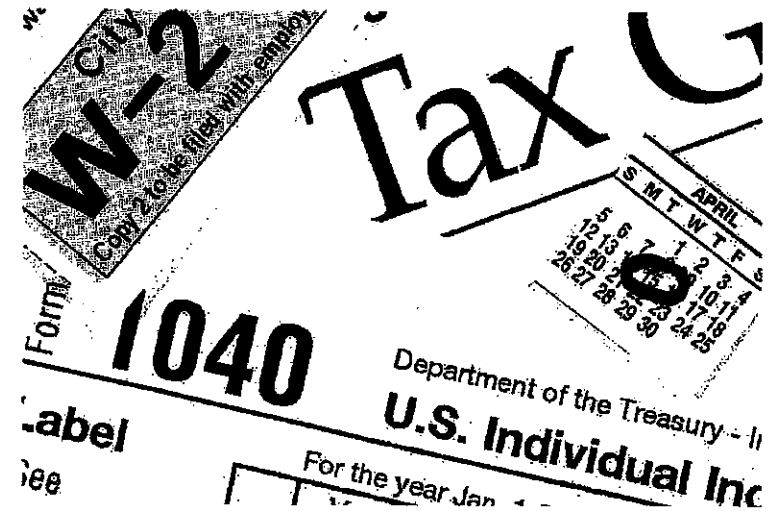


VITA Volunteer Tax Training #2



Taxable Income Examples

D-1

- Wages, salaries, bonuses and commissions
- Alimony
- Annuities
- Business income
- Debts forgiven
- Dividends
- Employer-funded disability benefits
- Gain from the sale of property or securities
- Gambling winnings
- Interest
- IRA distributions
- Jury duty fees
- Military pay
- Nonemployee compensation
- Pensions
- Punitive damages
- Refund of state taxes (if itemized the prior year and took a deduction for state taxes paid)
- Rents
- Social Security benefits
- Taxable scholarships and grants
- Tips and gratuities
- **Unemployment compensation**

Non-Taxable Income Examples ^{D-1}

- Child support
- Damages for physical injury
- Federal income tax refunds
- Gifts
- Inheritances
- Insurance proceeds
- Interest on tax-free securities
- Sickness and injury payments
- Supplemental Security Income (SSI)
- Veteran's benefits
- Welfare payments and food stamps
- Worker's compensation

Common Income Items and Forms

Form 1040 – Page 1

- Wage income – Form W-2 (line 1)
- Interest income – Form 1099-INT (line 2b)
- Dividend income – Form 1099-DIV (line 3b)
- IRA distributions – Form 1099-R (line 4b)
- Pension and annuity distribution – Form 1099-R (line 5b)
- Social security benefits – Form 1099-SSA (line 6b)

Schedule 1

- Alimony received – (Part I, line 2a)
 - Need date of divorce on line 2b
- Unemployment compensation – (Part I, line 7)
- Other income – (Part I, line 8)

Retirement Income

D-40

Form 1099 Codes

Code	Description	State and Local Tax
1	Early distribution, no known exception (most cases under 59 ½)	Taxable (cost basis is recovered first)
2	Early distribution, exception applies (under age 59 ½)	Taxable (cost basis is recovered first)
3	Disability	Not taxable
4	Death	Not taxable
6	Tax-free exchange of insurance or annuity	Not taxable*
7	Normal distribution	Not taxable
G	Direct rollover of distribution to a qualified plan	Not taxable
H	Direct rollover of a designated Roth account	Not taxable
Q	Qualified distribution from Roth IRA	Not taxable
W	Purchase of long-term care insurance premiums	Not taxable*
7D	Earnings on nonretirement annuity	Taxable as interest

Retirement Income – Reporting Issues

- Taxable amount reported in Box 2a on Form 1099-R
 - The taxable amount will carry to Form 1040, page 1 line 4b or line 5b
- Taxable amount **not** reported in Box 2a on Form 1099-R
 - If the taxpayer made a contribution with pre-tax dollars (401(k) and thrift savings plan), then the distribution is fully taxable
 - If the taxpayer made a contribution with after-tax dollars, then the distribution is partially taxable*
- Roth IRA distributions are tax free if the following are met
 - Distribution is made 5 years after the first contribution was made
 - Distribution is after age 59½, due to disability, estate beneficiary or to pay certain first-time home buyer amounts
 - If tests are not met, the distribution could be partially taxable*

*Taxable calculations are complex and outside scope for VITA

Partially Taxable Pensions and Annuities

- Applicable if there is an investment in the contract
 - Total premiums, contributions or other amounts paid after tax should be reflected on line 9b in **first year payments are received**
- Simplified Method **must** be used under either circumstance
 - Annuity started after July 1, 1986 and the simplified method was used to figure taxable amount in a prior tax year
 - Annuity started after November 16, 1996 and **both** the following apply:
 - Payments are from a qualified employee plan, qualified employee annuity or tax-sheltered annuity plan (403(b) plan) AND
 - On annuity starting date, recipient was under age 75 or the number of guaranteed years is fewer than 5
- If an investment in the contract exists but the simplified rule cannot be used, then the general rule method must be calculated. **Pub. 939**

Simplified Method

- Information needed
 - Prior Form 1040 if simplified method has been used for taxable calculations
 - Details of annuity payment program to determine guaranteed payments and whether single or joint life annuity
 - Age of recipient at start of annuity payments
 - Need ages of both recipients if the annuity is based on joint lives
 - Net investment in annuity (post-tax contributions) generally shown on box 9b
- Use of tables for payments over life expectancy
 - Single life annuity – use Table 1
 - Joint life annuity – use Table 2
- For fixed period annuity (no reference to annuitant's life), use total of monthly annuity payments under the contract

Simplified Method Example

Example. Bill Smith, age 65, began receiving retirement benefits in 2021 under a joint and survivor annuity. Bill's annuity starting date is January 1, 2021. The benefits are to be paid for the joint lives of Bill and his wife, Kathy, age 65. Bill had contributed \$31,000 to a qualified plan and had received no distributions before the annuity starting date. Bill is to receive a retirement benefit of \$1,200 a month, and Kathy is to receive a monthly survivor benefit of \$600 upon Bill's death.

- Should simplified method be used?
- What is the taxable amount of the annuity in 2021?

COVID-19 Changes to Distributions

- The 10% penalty is waived for **2020** early distributions up to \$100,000 from 401(k), 403(b) and IRAs
- Eligible criteria includes an individual who:
 - is diagnosed, or whose spouse or dependent is diagnosed with COVID-19 or
 - Experiences adverse financial consequences as a result of the individual, individual's spouse or member of the household:
 - Being quarantined, being furloughed or laid off
 - Having work hours reduced due to COVID-19
 - Being unable to work due to COVID-19
 - Closing or reducing hours of a business that they own or operate due to COVID-19
 - Having pay or self-employment income reduced due to COVID-19
 - Having a job offer rescinded or a start date for a job delayed due to COVID-19

Social Security and Railroad Benefits

- For Social Security Benefits (SSA-1099) and Railroad Retirement Benefits Tier 1 (RRB-1099) (Blue form), enter the information from the government form into Taxwise
 - Federal Section>Income>1099-R, RRB-1099, RRB-1099-R, SSA-1099>Social Security Benefits/RRB-1099
 - Use keyword “SSA”
- For Railroad Retirement Benefits Tier 2 (RRB-1099-R) (Green form), enter the information from the government form into Taxwise
 - Federal Section>Income>1099-R, RRB-1099, RRB-1099-R, SSA-1099>RRB-1099-R
 - Use keyword “RR”

Capital Gain or Loss

D-23

- Capital gains and losses are reported on Schedule D and Form 8949
- Transactions within scope for VITA:
 - Sale of stock
 - Sale of mutual funds
 - Sale of principal residence
- The following information is needed to appropriately report capital gains and losses:
 - Sales price
 - Adjusted basis of asset (See Publication 551 for details)
 - Short-term or long-term holding period
 - Any capital loss carryovers
 - Principal residence exclusions

Capital Gain or Loss

- Proceeds from sale will typically be reported on 1099-B for stock and securities and 1099-S for real estate
- Basis determination:
 - Original cost of the asset
 - Plus any increases or decreases such as commissions, fees, depreciation or improvements
 - Brokers must report cost or other basis on Form 1099-B unless the securities sold were noncovered (not reported to IRS)
 - Taxpayers must use the codes on Form 8949 to report if 1099-B was received and whether or not it showed basis reported to IRS
- Holding periods:
 - Short-term property is held one year or less
 - Long-term property is held for more than one year
 - Long-term capital gains are taxed at a lower rate than short-term capital gains

Sale of a Principal Residence D-29

- Sale of a main home should be reported on Form 8949 and Schedule D if the taxpayer does not meet the exclusion **or** they received a 1099-S reporting the sale

- Exclusion rules for sale of main home:
 - Property must be home where taxpayer lived most of the time
 - Taxpayer must have owned the home for 2 of the last 5 years
 - Taxpayer must have lived in the home for 2 of the last 5 years
 - Maximum exclusion is \$250,000 per taxpayer (\$500,000 for MFJ)

- Determining gain from sale of main home:
 - Selling price is the total amount the seller received for the home
 - Amount realized is the selling price less selling expenses (commissions, advertising fees, legal fees)
 - Basis is the amount that the taxpayer paid to buy or build the home plus additions and improvements

Business Income

D-18

- Business income is reported on Schedule C
- Form 8995-A (Simplified QBID 20% deduction)
- The following areas are out of scope for VITA:
 - Greater than \$10,000 in business expenses
 - Have a loss from the business
 - Have employees
 - Returns and allowances (non-cash method of accounting)
 - Cost of goods sold (involves inventory)
 - Farm income
 - Depreciation of furniture and equipment
 - Home office
 - Self employment health insurance

Business Income

D-16

- New Form 1099-NEC for 2020
- Reports amount of nonemployee compensation on line 1 of the form
- 1099-MISC will still be used for rental income and other income

Business Expenses

D-20

- Business expenses within scope for VITA:

- Advertising
- Car and truck expenses based on standard mileage rates
- Commissions and fees
- Insurance
- Other interest
- Legal and professional services
- Office expense (does not include office-in-home)
- Rent or lease of vehicle, machinery and equipment
- Repairs and maintenance
- Supplies
- Taxes and licenses
- Travel
- Meals – subject to limitation
- Utilities

(JAN-JUNE 58.5)
(JULY-DEC 62.5)

Uber Drivers

- Drivers for Uber (or other car services) are independent contractors for income tax purposes
- Tax returns must be filed if net earnings > \$400
- Income is reported to drivers on Form 1099-NEC and/or Form 1099-K and reported on Schedule C
- Expenses typically include:
 - Car and truck expenses based on standard mileage rates
 - Commissions and credit card service fees
 - Additional insurance purchased specifically for business
 - Business portion of car loan interest
 - Office expense (does not include office-in-home)
 - Supplies (including items provided to passengers)
 - Utilities (business portion of cell phone)
- The client's Uber page will have a list of expenses, clients can often retrieve this from their phone.

COVID-19 Changes to Self-Employed

- Some of the self-employment taxes may have been ***deferred*** until 2021 and 2022
 - The employer’s share of the Social Security is to be paid over the next two years
 - Applied for income earned from March 27 to December 31, 2020
 - Election was made on Schedule SE (See H-1 in Pub. 4012)
- Credits for Sick Leave and Family Leave (Form 7202)
 - Can take a credit against Self Employment taxes
 - Taxpayer unable to work or telework because:
 - Of a required quarantine or isolation order
 - Self-quarantined under health care provide advice
 - Experienced symptoms of COVID-19 and seeks medical diagnosis
 - Is caring for an individual who meets the above conditions
 - Is caring for a child when the school or place of care is closed
 - Credit is also available for 10 weeks of “qualified family leave”
 - See H-9 in Pub. 4012

Gambling Winnings and Other Income

- Gambling winnings reported on a Form W2-G are reported under Federal Section>Income>Less Common Income
- Gambling losses are only allowed to the extent of gambling winnings and must be reported on Schedule A as an itemized deduction
 - If the taxpayer cannot itemize, they do not receive benefits for the losses
- Additional income to be reported under Other Income Not Reported Elsewhere:
 - Jury duty pay
 - Gambling winnings not reported on Form W2-G
 - Other income not entered elsewhere on return
- Form 1099-MISC may report awards and prizes in box 3

Debt Cancellation

D-60

- Personal debts cancelled may be subject to income
- Taxpayer should receive Form 1099-C if the cancelled debt exceeds \$600
- Debt cancellation within VITA scope:
 - Personal debt
 - Reported on Form 1099-C
 - No interest in connection with debt cancellation
 - Not business related
 - Not under bankruptcy
 - Not claiming insolvency exemption (See D-60)
 - Certain student loan debt forgiveness is in scope for 2021
- Amount of debt cancellation should be reported on Schedule 1, line 8 (Other income)

OMB No. 1545-0048 are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.

b Employer identification number (EIN) 34-1696251		1 Wages, tips, other compensation 1104.00		2 Federal income tax withheld 84.68	
c Employer's name, address, and ZIP code TRADESMEN INTERNATIONAL LLC 9760 SHEPARD ROAD MACEDONIA, OH 44056		3 Social security wages 1104.00		4 Social security tax withheld 68.45	
		5 Medicare wages and tips 1104.00		6 Medicare tax withheld 16.01	
		7 Social security tips		8 Allocated tips	
d Control number 100001		9 Verification code		10 Dependent care benefits	
e Employee's first name and initial Last name MARSHA BRADY		11 Nonqualified plans		12a See instructions for box 12	
		13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b	
		14 Other UI/WF/SWF 4.83 DI 1.88 DI P.P.# 341-696-251/000		12c	
				12d	
f Employee's address and ZIP code		15 State Employer's state ID number NJ 341-696-251/000		16 State wages, tips, etc. 1104.00	
		17 State income tax 16.56		18 Local wages, tips, etc.	
				19 Local income tax	
				20 Locality name	

Form **W-2** Wage and Tax Statement

COPY 2 To Be Filed with Employees State, City or Local Income Tax Return

~~2020~~
2021

Department of the Treasury—Internal Revenue Service

Safe, accurate, FAST! Use file

VOID CORRECTED

PAYER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone no. Lancaster Bank 45 Main St Lancaster, PA 17603		Payer's RTN (optional) 		OMB No. 1545-0112 2021		Interest Income
PAYER'S federal identification number 900-XX-XXXX		RECIPIENT'S identification number 501-XX-XXXX		Form 1099-INT		
RECIPIENT'S name Larry T. Jones		1 Interest income \$ 56.20		2 Early withdrawal penalty \$		Copy 1 For State Tax Department
Street address (including apt. no.) 456 Orange St.		3 Interest on U.S. Savings Bonds and Treas. obligations \$ 25.46		4 Federal income tax withheld \$		
City or town, province or state, country, and ZIP or foreign postal code Lancaster PA 17603		5 Investment expenses \$		6 Foreign tax paid \$		
Account number (see instructions)		7 Foreign country or U.S. possession 		8 Tax-exempt interest \$		
		9 Specified private activity bond interest \$		10 Tax-exempt bond CUSIP no. 		
		11 State 		12 State identification no. 		
		13 State tax withheld \$		\$		

Form 1099-INT

www.irs.gov/form1099int

Department of the Treasury - Internal Revenue Service

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. EDWARD JONES 100 QUEEN ST LANCASTER, PA. 17601		1a Total ordinary dividends \$ 1256	OMB No. 1545-0110 2021 Form 1099-DIV		Dividends and Distributions Copy 1 For State Tax Department
		1b Qualified dividends \$ 1100			
		2a Total capital gain distr. \$ 100	2b Unrecap. Sec. 1260 gain \$		
PAYER'S federal identification number 11-XXXXXX	RECIPIENT'S identification number 502-XX-XXXX	2c Section 1202 gain \$	2d Collectible (28%) gain \$		
RECIPIENT'S name Sally Jones		3 Nondividend distributions \$	4 Federal income tax withheld \$		
		5 Foreign tax paid \$		6 Investment expenses \$	
Street address (including apt. no.) 456 Orange St.		7 Foreign country or U.S. possession		9 Noncash liquidation distributions \$	
		8 Cash liquidation distributions \$			
City or town, state or province, country, and ZIP or foreign postal code 		10 Exempt-interest dividends \$		11 Specified private activity bond interest dividends \$	
		12 State	13 State identification no.	14 State tax withheld \$ \$	
Account number (see instructions)					

Form 1099-DIV

www.irs.gov/form1099div

Department of the Treasury - Internal Revenue Service

PAYER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code, and telephone no.

STATE OF N.J.

\$ 4,000
2021
Form 1099-G

Certain Government Payments

PAYER'S TIN
22 248 1818

RECIPIENT'S TIN

3 Box 2 amount is for tax year

4 Federal income tax withheld
\$ 400

Copy 1
For State Tax Department

RECIPIENT'S name
DOLORIS HOPE

5 RTAA payments
\$

6 Taxable grants
\$

Street address (including apt. no.)

7 Agriculture payments
\$

8 Check if box 2 is trade or business income

City or town, state or province, country, and ZIP or foreign postal code

8 Market gain
\$

Account number (see instructions)

10a State 10b State identification no.

11 State income tax withheld
\$

Form 1099-G

www.irs.gov/Form1099G

Department of the Treasury - Internal Revenue Service

2019

• PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME.
• SEE THE REVERSE FOR MORE INFORMATION.

Box 1. Name [REDACTED]		Box 2. Beneficiary's Social Security Number [REDACTED]
Box 3. Benefits Paid in 2019 \$20,802.00	Box 4. Benefits Repaid to SSA in 2019 NONE	Box 5. Net Benefits for 2019 (Box 3 minus Box 4) \$20,802.00
DESCRIPTION OF AMOUNT IN BOX 3		DESCRIPTION OF AMOUNT IN BOX 4
Paid by check or direct deposit \$19,176.00		NONE
Medicare Part B premiums deducted from your benefits \$1,626.00		
Total Additions \$20,802.00		
Benefits for 2019 \$20,802.00		
		Box 6. Voluntary Federal Income Tax Withheld NONE
		Box 7. Address MICHAEL [REDACTED] [REDACTED]
		Box 8. Claim Number (Use this number if you need to contact SSA.) [REDACTED]

CORRECTED (if checked)

CREDITOR'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. CREDIT CARD BANK		1 Date of identifiable event	OMB No. 1545-1424	
		2 Amount of debt discharged \$ 1000	Form 1099-C (Rev. January 2022)	
		3 Interest, if included in box 2 \$	For calendar year 20 ____	
CREDITOR'S TIN	DEBTOR'S TIN	4 Debt description		Copy B For Debtor This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
DEBTOR'S name SAM BANKMAN FRIED				
Street address (including apt. no.)				
City or town, state or province, country, and ZIP or foreign postal code BAHAMAS				
Account number (see instructions)		6 Identifiable event code	7 Fair market value of property \$	

Form **1099-C** (Rev. 1-2022)

(keep for your records)

www.irs.gov/Form1099C

Department of the Treasury - Internal Revenue Service