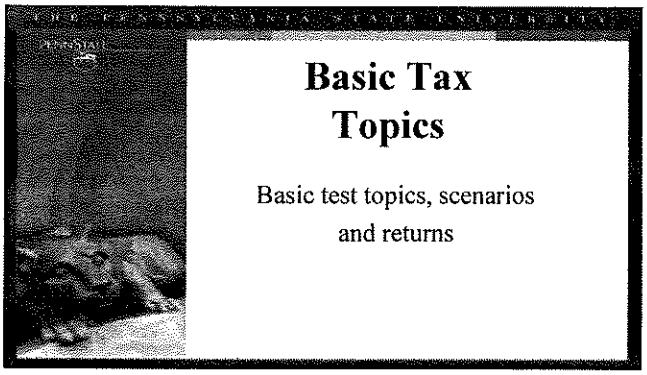

1

Self Assessment

- Bradley is 30 years old and not married
- Bradley's brother Chris lived with him for the last 8 months of the year
- Badley supported Chris and paid for their housing
- What is Bradley's most advantageous filing status?

- Joe and Mary are married. Their nephew John age 24 lives with them when not at school. John is a student at PSU. Joe and Mary pay more than ½ of John's support. John earned $4900 working during the past summer.
- Can Joe and Mary claim John as a dependent?
- See 4012 page c-3

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Today's Objectives

- Discuss topics required to complete Basic test
- Review test format and questions
- Complete a return from the Basic test

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3

Adjustment -Educator Expenses

- Educator Expense—used by public school teachers for unreimbursed school supplies
- You must enter this
- Must work at least 900 hours
- Up to $350 per educator filing
  - $700 for MFJ educators

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Earned Income Credit

- Tab 1 in Publ 4012
- What is Earned Income? (I-2)
- General Rules (I3)
  - TP's and qualifying children must all have SS# (no ITIN)
  - Must be US citizen or Resident alien
  - Income limitations

  Rules for Qualifying Children

  Does not have to be dependent

  Rules without Qualifying Child

  Age – At least 25 but under 65

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Education Credits – Tab J

	American Opportunity	Lifetime Learning
Maximum credit	Up to $2,500 credit per **eligible student**	Up to $2,000 credit per **return**
Refundable or nonrefundable	40% of credit may be refundable	Credit limited to the amount of tax you must pay on your taxable income **(nonrefundable)**
Number of years of postsecondary education	**ONLY** for the first 4 years of postsecondary education	All years of postsecondary education and for courses to acquire or improve job skills
Number of tax years credit available	**ONLY** for **4** tax years per eligible student	An unlimited number of years

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Education Credits

	American Opportunity Credit	Lifetime Learning Credit
Number of courses	Must be enrolled at least half time for at least one academic period during the tax year	Available for one or more courses
Felony drug conviction	No felony drug convictions	Felony drug convictions are permitted
Qualified expenses	Tuition and required enrollment fees. Course-related books, supplies, and equipment do not need to be purchased from the institution in order to qualify.	Tuition and required enrollment fees, including amounts required to be paid to the institution for course-related books, supplies, and equipment.

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Who Qualifies for Ed Credits?

- Undergrads almost NEVER qualify for any education credits – credit is almost always more beneficial to parents
  - Students cannot be claimed by parents to qualify
  - Must have taxable earned income and qualified expenses
  - Can only claim refundable credit if they have enough earned income to provide more than ½ their support
- Grad Students do not qualify for American Opportunity Credit but may qualify for Lifetime Learning
  - Must have taxable income, eligible expenses, and meet other requirement

Nonresidents do not qualify for any education credits

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Child Tax Credit (CTC) - G5

- Nonrefundable - $2200 per child
- Dependent
- Under 17
- Citizen or resident alien
- Relationship
- Support
- Must live with TP more than ½ year
- Child must have valid SSN (not ITIN)

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Additional Child Tax Credit (ACTC)

- Child must qualify for CTC
- TP did not have enough tax owed to receive full CTC
- Refundable - $1700 per child
  - CTC received is deducted from this amount
- Must have at least $2,500 of taxable earned income

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Credit for Other Dependents G8

Nonrefundable

Up to $500 per dependent

Don't qualify for CTC example - dependent17 or older

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Nonrefundable Credit – Child Care credit

- **Child and dependent care expenses (G-14,15)**
  - Dependent child under 13, expenses paid so you can work, must live with TP ½ year
  - Mentally/physically incapable of self-care any age who you can claim as a dependent or could claim except they had income over $4700.
  - Must have documentation with EIN
  - **You must enter child care information**

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Taxable Social Security

- A part of Social Security income may be taxed
- Based on amount of income
  - Add total income from other sources plus ½ of SS
    - If single, MFS, HoH, or QSS and total is greater than $25,000 part of social security is taxable
    - If MFJ and total is greater than $32,000 part of social security is taxable
- Maximum amount taxable is 85%

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Taxation of Dividends

- Ordinary Dividends
  - Taxed at regular tax rate
- Qualified Dividends
  - Based on tax rate tables
  - Single :
  - Taxable income less than $50,400 – not taxed
  - Taxable income $50401 - $640,600 – taxed at 15%
  - Taxable income over $640,600 taxed at 20%

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1099 – R Distribution Codes D50,51

- 1 – Early distribution, no known exception – see H7
- 2 – Early distribution, known exception
- 3 – Disability
- 4 – Death
- 7 – Normal Distribution
- D- Distribution from an annuity
- G – Rollover
- Q – Distribution from a Roth IRA

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