenship** – The child must be a U.S. citizen or resident alien.
  - Child must have an SSN.
  - Either the taxpayer or the spouse must have an SSN.
- **Dependent** – The child must be claimed as a dependent on the return.

Phased out at $400,000 if MFJ; otherwise, $200,000.

Maximum amount of CTC per qualifying child $2,200
Maximum refundable amount of ACTC per qualifying child.....$1,700

Credit for Other Dependents

The Credit for Other Dependents (ODC) is a non-refundable credit.

If a dependent is not used to claim the CTC or ACTC, the dependent may be used to claim the ODC if:

- **Dependent** – The person must be claimed as a dependent on the return.
  - Unlike CTC, the dependent does not need to be under 17.
- **Citizenship** – The dependent must be a U.S. citizen or resident alien.
  - Unlike CTC, the dependent does not need to have an SSN (???)
  - Either the taxpayer or the spouse must have an SSN.

Maximum amount of credit per qualifying person $500

Earned Income Credit

The Earned Income Credit (EIC) is a refundable credit.

The following 4 tests must be met to claim the Earned Income Credit:

- **Age** – If the taxpayer does not have a qualifying child, taxpayer or spouse must be at least 25 and under 65.
- **Income** –
  - Taxpayer must have earned income.
  - Taxpayer's unearned income must be less than $11,600.
  - Taxpayer 's AGI must be less than:

Num Children	0	1	2	3 or more
MFJ	$26,820	$58,863	$65,899	$70,224
Otherwise	$19,540	$51,593	$58,629	$62,974

- **Citizenship** –
  - Taxpayer must be a U.S. citizen or resident alien all year.
  - Taxpayer must have an SSN.
- **Qualifying Children** – The qualifying children must satisfy the qualifying child tests except the support test is not used (that is, use relationship, age, residency, and joint return tests).
  - Qualifying child must have an SSN.
  - If children do not qualify, taxpayer may still claim EIC without children.

Maximum amount of credit:

Num Children	0	1	2	3 or more
	$664	$4,427	$7,316	$8,231

Exemption for Dependent

- A spouse is never a dependent.
- An individual is not a dependent if the person who could claim them as a dependent is not a taxpayer. A person is not a taxpayer if they do not file a tax return or file a tax return only to get a refund of estimated taxes paid or withheld.
- If a taxpayer or spouse may be claimed as a dependent, they may not claim anyone as a dependent.

The following 4 tests must be met to claim a person as a dependent:

- **Qualifying Person** – A dependent must be a qualifying child or qualifying relative of the taxpayer.
- **Dependent Taxpayer** – The taxpayer cannot claim a dependent if the taxpayer (or spouse) can be claimed as a dependent by another taxpayer.
- **Joint Return** – The taxpayer cannot claim someone who files as MFJ unless their return is only filed to claim a refund of withheld or estimated taxes.
- **Citizenship** – A dependent must be a U.S. citizen or resident alien.

Head of Household Filing Status

The following 3 tests must be met to claim head of household filing status:

- **Unmarried** – The taxpayer is unmarried or considered unmarried.
  - The taxpayer is considered unmarried if:
    - The taxpayer lived apart from spouse during last 6 months of the year.
      - Qualifying child must be child, stepchild, or foster child for over 6 months.
    - The taxpayer's spouse is a non-resident alien and not treated as a resident alien.
    - California makes additional requirements in order for a married person to file as HoH or the return is out of scope:
      - Must not have lived together during the entire year.
      - All finances must be separate.
- **Keep Up a Home**
  - If the dependent is not the taxpayer's parent:

        - The taxpayer must have paid half the cost of keeping up a home for the year.
        - The dependent must have lived with the taxpayer for half the year.
        - Form 8332, Release of Claim to Exemption for Child from custodial parent is not an exception to living with the taxpayer.
    - If the dependent is the taxpayer's parent:
        - Parent does not need to have lived with the taxpayer.
        - Taxpayer must have paid half the cost of keeping up the parent's home for the year.
            - Paying half the cost of a nursing home counts.
- **Qualifying Person** – The taxpayer has a qualifying person that:
    - Is the taxpayer's qualifying child, and:
        - Is single (does not need to be a U.S. citizen or resident alien), or:
        - Is married and the taxpayer can claim the person as a dependent.
    - Is a qualifying relative, and:
        - The taxpayer can claim the person as a dependent.
        - Is a relative listed for qualifying relative (not just member of household).

Qualifying Surviving Spouse Filing Status

The following 6 tests must be met to claim qualifying surviving spouse filing status:

- The taxpayer was entitled to file MFJ with their spouse the year their spouse died.
- The taxpayer's spouse died in one of the two previous tax years (not this tax year).
- The taxpayer did not remarry before the end of this tax year.
- The taxpayer has a dependent that is their child or step child (otherwise, use HoH), and
    - That the taxpayer can claim as a dependent, or
    - Could claim as a dependent, except:
        - The child had gross (taxable) income greater than $5,050, or
        - The child filed as MFJ, or
        - The taxpayer could be claimed as a dependent on someone else's return.
- The taxpayer's dependent lived in their home all year.
- The taxpayer paid more than half the cost of keeping up their home for the year.

California Information

- California is a community property state.
- California does not support common law marriage but supports ones that already exist.
- California supports domestic partners.

Maximum tax rate 12.3%

Standard Deduction

Filing Status	Deduction
Married Filing Jointly	$11,412
Qualifying Surviving Spouse	$11,412
Head of Household	$11,412
Single	$5,706

Personal Exemption

Filing Status	Exemption
Single	$153
Head of Household	$153
Married Filing Jointly	$306
Qualifying Surviving Spouse	$306
Each Dependent	$475

Healthcare

Taxpayer, spouse, and dependents must have health coverage or they will be assessed the following penalty:

- Called the Individual Shared Responsibility Penalty.
- Penalty is computed on FTB form 3853.

Each adult.....$950
Each child under 18.....$450
Or, 2.5% of gross (taxable) income over filing threshold, whichever is higher

Shared Responsibility Tax

- The shared responsibility payment is $900 up to 2.5% AGI per year per person.
- For each month that a person does not have healthcare coverage or an exemption, they owe 1/12th of the shared responsibility payment.

California Earned Income Credit

The following tests determine if the taxpayer can claim the credit:

- **Residency** – The taxpayer lived in California more than ½ the year.
- **Age** –
  - Taxpayer must be >= 18.
  - Qualifying child must be < 6.
- **Income** –
  - Earned income must be <= $32,900.
  - Unearned income must be <= $4,814.

Up to $1000 of the credit is refundable.

Foster Youth Tax Credit

- Refundable credit.
- Maximum amount of credit is $1,117 per individual.
- Was in foster care placement while 13 years of age or older.
- Is between the ages of 18 to 25 by the end of tax year.
- Is eligible to claim CalEIC in the taxable year of credit.

Renter's Credit

Eligibility:

- Paid rent for at least 6 months.
- Adjusted gross income less than:
  - Single or MFS.....$53,994
  - MFJ, HoH, or QSS.....$107,987

Amount of credit

- Single or MFS.....$60
- Otherwise.....$120

Young Child Tax Credit

- Refundable credit.
- Allows an individual with a qualifying child, under the age of 6, who would otherwise have been allowed the CalEIC except that the individual has earned income of zero or less dollars in the taxable year.

General Information

E-Mail Addresses

- The domain name part of an email address is the part that follows the at sign (@). The domain name is not case sensitive.
- The username part of an email address is the part that comes before the at sign. The username, is implemented as not case sensitive by all major implementations of email, but it is not required to be not case sensitive by the standard.
- Gmail, Yahoo, Outlook, Hotmail, AOL, Zoho email addresses are all not case sensitive.
- Lowercase is preferred when entering email addresses if they are not case sensitive.

Foreign Currency Conversion

- Use the IRS Average Annual Exchange Rate and add 2% for the bank's commission on the exchange.
- Exchange rate is the number of foreign dollars that equals one U.S. dollar.

  Foreign Currency / Exchange Rate = U.S. Dollars

  U.S. Dollars * Exchange Rate = Foreign Currency

  For example,

  $1000 Canadian / 1.370 = $730 US
  $1000 Euros / 0.924 = $1082 US

  $730 US * 1.370 = $1000 Canadian
  $1082 US * 0.924 = $1000 Euros

Gift Tax

Annual gift tax exclusion.....$19,000
Lifetime gift tax exclusion .....$13.99 million

- A gift is a voluntary transfer of property from one person to another benefit to the donor.
- Each recipient may receive $19,000 per year.
- Taxpayer may give gifts to any number of recipients.
- Taxpayer and spouse may give to the same recipient.
- If any gift exceeds the annual gift tax exclusion, you must file a gift tax return with the IRS, and the excess of your contribution will be added toward your lifetime gift tax exclusion.
- Once you exhaust your lifetime exclusion, you may begin to owe gift taxes.
- Gifts are not taxable to the recipient.
- Except charitable donations, gifts are not deductible to the taxpayer making the gift.

Health Savings Account (HSA)

- California does not recognize HSAs.
- Spouses have separate HSAs, but an HSA can pay expenses for taxpayer, spouse, or dependent.

HSA Owner Qualifications

- Taxpayer must be covered by a high-deductible health plan (HDHP).
- Taxpayer has no other health coverage (e.g., cannot be enrolled in Medicare).
- Taxpayer cannot be eligible to be claimed as a dependent by someone else.

Contributions

- Contributions are not taxed
- Contributions usually on W-2, box 12, code W.
- For contributions by taxpayer not on W-2
  - Can be made up to due date for filing return.
  - Can be made by anyone, not just taxpayer.
  - In TaxSlayer, go to Deductions->Adjustments->Health Savings Accounts.
- Contribution limit
  - If HDHP is Self Only Plan, maximum contribution is $4,300.
  - If HDHP is Family Plan, maximum contribution is $8,550.
  - For MFJ, if both spouses have an HSA, contribution limit is $8,300 split between them in any ratio they choose.
  - Add $1,000 if the owner is age 55 or over.
- Excess contributions are assessed a 6% penalty every year until withdrawn; out of scope if not corrected by due date of return.

Distributions

- Distributions are reported on form 1099-SA.
- Distributions are not taxable if offset by qualified medical expenses.
- Qualified medical expenses
  - Expenses for
    - Taxpayer or spouse
    - Dependent or could be dependent except failed MFJ or income test.
  - Expenses normally covered by HDHP, but not paid because of the deductible.
    - Expenses that qualify for deduction on schedule A.
    - Medical and dental expenses
    - Over-the-counter medical products and medicines
    - Menstrual products
    - Prescription medications
    - Not health insurance premiums, except
      - LTC (up to deductible limit)
      - Medicare, but not supplemental coverage
      - COBRA
- Do not enter reimbursed expenses on schedule A.
- Excess distribution is taxable plus subject to 20% penalty, exception for
  - Death
  - Became disabled
  - Turned 65

Out of Scope

- Excess contributions to an HSA that are not withdrawn by due date of return.
- Qualified HSA funding distributions from an IRA
- Death of an HSA holder (when spouse is not the designated beneficiary)
- Additional tax for failure to maintain HDHP coverage
- Archer medical saving accounts (MSA)
- Medicare advantage MSA
- Health reimbursement arrangements

IRAs

Contributions

- Contribution is not deductible on a California return.
- No age limit for either traditional IRA or Roth IRA. (There was an age limit of 70½ for a traditional IRA, but it was repealed in the SECURE Act of 2019).
- If taxpayer has retirement plan at work (W-2, box 13), the deductible amount is limited by AGI.
- If taxpayer does not have retirement plan at work, deductible amount is not limited by AGI.
- For contributions by taxpayer not on W-2
  - Can be made up to due date for filing return.
  - Non-deductible contribution requires form 8606; otherwise, it will be taxable on withdrawal.
- Maximum contribution
  - Maximum contribution to all IRAs (sum of all traditional and Roth) is:
    - The amount of earned income (both spouses), or
    - $7,500 per spouse if under 50
    - $8,600 per spouse if over 50
  - Excess contributions are assessed a 6% penalty every year until withdrawn.

Distributions

- Distribution codes in box 7, see pub 4012, D-63.
- Early withdrawal exceptions, see pub 4012, H-7.
  - Exemption for unreimbursed healthcare expenses minus 7.5% of AGI.
  - Healthcare expenses can still be deducted on schedule A.

From Traditional IRA

- Must be at least 59½.
- Taxed as ordinary income.
- Required minimum distributions (RMDs) begin at age 73.

From Roth IRA

- Must be at least 59½.
- 5 year holding period before withdrawal is allowed.
- Tax free.
- No required minimum distribution.

Required Minimum Distribution (RMD)

- Age for RMD is:
  - Before TY2020 it was 70½.
  - Increased to 72 in TY2020, but RMD was waived for TY2020.
  - Increased to 73 in TY2023.
  - Increases to 75 in TY2033.
- Inherited IRA must be distributed within 10 years (some exceptions).

RMD Not Taken

- Advise taxpayer:
  - Take RMD as soon as possible.
  - Still need take RMD for this year before end of the year.
- Go to form 5329 and scroll down to Part IX.
  - Enter the amount that should have been taken.
  - Enter the amount actually taken (probably $0).

- Check the box to claim a waiver (which will prevent TaxSlayer from adding the 25% penalty.
- Enter the amount of the missed RMD that should not have penalty applied (probably all of it).
- Enter an explanation, which is limited to 70 characters.
  - If more space is needed, enter “See separate explanation attached”.
  - Go to Federal->Miscellaneous Forms->Explanations->Preparer Notes.
  - Each note can be 1000 characters. Use multiple notes if necessary.

Roth Conversion

- Not subject to contribution limits.
- Not subject to Roth IRA income phase out.
- Do not qualify for Saver’s Credit.

Qualified Charitable Distributions (QCD)

- Tax free withdrawals from Traditional IRA.
- Taxpayer must be at least 70½.
- Payment must be made by IRA custodian directly to the charity.
- Taxpayer should have a letter from the charity showing the amount of the donation.
- The QCD counts toward the RMD of the IRA.
- QCD is non-taxable income; do not enter as a charitable deduction.
- Limited to $111,000 per spouse per year.

Lost Refunds

- Where’s my refund?
- Refund Hotline 800-829-1954
- Taxpayer can request a transcript online from the IRS showing what they have on record.
- Taxpayer can initiate a payment trace using form 3911 or by calling the refund hotline 800-829-1954.
- If payment was by check and lost and not cashed, the IRS can cancel the check and issue a replacement check.

Number Formats

SSN	xxx-xx-xxxx	9-digits
ITIN	9xx-xx-xxxx	9-digits, begins with 9 and 4th and 5th digits are 50-65, 70-88, 09-92, or 94-99
ATIN	9xx-xx-xxxx	9-digits, begins with 9
Identity Protection PIN	xxxxxx	6-digits
EIN	xx-xxxxxxx	9-digits
IHSS EIN	94-2629822	Medicaid Waiver Payments
CA State EIN	xxxxxxxx	8-digits, (CA12-345678, 123-4567-8)
CA State EIN Unknown	999999	6-nines
Bank Routing	xxxxxxxxx	9-digits, begin with 01-12 or 21-32
Bank Acct	Up to 17 digits	Include hyphens, but omit spaces and special chars

- To enter the state EIN, remove dashes, spaces, and “CA” if present.
- If no state EIN, enter **999999**.

Non-Citizen Taxpayers

- An alien is anyone in the country that is not a U.S. citizen.
- To be considered a resident alien, the taxpayer either:
  - Have an alien registration card (aka, a green card), or
  - Can pass the substantial presence test (see pub 4012, tab L);
  - Otherwise, they are a non-resident alien.
- All persons listed on the tax return must have an SSN, ITIN, or ATIN.

Scope

- Foreign students require a counselor with the Foreign Student certification.
- If taxpayer is a non-resident alien and not married, it requires form 1040-NR, which is out of scope.
- If taxpayer is U.S. citizen or resident alien and married to a non-resident alien, the taxpayer can:
  - File as MFS
  - File as HoH if taxpayer has a dependent.
  - File as MFJ and treat the spouse as a resident alien.
    - Worldwide income of both spouses is reported.
    - Requires paper return with a letter of intent, which is out of scope.

Social Security Taxation

- California does not tax social security benefits.
- Social Security from U.S., Germany, and Canada are in scope.

The following table shows the percentage of Social Security that is taxed where combined income is:

AGI (without social security) + nontaxable interest + half of social security

Married Filing Jointly	Other Filing Status	SS Taxed
Less than $32,000	Less than $25,000	None
$32,000 - $44,000	$25,000 - $34,000	Up to 50%
$44,000 or more	$34,000 or more	Up to 85%

FICA Tax

FICA tax is a tax on wages that pays for Social Security, Medicare, and the Affordable Care Act.

Social Security Tax = 6.2% of wages on first $127,200.
Medicare Tax = 1.45% of wages
Affordable Care Act = .9% of wages above $200,000 if filing single or $250,000 MFJ.

An additional Medicare tax of 3.8% is imposed on unearned income if MAGI is greater than $250,000 if filing MFJ or $200,000 if single.

For self-employed taxpayers, the tax is referred to as self-employment tax and the Social Security and Medicare taxes are doubled (but not the ACA Tax). The limits remain the same. Also, there is a 6% FUTA tax (unemployment tax) paid by employers on the first $7000 of wages.

What's Deductible?

- See pub 4012, F-8 for deductible medical expense.

Deductions Allowed - Federal

- Medical expenses

    - If they exceed 7.5% of AGI
    - Nursing home if readily available medical care is needed
    - Assisted living if the resident cannot perform two or more of the activities of daily living

    - Must be paid by the taxpayer or spouse
    - Must be incurred by the taxpayer, spouse, or someone that was a dependent when the expense was incurred or paid, or
        - Someone that could be a dependent, but do not meet the gross income test
        - Someone that could be a dependent, but do not meet the joint return test
- Taxes
    - State and local taxes
    - Sales tax
    - Last year's state tax due

    - Must be imposed on the taxpayer, spouse, or dependent
    - Must be paid by the taxpayer or spouse
    - Must be paid in the year they are deducted
- Interest
    - Home loan interest (loan up to $750,000)
    - Point paid to acquire home loan
    - Private Mortgage Insurance (PMI)
    - Student loan interest (entered as an adjustment)
- Gifts to charity
- Casualty and theft losses only in federally declared disaster areas
- Gambling losses
- Contributions to HSA

Deductions Not Allowed - Federal

- Miscellaneous expenses (disallowed through the end of 2025), except
    - Unreimbursed job expenses
    - Safe deposit boxes
    - Investment fees
    - Except
        - Gambling losses to the extent they offset winnings
        - Work-related expenses for disabled individuals that enable them to work.
- Loss on the sale of personal property, only investment property.
- Causality and theft losses, except when resulting from a federally declared disaster.
- Deductions for education expenses
- Funeral costs
- Job expenses
- Real estate assessment (add to basis of home)
- Medical deductions not allowed
    - Medical marijuana (not legal at federal level)
    - Cosmetic surgery

Deductions Allowed - California

- Alimony paid
- Medical expenses: same as federal
- Miscellaneous expenses if they exceed 2% of AGI
- Qualified distributions from HSA (medical expenses)
- Property tax is not limited by SALT limit
- Home loan interest (loan up to $1,000,000)

Deductions Not Allowed - California

- California state income tax
- California state sales tax
- California lottery losses
- Contributions to HSA
- Contributions to traditional IRA
- Educator expense adjustment

What Is Taxable?

- See pub 4012, page D-3 for examples of what's taxable and page D-4 for examples of what's not taxable.

Income Taxed - Federal

- Alimony received (divorce before 2019)
- Debt forgiven
- Interest from U.S. government bonds
- IRA Distributions
- Jury duty pay
- Lottery / gambling winnings
- Scholarships not used for qualified expenses
- Unemployment compensation

Income Not Taxed - Federal

- Alimony received (divorce 2019 or later)
- Canceled home loan (through 2025)
- Canceled student loan (through 2025)
- Child support
- Distribution from HSA
- Inheritance
- Insurance proceeds (accident, casualty, health, life)
- Interest from state and local bonds (municipal bonds)
- Life Insurance
- Reverse mortgage
- Scholarships used for qualified expenses
- Social Security (partially)
- Veteran's benefits
- Workers' compensation

Income Taxed in California

- Alimony received
- Distribution from HSA
- Foreign social security
- Interest from out of state bonds

Income Not Taxed in California

- California lottery winnings
- Dividends from mutual funds if 50% of assets are U.S. bonds or California state or local bonds.
- Interest from California state and local bonds
- Interest from U.S. government bonds
- Social Security benefits

- Unemployment compensation

Tax-Aide Sites

Site Locator

AARP Tax-Aide	secure.aarp.org/applications/VMISLocator/searchTaxAideLocations.action
VITA/TCE	irs.treasury.gov/freetaxprep

The Villages

Location	Foothill Center, 8776 Village View Drive, San Jose
Hours	Thursday, 9:00-12:00
Reservations	Evergreen Community Center, 408-270-2220
Local Coordinator	Alan Waltho, aewaltho@comcast.net
Site ID Number (SIDN)	S74050943

Volunteers

Client Facilitators

~~Desai, Bharati~~	~~bharti0801@yahoo.com~~
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Waltho, Alan	aewaltho@comcast.net	408-238-3435

CA-3, District 9, San Jose

IRS SPEC Representative	Jaonah Her, jaonah.her@irs.gov
Region	R10, Pacific Region (8 areas in R10: AZ, CA1-5, NV, UT)
R10 Coordinator	Paul Nibarger, pnibarger@gmail.com
State/Area	CA3(5 areas in California)
CA3 Coordinator	Dave Miller, dave.k.miller@att.net
CA3 Training Specialist	Chris Schmidt, rangerchris51@gmail.com
CA3 Technology Specialist	Ed Perry, ed.perry.home@gmail.com
CA3 Administrative Coordinator	Carol Reichner, careichner@yahoo.com

District	D9, San Jose (13 districts CA3)
D9 Coordinator	Anne Colwell, acolwell.tav@gmail.com
D9 Administrator	Libby Nelson, nelsonej2012@yahoo.com
D9 Training Coordinator	Ernie Brogmus, ecb@lycos.com,
D9 Technology Coordinator	Tony Emerson,tonyemerson@msn.com Jerry O'Connor, jerryoconnor@pacbell.net

Sites in District 9

Almaden Community Center	
Location	6445 Camden Ave, San Jose
Local Coordinator	Harry Oberhelman, harryober3@gmail.com
Berryessa Community Center	
Location	3050 Berryessa Rd, San Jose
Local Coordinator	Tom Kemper, tvkemper@aol.com (2023), Oliver Liggins, oj.liggins@yahoo.com (2024)
Camden Community Center	
Location	3369 Union Ave, San Jose
Local Coordinator	Anne Colwell, acolwell.tav@gmail.com
Cypress Senior Center	
Location	403 Cypress Ave, San Jose
Local Coordinator	Ernie Brogmus, ecb@lycos.com
Southside Senior Center	
Location	5585 Cottle Road, San Jose
Local Coordinator	Belle Pannu, krishadeia1964@gmail.com
The Villages	
Location	Foothill Center, 8776 Village View Drive, San Jose
Local Coordinator	Alan Waltho, aewaltho@comcast.net
Yu-Ai Kai Community Center	
Location	588 North 4th St, San Jose
Local Coordinator	Darrell Asing, dkasing@yahoo.com

Volunteer Standards of Conduct

VSC 1	Follow the Quality Site Requirements (QSR).
VSC 2	Do not accept payment, ask for donations, or accept refund payments for federal or state tax return preparation from customers.
VSC 3	Do not solicit business from taxpayers you assist or use the information you gained about them (their information) for any direct or indirect personal benefit for yourself, any other specific individual or organization.
VSC 4	Do not knowingly prepare false returns.
VSC 5	Do not engage in criminal, infamous, dishonest, notoriously disgraceful conduct, or any other conduct considered to have a negative effect on the VITA/TCE programs.
VSC 6	Treat all taxpayers in a professional, courteous, and respectful manner.

Quality Site Requirements

QSR 1	Certification
QSR 2	Intake/Interview and Quality Review Process
QSR 3	Confirming Photo Identification and Taxpayer Identification Numbers (TIN)
QSR 4	Reference Materials
QSR 5	Volunteer Agreement

QSR 6	Timely Filing of Tax Returns
QSR 7	Civil Rights
QSR 8	Correct Site Identification Number (SIDN)
QSR 9	Correct Electronic Filing Identification Number (EFIN)
QSR 10	Security, Privacy, and Confidentiality

Site Administration

- Display at entrance to site:
  - Tax-Aide scope poster (C2467)
  - IRS publication 4053, Your Civil Rights are Protected (or AARP Tax-Aide poster (D143))
  - IRS publication 4836, What to expect at VITA/TCE Free Tax Programs (English and Spanish)
- Have available electronically at site:
  - NTTC publication 4012, Volunteer Resource Guide
  - IRS publication 17, Your Federal Income Tax
  - IRS publication 4299, Privacy, Confidentiality, and Civil Rights - a Public Trust
  - IRS publication 4454, Your Civil Rights are Protected
  - Cyber tax alerts
- Incident Report
  - Breach of program policy or procedures
  - Accident, injury, threatening behavior
  - Submit to district coordinator within 24 hours.

Terminology

Acronyms

ABLE	Achieve Better Life Experience
ACA	Affordable Care Act
ACTC	Additional Child Tax Credit
AGI	Adjusted Gross Income
AMT	Alternative Minimum Tax
AOC	American Opportunity Credit
APTC	Advanced Premium Tax Credit (ACA)
ATIN	Adoption Tax Identification Number
CAPTCHA	Completely Automated Public Turing test to tell Computers and Humans Apart
CARES	Coronavirus Aid, Relief, and Economic Security (CARES Act)
CASDI	California State Disability Insurance
CDCC	Child and Dependent Care Credit
COD	Cancellation of Debt
CTC	Child Tax Credit
EEHIC	Energy Efficient Home Improvement Credit
EFIN	Electronic Filing Identification Number
EIC	Earned Income Credit
EIN	Employer Identification Number
EIP	Economic Impact Payments (CARES Act)
EITC	Earned Income Tax Credit (see EIC)
FATCA	Foreign Account Tax Compliance Act
FICA	Federal Insurance Contributions Act
FLSA	Fair Labor Standards Act
FPL	Federal Poverty Level
FSA	Flexible Spending Account
FTB	Franchise Tax Board
FTC	Foreign Tax Credit
HDHP	High-Deductible Health Plan
HoH	Head of Household
HSA	Health Savings Account
IHSS	In Home Support Services (Medicaid Waiver Payments)
IRA	Individual Retirement Arrangement
IRC	Individual Revenue Code
IRS	Individual Revenue Service
ITIN	Individual Tax Identification Number
LTC	Long Term Care
MAGI	Modified Adjusted Gross Income
MCTR	Middle Class Tax Refund (California)
MEC	Minimum Essential Coverage (ACA)
MFJ	Married Filing Jointly
MFS	Married Filing Separately
MSA	Medical Savings Account
MWP	Medicaid Waver Payments
NTTC	National Tax Training Committee
OID	Original Issue Discount
OBBBA	One Big Beautiful Bill Act
ODC	Other Dependents Credit (Credit for Other Dependents)
PAB	Private Activity Bond
PMI	Private Mortgage Insurance

PPP	Paycheck Protection Plan (CARES Act)
PSO	Public Safety Officer
PTC	Premium Tax Credit (ACA)
PTIN	Preparer Tax Identification Number
QBI	Qualified Business Income
QCD	Qualified Charitable Distribution
QMID	Qualified Manufacture ID
QNA	See Definitions; it is not an acronym
QR	Quality Review
QSS	Qualifying Surviving Spouse
RDP	Registered Domestic Partner
REIT	Real Estate Investment Trust
RMD	Required Minimum Distribution
SALT	State and Local Taxes
SDI	State Disability Insurance
SECURE	Setting Every Community Up for Retirement (SECURE Act)
SEHI	Self-Employed Health Insurance (deduction)
SEP	Simplified Employee Pension (IRA)
SIMPLE	Savings Incentive Match Plans for Employees (IRA)
SLCSP	Second Lowest Cost Silver Plan (ACA)
SPEC	Stakeholder Partnerships, Education, and Communication office of the IRS
SRP	Shared Responsibility Payment (ACA)
SSI	Supplemental Security Income (Social Security)
SSTB	Specified Service Trade or Business
TCE	Tax Counseling for the Elderly
TCJA	Tax Cut and Jobs Act
TSO	TaxSlayer Online
TTOC	Treasury Tipped Occupation Code
TY20xx, TYxx	Tax Year 20xx
VITA	Volunteer Income Tax Assistance

Tax-Aide

DC	District Coordinator
DVRC	District Virtual Return Coordinator
EFIN	Electronic Filing Identification Number
ERO	Electronic Return Originator
LC	Local Coordinator
LMS	Learning Management System (AARP Portal)
QSR	Quality Site Requirements
RC	Regional Coordinator
SC	State Coordinator
SIDN	Site Identification Number
SMT	State Management Team/Training
SPEC	IRS Stakeholder Partnerships, Education and Communications
SVRC	Site Virtual Return Coordinator
TC	Training Coordinator
TSO	TaxSlayer [Pro] Online
TRS	Training Specialist
TTT	Train the Trainer
VRC	Virtual Return Coordinator

Definitions

199A Dividends See *Section199ADividends*.

Abandoned Spouse allows a married taxpayer with a dependent child whose spouse did not live in the taxpayer's home during the last six months of the tax year to file as head of household rather than married filing separately.

Accounting Method is the way the taxpayer accounts for their income and expenses. Cash accounting method reports income when it is received and deducts expenses when paid. The accrual accounting method reports income when earned and deducts expenses when incurred.

Accrual Method of Accounting See *Accounting Method*.

Adjusted Gross Income (AGI) is gross income (all taxable income) minus adjustments (also called above the line deductions). Adjustments are deductions the taxpayer can take even if they do not itemize deductions.

adjusted gross income = gross income - adjustments

Adjustments (also called above the line deductions) are deductions that the taxpayer can take even if they do not itemize deductions (for example, retirement plan contributions). They are subtracted from gross (taxable) income so they reduce the taxpayer's adjusted gross income (AGI). The standard deduction and itemized deductions are subtracted from AGI; they do not lower the taxpayer's AGI. The distinction between adjustments and deduction is important because AGI is used in many tax calculations.

Alien is a person in the country that is not a U.S. citizen. If the person has been issued an alien registration card (also called a green card, although it is no longer green) they are a resident alien (or if they pass the substantial presence test); otherwise, they are a non-resident alien.

Amortization is reducing the cost of an asset over its projected life. See also *depletion* and *depreciation.*

Basis is the original cost of an asset.

Blind A person is considered to be blind if they have a statement from a doctor that their vision is worse than 20/200 in their better eye with glasses or their field of vision is less than 20 degrees.

Capital Gains are gains derived from the sale of investments.

Cash Method of Accounting See *Accounting Method*.

Community Property State means the law presumes all property acquired during the marriage is owned equally by both spouses. As a result, the court will divide marital property equally if spouses later divorce. The length of the marriage does not affect the division of assets and debts. California is a community property state.

Covered Security is a security that the brokerage is required to report the cost basis to both the taxpayer and the IRS. For a non-covered security, the reporting is sent only to the taxpayer. Since January 1, 2011 most stocks traded in the U.S. are covered securities.

De Minimis is Latin for "about minimal things". It refers to an amount that is inconsequential.

De Minimis Safe Harbor Election allows the taxpayer to set a capitalization threshold so that all amounts that fall below that number are not capitalized for federal tax reporting purposes. This is particularly advantageous for taxpayers who tend to capitalize large amounts of "low dollar" fixed assets including items such as office and computer equipment, software, and office furniture.

Deduction is an expense that can be deducted from the taxpayer's AGI when itemizing deductions. It reduces the amount of income that is taxed.

Dependent is the qualifying child or qualifying relative of the taxpayer (a spouse is a personal exemption, not a dependent).

Depletion is deducting the reduction in value of an asset as that asset is used up. See also *amortization* and *depreciation*.

Depreciation is deducting a portion of an asset's acquisition cost over the period of its useful life. See also *amortization* and *depletion*.

Disabled A person is considered permanently disabled if they cannot engage in any substantial gainful activity because of a physical or mental condition, and a doctor determines the condition has lasted or can be expected to last continuously for at least a year or can lead to death (basically, the taxpayer cannot perform a paying job).

Dividends are the most common type of distribution from a corporation or mutual fund. They take some amount of capital from a company's equity and redistribute it to shareholders based on the number of shares they possess. Unless stated otherwise, dividends are ordinary dividends. Ordinary dividends are taxed as income. Qualified dividends are taxed as long term capital gains.

Earned Income is income received for work (for example, wages or business income). Unearned income is income not earned from work (for example, unemployment income or income from investments. investment income (for example, rental income, dividends, and capital gains).

Effective Tax Rate is the percentage of taxes the taxpayer actually pays, which is the income tax divided by the taxable income. See also *marginal tax rate*.

Exemption is a dollar amount that can be deducted from a taxpayer's total income. There are two types of exemptions: the personal exemption and the dependency exemption. The amount of an exemption is currently reduced to $0.

FICA Tax is a tax on wages that pays for Social Security, Medicare, and the Affordable Care Act.

Green Card See *Alien*.

Gross income is all income received in the form of money, goods, property, and services that is not exempt from tax. Income that is not taxable is not included although it may still need to be entered on the tax return (for example, qualified dividends and some portion of Social Security benefits).

Individual Retirement Arrangement (IRA) See Traditional IRA, Roth IRA, SIMPLE IRA, or SEP IRA.

Individual Tax Identification Number (ITIN) is issued by the IRS to individuals required to have a taxpayer identification number but are not eligible to receive a Social Security number. U.S. citizens and resident aliens have Social Security numbers; non-resident aliens have ITINs.

Injured Spouse refers to when one spouse owes a debt to the IRS, the other spouse, the injured spouse, can receive their share of the refund shown on the joint tax return. Otherwise, the IRS would use the entire refund to pay the debt incurred by the louse spouse.

Innocent Spouse is a spouse that requests relief from paying tax, interest, and penalties because their spouse (or former spouse) improperly reported items or omitted items on their tax return.

Kiddie Tax is a tax for children who have taxable unearned income (form 8615).

Marginal Tax Rate is the highest tax bracket that the taxpayer's income is taxed in. See also *effective tax rate*.

Modified Adjusted Gross Income (MAGI) is computed by taking the taxpayer's AGI and adding back certain deductions and excluded income, such as foreign income, student-loan interest, IRA contributions, one-half of self-employment tax, and deductions for higher-education expenses. It is common for the MAGI to be the same as the AGI. MAGI is used to determine whether the taxpayer qualifies for certain tax deductions (for example, how much of an IRA contribution is deductible).

Multiple Support Agreement is used two or more people who could claim the person as a dependent (except for the support test) together provide more than half the dependent's support. In this situation, the individuals who provide more than 10% of the person's total support, and who meet the other tests for a qualifying relative, can agree that one of them will claim the person as a dependent for any applicable tax benefits. The person claiming the dependent must file form 2120. Multiple Support Agreements apply only to a qualifying relative, not to a qualifying child.

Municipal Bonds are bonds issued by states, counties, and cities. They are federally tax free and they are state tax free if they are issued in the taxpayer's state.

Non-covered Security See *Covered Security*.

Non-refundable Tax Credit See *Tax Credit*.

Non-resident Alien See *Alien*.

Non-recourse Debt See *Recourse Debt*.

Ordinary Dividends See *Dividends*.

Original Issue Discount is a loan where a payment at maturity is more than the amount of the original loan. The difference between the original amount and the amount due at maturity is interest but is referred to as original issue discount.

Partnership See *Pass-through Business*.

Pass-through Business is a business that does not pay taxes itself. Instead, the profits and losses are passed through to the owners (i.e., partners), who pay taxes for the business on their own individual tax returns. Pass-through businesses include sole proprietorships, partnerships, S corporations, LLCs, and LLPs.

Preparer Tax Identification Number (PTIN) is an identification number issued by the IRS to all paid tax preparers. Before you can prepare a federal tax return for pay you must have a PTIN.

Primary School is elementary school.

Progressive Tax means that the taxpayer's tax rate increases as their taxable income increases.

Qualified Dividends See *Dividends*.

Qualified Charitable Distribution is an otherwise taxable distribution from an IRA owned by someone who is age 70½ or over that is paid directly from the IRA to a qualified charity.

QNA You may see these letters at the bottom of each page of a printed tax return. This is a code assigned to TaxSlayer by the IRS. It is called the "IRS Source Code". They assign a code to all tax software companies. In the case of TaxSlayer, it indicates that the tax forms were prepared using either TaxSlayer Pro Desktop or Pro Web software.

Recourse Debt holds the borrower personally responsible. All other debt is non-recourse debt. With a non-recourse debt (loan), the lender can only take the collateral if the borrower defaults. With a recourse debt (loan), the borrower is still responsible for the remaining debt if the collateral does not cover the debt.

Refundable Tax Credit See *Tax Credit*.

Resident Alien See *Alien*.

Roth IRA is a retirement account set up by an individual. The taxpayer makes contributions to a Roth IRA with after-tax dollars. The money grows tax-free, but unlike the traditional IRA, money withdrawn from a Roth IRA in retirement is tax free.

Schedule is an IRS term meaning an attachment to a form.

Secondary School is high school.

Section 199A Dividends are dividends paid out by REITs and represent a subset of ordinary dividends that are eligible for the qualified business income deduction.

SEP IRA is like a traditional IRA, but is for business owners and those that are self-employed. It is intended for businesses with few or no employees.

SIMPLE IRA is like a traditional IRA, but the account is opened by a small business owner on behalf of up to 100 employees, including the owner if that person is a sole proprietor.

SPEC is an office within the IRS that focuses on building partnerships and providing tax education and assistance to various communities. The SPEC office is a resource for information on IRS and tax issues, training materials, tax software ordering, e-file management, and IRS equipment for use in the Tax-Aide program. Local SPEC offices do not dictate program policy and cannot direct local volunteers. Any and all policy for the AARP Foundation Tax-Aide program is developed at the AARP Foundation National Office.

Statutory Employees receive Form W-2 for their pay and have taxes withheld; however, statutory employees may report their income and deduct their expenses on Schedule C. Statutory employees include full-time life insurance agents, certain agent or commission drivers, traveling salespersons, and certain home workers.

Tax-Aide is a free tax preparation assistance program provided by AARP Foundation.

Tax Credit is an amount that can be subtracted from the taxes due. Tax credits can be refundable or non-refundable. A refundable tax credit means that if the tax credit is greater than the amount of taxes due, the balance of the credit can be given to the tax payer as a refund. A non-refundable tax credit can only be used to offset taxes owed.

Taxable Income is the amount of income that will be subject to income tax. It is computed by taking the gross income, subtracting the adjustments (also called above the line deductions), subtracting the exemptions (exemptions are currently reduced to $0), and subtracting either the standard deduction or the itemized deductions (below the line deductions).

taxable income = gross income -
adjustments -
number of exemptions * $0 -
standard deduction or itemized deductions

Taxpayer Identification Number is a Social Security number (SSN), Individual Taxpayer Identification Number (ITIN), or an Adoption Taxpayer Identification Number (ATIN). Any person legally eligible for employment must have an SSN. Any person without an SSN that needs to file a tax return or be listed as a spouse or dependent on a tax return must have an ITIN. A child in the process of being adopted will need an ATIN to claim the child as a dependent.

Traditional IRA is a retirement account set up by an individual. Generally, a person makes contributions to the account using money before taxes on it (before-tax dollars). The money grows tax-deferred until it is withdrawn it in retirement. When the money is withdrawn from the account, it is taxed as income.

U.S. National is an individual who, although not a U.S. citizen, owes his or her allegiance to the United States. U.S. nationals include American Samoans and Northern Mariana Islanders who chose to become U.S. nationals instead of U.S. citizens.

Unearned Income See *Earned Income*.

Use Tax is a California tax paid on items purchased out of state but used in the state. This typically applies to items purchased over the Internet, mail orders, or purchases made while outside the state.

Volunteer Income Tax Assistance (VITA) program is an Internal Revenue Service program that partners with non-profit organizations, city governments, and major public universities to provide free tax preparation assistance.

Issues

- There is a .5% threshold for cash contribution on schedule A beginning in 2026 that is not implemented.
- New miscellaneous deduction for educator expenses is available in 2026.
- What is the difference between the KI for the various section of California, since the each have different champions, I assume they are different?