

Understanding taxes – The basics and beyond

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DECEMBER 2019



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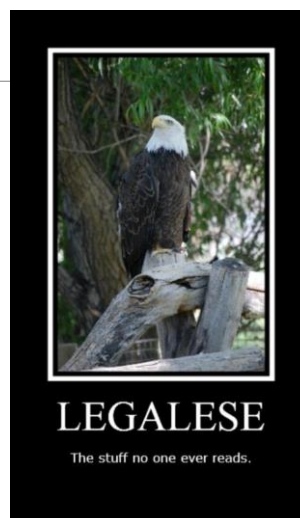
Our **mission** is to enable individuals to achieve life-long success by empowering schools, students, and families with web-based college, financial aid, career, and financial literacy information and services.

Agenda

- Introduction
- Tax basics
- Tax transcripts
- Education-related tax benefits
- Mapping Your Future services
- Questions

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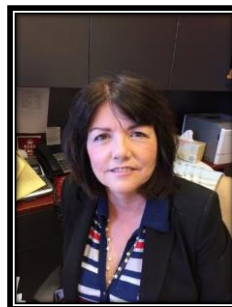
Every tax situation is different and the regulations are complex. If you are uncertain about your rights and responsibilities, contact a qualified tax advisor or visit the Internal Revenue Service (IRS) website.



Presenter

Carolyn Thomas, CPA

St. Louis, MO



Thomas & Associates does tax planning for businesses and individuals and consulting services for small business owners.



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Tax Cuts and Jobs Act

- Eliminated the personal exemption for taxpayers and their dependents
- Increased the standard deduction for all filing statuses
- Decreased the individual income tax rates
- Effective for tax years beginning after 12/31/17
- Ends before 1/1/26

What are the filing statuses?

- Five filing statuses
 - Single
 - Married filing jointly
 - Married filing separately
 - Head of Household
 - Qualifying Widow(er) with child



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Filing status – Single

- You are single if:
 - You are unmarried on the last day of the year or
 - Legally separated under a divorce or separate maintenance decree



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Filing status-Married

You are considered married, if on the last day of the year, you:

- Are living together as a married couple
- Are married according to the law of the state where you live
- Are not separated under a divorce or separate maintenance decree

You will have to file as married filing jointly or married filing separately.

If a same sex couple are married, they are considered married for filing their federal return.

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Filing status-Head of Household

You can file as head of household if you are considered unmarried at the end of the year.

You must pay more than half the cost of maintaining a household and have someone living with you as a qualifying person.



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Filing status-Qualifying widow(er) with child

You can file this status for two years following the year your spouse died.

You must have a child as a dependent on your tax return.

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Who needs to file a tax return?

IF your filing status is...	AND at the end of the year you were...	2019 gross income amounts	2018 gross income amounts
single	under 65	\$12,200	\$12,000
	65 or older	\$13,850	\$13,600
married filing jointly	under 65 (both spouses)	\$24,400	\$24,000
	65 or older (one spouse)	\$25,700	\$25,300
	65 or older (both spouses)	\$27,000	\$26,600
married filing separately	any age	\$5	\$5
head of household	under 65	\$18,350	\$18,000
	65 or older	\$20,000	\$19,300
qualifying widow(er) with dependent child	under 65	\$24,400	\$24,000
	65 or older	\$25,700	\$25,300

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Who needs to file a tax return?

Self-employed individuals, which includes:

- Sole proprietor in a trade or business
- Independent contractor
- Partner in a business
- Anyone who is in business for themselves

You must file a tax return if you have at least \$400 of net income.

May qualify for the Qualified Business Income Deduction

Source: IRS 2018 Publication 17

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Additional requirements to file

Even if you have no income:

- If you, your spouse, or dependent were enrolled in health care coverage through the Marketplace
- If you received HSA, Archer MSA, or Medicare Advantage MSA distributions
- If you are repaying the first-time homebuyer credit
- If you have a household employee
- Additional tax on a qualified plan



Dependency exemption

In 2018 and 2019, dependents will only be listed on the return for the child tax credit and the new dependent tax credit.

Dependents are still considered for filing status for:

- Head of household
- Qualifying widow(er)



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Who is a dependent?

To be a dependent on your return, a dependent must meet three tests:

- Dependent taxpayer test
- Joint return test
- Citizen or resident test



When Libbie found out she wasn't listed as a tax dependent, she wondered if she was truly part of the family

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Dependent Taxpayer Test

Is the taxpayer being claimed as a dependent by another person?

- If yes, then the taxpayer cannot claim any dependents on his/her return.

If you are filing a joint return, can your spouse be claimed as a dependent by someone else?

- If yes, then the taxpayer cannot claim any dependents on your joint return.

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Joint Return Test

You generally cannot claim a married person as a dependent if he or she files a joint return with their spouse.

Exception exists when a dependent is filing a joint return with a spouse only to receive a refund.

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Citizen Resident Test

You cannot claim a person as a dependent unless that person is a:

- U.S. citizen
- U.S. resident alien
- U.S. national
- Resident of Canada or Mexico

There is an exception for certain adopted children.

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Types of dependents

- A dependent is:
 - A qualifying child
 - A qualifying relative



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Tests to be a qualifying child

- Must be your son, daughter, stepchild, foster child, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them.
- Must be:
 - Under age 19 at the end of the year and younger than you (or your spouse, if filing jointly)
 - Under age 24 at the end of the year, a student, and younger than you (or your spouse, if filing jointly)
 - Any age if permanently and totally disabled.

(Cont. on next slide)

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Tests to be a qualifying child, cont.

- The child must have lived with you for more than half of the year.
- The child must not have provided more than half of his or her own support for the year.
- The child is not filing a joint return for the year (unless that return is filed only to get a refund of income tax withheld or estimated tax paid).

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Tests to be a qualified relative

- The person cannot be your qualifying child or the qualifying child of any other taxpayer.
- The person either:
 - Must be related to you, or
 - Must live with you all year as a member of your household (and your relationship must not violate local law)
- The person's gross income for 2018 must be less than \$4,150 (\$4,200 for 2019).
- You must provide more than half of the person's total support for the year.

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Head of Household

- Unmarried or considered unmarried on the last day of the year
- Paid more than half of the cost of maintaining a home for the year
- A qualifying person lives with you in the home for more than half of the year (except for temporary absences)

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Head of Household

If the person is your...	and...	then that person is...
Qualifying child	If he or she is single	A qualifying person
	If he or she is married and you claim as an dependent	A qualifying person
	If he or she is married and you cannot claim them as a dependent	Not a qualifying person
Qualifying relative who is your father or mother	If you can claim them as your dependent	A qualifying person
	If you cannot claim them as a dependent	Not a qualifying person

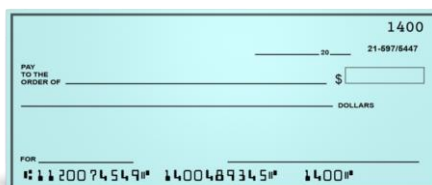
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If the person is your...	and...	then that person is...
Qualifying relative other than your father or mother	If he or she lives with you more than half the year and he or she is related to you in one of the ways listed (IRS Pub. 17)	A qualifying person
	He or she lived with the taxpayer for only half of the year or less	Not a qualifying person
	He or she is your qualifying relative only because they lived with you all year as a member of your household	Not a qualifying person
	He or she cannot be claimed as a dependent on the taxpayer's return	Not a qualifying person

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What is income?

- Earned vs. unearned
- Generally the most common sources of earned income are:
 - W2—wages from employment
 - 1099—income from subcontract work



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Unearned income

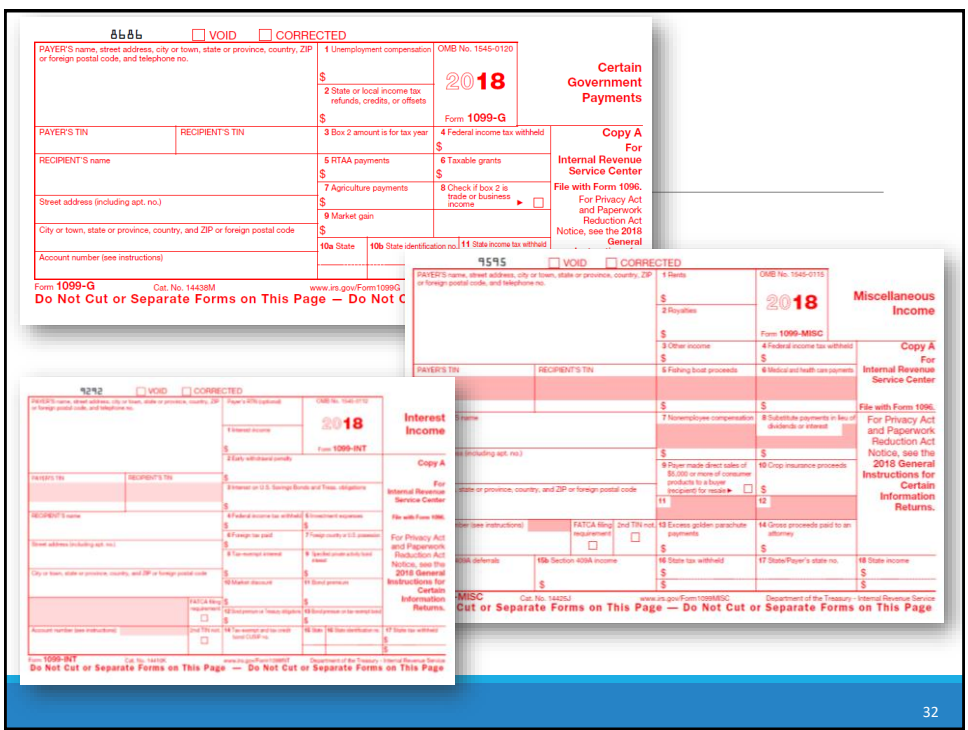
- Dividends
- Interest
- Capital gains



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Untaxed income

- Payments to tax-deferred pension and savings plans
- IRA deductions and payments to self-employed SEP, SIMPLE, Keogh
- Child support received
- Tax exempt interest income
- Untaxed portions of IRA distributions
- Untaxed portions of pensions
- Housing, food or other living allowances to military, clergy, others
- Veterans non-education benefits
- Alimony (*effective for agreements after 12/31/18*)
- Other untaxed income
- Exclusions are also listed



Filing requirements for dependents

Single dependents – under age 65 and not blind

2019

- Your unearned income was more than \$1,100
- Your earned income was more than \$12,200

2018

- Your unearned income was more than \$1,050
- Your earned income was more than \$12,000

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Filing requirements for dependents

Single dependents – over age 65 or older or blind

2019

- Your unearned income was more than \$2,750; \$4,400 if 65 or older and blind
- Your earned income was more than \$13,850; \$15,500 if 65 or older and blind

2018

- Your unearned income was more than \$2,650; \$4,250 if 65 or older and blind
- Your earned income was more than \$13,600; \$15,200 if 65 or older and blind

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Filing requirements for married dependents

Married dependents – under age 65 and not blind

2019

- Your unearned income was more than \$1,100
- Your earned income was more than \$24,400

2018

- Your unearned income was more than \$1,050
- Your earned income was more than \$24,000

Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions

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Filing requirements for married dependents

Married dependents – age 65 or older or blind

2019

- Your unearned income was more than \$2,400; \$3,700 if 65 or older and blind
- Your earned income was more than \$27,000; \$29,600 if 65 or older and blind

2018

- Your unearned income was more than \$2,350; \$3,650 if 65 or older and blind
- Your earned income was more than \$24,000; \$26,600 if 65 or older and blind

Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions

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What form to file?

- There are now two different forms that can be used:
 - Form 1040
 - Form 1040 SR (new in 2018 for seniors)

Thumbnail of Form 1040-SR U.S. Tax Return for Seniors 2018. The form includes sections for Filing Status, Standard Deduction, Adjusted Gross Income, and Taxable Income. It also features a refund calculation table at the bottom.

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Thumbnail of Form 1040 U.S. Individual Income Tax Return 2018. The form includes sections for Filing Status, Standard Deduction, Adjusted Gross Income, and Taxable Income. It also features a refund calculation table at the bottom. A large green text overlay reads "Form 1040 for 2018".

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Form 1040 for 2019

Schedules

IF YOU...	THEN USE...
Have additional income, such as capital gains, unemployment compensation, prize or award money, or gambling winnings. Have any deductions to claim, such as student loan interest deduction, self-employment tax, or educator expenses.	Schedule 1
Owe AMT or need to make an excess advance premium tax credit repayment.	Schedule 2
Can claim a nonrefundable credit other than the child tax credit or the credit for other dependents, such as the foreign tax credit, education credits, or general business credit.	Schedule 3
Owe other taxes, such as self-employment tax, household employment taxes, additional tax on IRAs or other qualified retirement plans and tax-favored accounts.	Schedule 4
Can claim a refundable credit other than the earned income credit, American opportunity credit, or additional child tax credit, such as the net premium tax credit or health coverage tax credit. Have other payments, such as an amount paid with a request for an extension to file or excess social security tax withheld.	Schedule 5
Have a foreign address or a third party designee other than a paid preparer.	Schedule 6

<https://www.irs.gov/instructions/i1040gi>

Schedule 1

SCHEDULE 1 (Form 1040) Additional Income and Adjustments to Income

OMB No. 1545-0074
2018 Attachment Sequence No. 01

Department of the Treasury Internal Revenue Service
▶ Attach to Form 1040. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040: _____ Year social security number: _____

Additional Income	1-9b	Reserved		1-9b	
10		Taxable refunds, credits, or offsets of state and local income taxes		10	
11		Alimony received		11	
12		Business income or (loss). Attach Schedule C or C-EZ		12	
13		Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶		13	
14		Other gains or (losses). Attach Form 4797		14	
15a		Reserved		15b	
16a		Reserved		16b	
17		Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
18		Farm income or (loss). Attach Schedule F		18	
19		Unemployment compensation		19	
20a		Reserved		20b	
21		Other income. List type and amount ▶		21	
22		Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23		22	
Adjustments to Income					
23		Educator expenses	23		
24		Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	24		
25		Health savings account deduction. Attach Form 8889	25		
26		Moving expenses for members of the Armed Forces. Attach Form 3903	26		
27		Deductible part of self-employment tax. Attach Schedule SE	27		
28		Self-employed SEP, SIMPLE, and qualified plans	28		
29		Self-employed health insurance deduction	29		
30		Penalty on early withdrawal of savings	30		
31a		Alimony paid	31a		
31b		Recipient's SSN ▶	31b		
32		IRA deduction	32		
33		Student loan interest deduction	33		
34		Reserved	34		
35		Reserved	35		
36		Add lines 23 through 35	36		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2018

Tax return transcript

Internal Revenue Service
United States Department of the Treasury

Tax Return Transcript Sample

Request Date: 12-04-2012
Response Date: 12-04-2012
IRS Employee Number: 5LXXXX
Tracking Number: 1000232XXX

This Product Contains Sensitive Taxpayer Data

SSN Provided: 123-45-6789
Tax Period Ending: Dec 31, 2011

The following items reflect the amount as shown on the return (PR), and the amount as adjusted (PC), if applicable. They do not show subsequent activity on the account.

SSN: 123-45-6789 SPOUSE SSN: 987-65-4321
NAME(S) SHOWN ON RETURN: THOMAS E & TAMARA B TAXPAYER

ADDRESS: 123 MAIN STREET ANYWHERE, USA 00001

FILING STATUS: Married Filing Joint
FORM NUMBER: 1040
CYCLE POSTED: 20072008
RECEIVED DATE: Apr 15, 2012
REMITTANCE: 0.00
EXEMPTION NUMBER: 3
DEPENDENT 1 NAME CTRL: HINE
DEPENDENT 1 SSN: 223-33-4444
DEPENDENT 2 NAME CTRL:
DEPENDENT 2 SSN:
DEPENDENT 3 NAME CTRL:
DEPENDENT 3 SSN:
DEPENDENT 4 NAME CTRL:
DEPENDENT 4 SSN:

Income	
WAGES, SALARIES, TIPS, ETC:	\$ 32,700.00
TAXABLE INTEREST INCOME: SCH B:	\$ 11.00
TAX-EXEMPT INTEREST:	\$ 0.00
ORDINARY DIVIDEND INCOME: SCH B:	\$ 0.00
QUALIFIED DIVIDENDS:	\$ 0.00
REFUNDS OF STATE/LOCAL TAXES:	\$ 0.00
ALIMONY RECEIVED:	\$ 0.00
BUSINESS INCOME OR LOSS (Schedule C):	\$ 15,126.00
BUSINESS INCOME OR LOSS: SCH C PER COMPUTER:	\$ 15,126.00
CAPITAL GAIN OR LOSS: (Schedule D):	\$ 0.00
CAPITAL GAINS OR LOSS: SCH D PER COMPUTER:	\$ 0.00
OTHER GAINS OR LOSSES (Form 4797):	\$ 0.00
TOTAL IRA DISTRIBUTIONS:	\$ 0.00
TAXABLE IRA DISTRIBUTIONS:	\$ 0.00
TOTAL PENSIONS AND ANNUITIES:	\$ 0.00

Identity theft

- Tax-related identity theft occurs when someone uses another person's identity to claim a fraudulent tax refund
- Pub. 5027 outlines steps taxpayers must take if they are a victim of tax-related identity theft
- Cannot use automated means to request tax transcripts
 - Identity theft hotline (800) 908-4490
 - Must speak to a representative
 - Have tax forms available to provide specific information

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When to file?

Generally, the due date for individual returns is April 15

- For 2019 returns, the deadline will be April 15

Deadline is extended for special circumstances

Extensions are allowed until October 15



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Education-related tax credits and deductions

Tax credits

- American Opportunity Credit
- Lifetime Learning Credit



Tax deduction

- Student Loan Interest Deduction

1098-T

8383 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-1574 2018 Form 1098-T		Tuition Statement
1 FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		2 Payments received for qualified tuition and related expenses		
FILER'S employer identification no.	STUDENT'S TIN <input type="checkbox"/>	3 Check if you have changed your reporting method for 2018 <input type="checkbox"/>		Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2018 General Instructions for Certain Information Returns.
STUDENT'S name		4 Adjustments made for a prior year	5 Scholarships or grants	
Street address (including apt. no.)		6 Adjustments to scholarships or grants for a prior year	7 Check this box if the amount in box 1 includes amounts for an academic period beginning January–March 2019 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code		8 Check if at least half-time student <input type="checkbox"/>	9 Check if a graduate student <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)	10 Ins. contract reimb./refund	10 Ins. contract reimb./refund		
Form 1098-T Cat. No. 25087J		www.irs.gov/Form1098T		Department of the Treasury - Internal Revenue Service
Do Not Cut or Separate Forms on This Page		Do Not Cut or Separate Forms on This Page		

Scenario #1

A 21-year-old college student earned \$20,000 in 2019 and was enrolled full-time.

With the dependency exemption gone, is this relevant to the parents' tax return?

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Scenario #2

A 20-year-old full-time college student worked at a company over the summer and earned about \$12,000.

The employer went out of business and the student did not receive a W-2.

What are his responsibilities for his tax return?

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Scenario #3

The parents are divorced, can they both file Head of Household?

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Resources

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Verification worksheets

Active verification tracking groups remaining are V1, V4, V5

Revised worksheets for 2020-21 will be available soon

- Individual worksheets by data collection item
- Comprehensive worksheets by verification tracking flag

Available to Member schools and schools in Sponsored states

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MappingXpress®

- Document collection service
- Select document types to collect from students and parents
- Other customization options



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Mapping Your Future

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pinterest.com/myfinc/pins/
- Instagram



Newsletter signup

- mappingyourfuture.org/newsroom/subscribe.cfm

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Ask your question in the question pane of the GoToWebinar toolbar.

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Thank you for your participation!

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