2018 Publication 4012, VITA/TCE Resource Guide

Publication 4012	
B-4	In the second text box, in the left margin of the page, change “Line 21” to: Schedule 1 **Make a pen/ink change in Publication 4012. A corrected Page B-4 is not provided to replace the erroneous page.**
B-7A	Insert this new page before page B-7. **Do not remove pages B-7 and B-8.**
D-35	In the first sentence of the first paragraph, change “Sec. 13613.” To: 402(c). After the second sentence, delete: “Act sec. 13613:”
D-36	No change.
D-57	After the last sentence in **Scenario C:, Note 2:**, add: You cannot exclude gross receipts that are not Notice 2014-7 Medicaid waiver payments.
D-58	No change.
G-3	No change.
G-4	Replace with new page G-4.
N-9	In the Tip, change “Itemize” to: Itemized Under the heading **Entering Medicaid Waiver Payments**:, after the last sentence in Scenario C:, add: You cannot exclude gross receipts that are not Notice 2014-7 Medicaid waiver payments.
N-10	No change.

Print out the corrected pages that follow and replace the erroneous pages in your printed training publications. On the reverse side of each revised page is the continuing page.

Filing Status - Interview Tips

Probe/Action: Ask the taxpayer:

step 1	Were you married on December 31 of the tax year? You are considered unmarried if, on the last day of the year, you were legally separated from your spouse under a divorce or separate maintenance decree. State law governs whether you are married or legally separated under a divorce or separate maintenance decree. Individuals who have entered into a registered domestic partnership, civil union, or other similar relationship that is not called a marriage under state (or foreign) law are not considered married. A taxpayer is married regardless of where the spouse lives.	If **YES**, go to Step 2. If **NO**, go to Step 4.
step 2	Do you and your spouse wish to file a joint return?	If **YES**, your filing status is **married filing jointly**. If **NO**, go to Step 3.[2]
step 3	Do all the following apply? • You file a separate return from your spouse • You paid more than half the cost of keeping up your home for the required period of time.[1] • Your spouse didn't live in your home during the last 6 months of the tax year [3] • Your home was the main home of your child, stepchild, or foster child for more than half the year. Include any individual who would qualify as your dependent except: he or she does not meet the gross income test, does not meet the joint return test, or if you could be claimed as a dependent of another taxpayer. (a grandchild doesn't meet this test) • You claim an exemption for the child (unless the noncustodial parent claims the child under rules for divorced or separated parents or parents who live apart)	If **YES**, STOP. You are considered unmarried and your filing status is **head of household**. If **NO**, STOP. Your filing status is **married filing separately**[5].
step 4	Did your spouse die in 2016 or 2017?	If **YES**, go to Step 5. If **NO**, go to Step 6.
step 5	Do all the following apply? • You were entitled to file a joint return with your spouse for the year your spouse died • You didn't remarry before the end of this tax year • You have a child or stepchild who lived with you all year, except for temporary absences or other limited exceptions, and who is your dependent or who would qualify as your dependent except that: he or she does not meet the gross income test, does not meet the joint return test, or except that you may be claimed as a dependent by another taxpayer. Don't include a grandchild or foster child. • You paid more than half the cost of keeping up the home for the required period of time.[1]	If **YES**, STOP. Your filing status is **qualifying widow(er) with dependent child**. If **NO**, go to Step 6.
step 6	Do both of the following apply? • You paid more than 1/2 the cost of keeping up your home for the required period of time.[1] • A "qualifying person," (see Who Is a Qualifying Person Qualifying You To File as Head of Household? chart), lived with you in your home for more than 1/2 the year.[4]	**YES** – Head of Household **NO** – Single

Footnotes

[1] Include in the cost of upkeep expenses such as rent, mortgage interest, real estate taxes, insurance on the home, repairs, utilities and food eaten in the home. Under proposed regulations, a taxpayer may treat a home's fair market rental value as a cost of maintaining a household instead of the sum of payments for mortgage interest, property taxes and insurance. See "Cost of Keeping Up a Home" worksheet later in this tab.

[2] You are considered unmarried for head of household purposes if your spouse was a nonresident alien at any time during the year and you do not choose to treat your nonresident spouse as a resident alien. However, your spouse is not a qualifying person for head of household purposes. You must have another qualifying person (see Who Is a Qualifying Person Qualifying You To File as Head of Household? chart later in this tab) and meet the other tests to be eligible to file as a head of household.

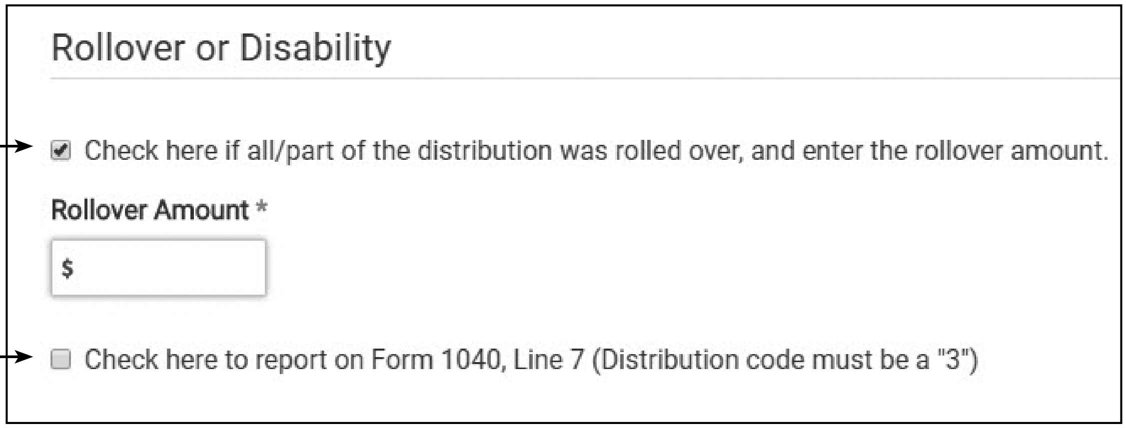
[3] Your spouse is considered to live in your home even if he or she is temporarily absent due to illness, education, business, vacation, military service, or incarceration.

[4] You can't use head of household filing status based on any person who is your dependent only because he or she lived with you for the entire year (for example, a companion or a friend).

[5] If filing a MFS return in a community property state, allocate income and expense according to state law. This situation may be treated as Out of Scope.

Form 1099-R Rollovers and Disability Under Minimum Retirement Age

If any portion was rolled over, check to bring up screen to enter the amount. Even if Box 7 is Code G, this entry must be made.



Check if Code 3 is in box 7 and the taxpayer is disabled and under the minimum retirement age* of the employer's plan. This will reclassify the disability income as wages on Form 1040. It will be considered earned income in the calculation of some credits.

*Minimum retirement age generally is the age at which you can first receive a pension or annuity if you aren't disabled.

Internal Revenue Code 402(c). Extended rollover period for plan loan offset amounts.
Provides that the period during which a qualified plan loan offset amount may be contributed to an eligible retirement plan as a rollover contribution is extended from 60 days after the date of the offset to the due date (including extensions) for filing the Federal income tax return for the taxable year in which the plan loan offset occurs, that is, the taxable year in which the amount is treated as distributed from the plan.

Rollovers

- A taxpayer should not receive a Form 1099-R for a trustee-to-trustee transfer from one IRA to another, but should receive a Form 1099-R for a trustee-to-trustee direct rollover from an employer qualified plan to an IRA with code G.
- A rollover that involves a distribution of funds to the participant isn't taxable if the funds are deposited into an IRA (or the same IRA) or an employer plan within 60 days. Form 1099-R will have either a code 1 or code 7. Subtract the rollover amount from the gross distribution (Box 1) and enter the difference as the taxable amount in Box 2a.
- A participant is allowed only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs owned. However, you can continue to make unlimited trustee-to-trustee transfers between IRAs because it is not considered a rollover.
- Sometimes a distribution includes both a regular distribution (generally taxable) and a rollover (generally non-taxable). The Form 1099-R Rollover or Disability section is used to input the amount that won't be taxed and Box 2a needs to be adjusted.
- If taxpayer inadvertently missed the 60-day rollover deadline for one of several reasons, they can submit a certification to the trustee, and the amount can be considered a rollover on his tax return. See Revenue Procedure 2016-47 for details.

Note: The above applies to pre-tax accounts (e.g. traditional IRAs) and to post-tax accounts (e.g. Roth IRAs) within each group. If rolling or converting from pre-tax to post-tax, the amount will generally be taxable.

Form 1099-R Roth IRA

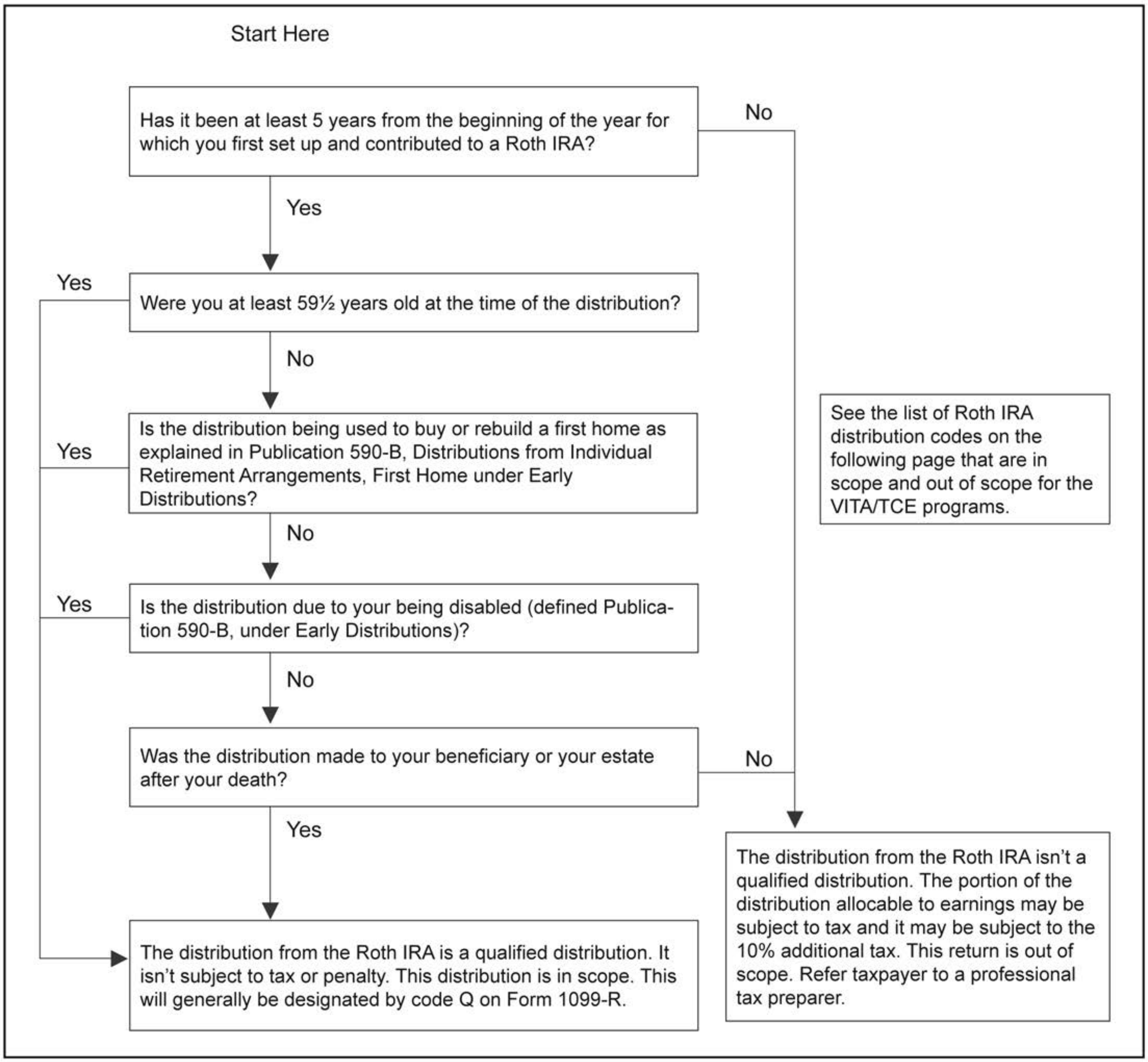
The basis of property distributed from a Roth IRA is its fair market value (FMV) on the date of distribution, whether or not the distribution is a qualified distribution.

You don't include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA(s).

Distributions from a Roth IRA are tax free and may be excluded from income if the following requirements are met:

- The distribution is made after the 5-year period beginning with the first day of the first taxable year for which a contribution was made to a Roth IRA set up for the taxpayer's benefit, and
- The distribution is:
  - Made on or after age 59½, or
  - Made because the taxpayer was disabled, or
  - Made to a beneficiary or to an estate, or
  - To pay certain qualified first-time homebuyer amounts (up to a $10,000 lifetime limit)

Is the Distribution From Your Roth IRA a Qualified Distribution?



Entering Medicaid Waiver Payments

Scenario A:
If income is reported on Form W-2 (and payer will not change), enter the Form W-2 as provided. Then, go to Schedule 1, line 21, Other income not reported elsewhere and enter Notice 2014-7 in the description field and the amount as a negative number. Then, go to Other Income, Other Compensation and enter the income as Medicaid Waiver wages. This will remove the income from EIC and other credit calculations as necessary.

Scenario B:
If income is reported on a Form 1099-MISC, go to Schedule 1, line 21>Other income not reported elsewhere and enter Notice 2014-7 in the description field and $0 in the amount field.

Scenario C:
If income is reported on a Form 1099-MISC and you are in the business of providing home care services, enter the full amount of payments under Gross Receipts in the Schedule C Income section. In Other Expenses, enter Notice 2014-7 as the description and the amount as a positive number.

Note 1: For the income to be excludable, the care must be in provider's home.

Note 2: If the income is not reported, do not do anything. It is excludable income. A taxpayer may not choose to include in gross income difficulty of care payments that are excludable from gross income under § 131 as provided in Notice 2014-7. You cannot exclude gross receipts that are not Notice 2014-7 Medicaid waiver payments.

Publication 4731
Screening Sheet for Nonbusiness Credit Card Debt Cancellation

If the taxpayer is in bankruptcy, the tax return is Out of Scope for the VITA/TCE Programs.

Instructions: Use this Screening Sheet for taxpayers with Form 1099-C or other documentation resulting from cancellation of nonbusiness credit card debt and to assist in identifying taxpayers with cancellation of credit card debt issues.

Credit Card Debt

step 1	Did the taxpayer receive Form 1099-C, Cancellation of Debt, or other documentation (if less than $600) from a creditor and is the information shown on the form or document correct? **Note:** The creditor is not required to issue a Form 1099-C if the canceled debt is under $600. However, the taxpayer may be required to report the canceled debt as income regardless of the amount.	**YES** – Go to Step 2 **NO** – Go to Step 6
step 2	Was the credit card debt related to a business?	**YES** – Go to Step 6 **NO** – Go to Step 3
step 3	Does box 6 of the Form 1099-C indicate Code A for bankruptcy? **Note:** If box 6 is not marked with a Code A, but the taxpayer has subsequently filed bankruptcy, answer “yes.”	**YES** – Go to Step 6 **NO** – Go to Step 4
step 4	Was the taxpayer insolvent* immediately before the cancellation of debt? Use the Insolvency Determination Worksheet in Publication 4012 and interview the taxpayer to determine if the taxpayer was insolvent immediately before the cancellation of debt.	**YES** – Go to Step 6 **NO** – Go to Step 5
step 5	The cancellation of nonbusiness indebtedness or cancellation of debt (the amount in box 2 of Form 1099-C or an amount less than $600 provided in other documentation) must be reported as ordinary income on Form 1040, Schedule 1 (Other Income). No additional supporting forms or schedules are required for reporting income from canceled credit card debt.	
step 6	This tax issue is outside the scope of the volunteer programs. The taxpayer may qualify to exclude all or some of the discharged debt. However, the rules involved are complex. **Refer the taxpayer to:** • The IRS website for the most up-to-date information. • The Taxpayer Advocate Service (TAS): 1-877-777-4778, TTY/TDD 1-800-829-4059. TAS may help if the problem cannot be resolved through normal IRS channels. • A professional tax preparer. • Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments (For Individuals)	

* If the taxpayer is not in bankruptcy or unable to determine if they are insolvent the credit card debt forgiveness is presumed fully taxable.

Publication 4731 (10-2018) Catalog Number 52643X Department of the Treasury **Internal Revenue Service**

Form 1116 – Foreign Tax Credit (continued)

Foreign tax credit

Passive income — BEGIN

General limited income — BEGIN

Section 901(j) income — BEGIN

Income resourced by treaty — BEGIN

Lump-sum distributions — BEGIN

Passive and General limited income are in scope with International Certification only.
Select the appropriate category. If taxpayer has income in more than one category or from more than one country, another form can be added later.

The remaining selections on this menu are Out of Scope.

Passive income

Country of residence *

- Please Select -

Select country of residence.

☐ Are you reporting income that passed through a mutual fund or other regulated investment company (RIC) on a country-by-country basis?

☐ Do you have passive income that is treated as general category income because it is highly taxed?

Carryback or Carryover $

Reduction in Foreign Taxes $

Adjustments $

Reduction of credit for international boycott operations

$

Type of Income

Credit is claimed for taxes paid or accrued

◉ Paid

○ Accrued

Indicate whether the foreign tax was actually paid during the tax year (paid) or if the tax was billed in one year but paid in another (accrued). A taxpayer using the cash basis can choose to use either the cash or accrual method to determine the foreign tax credit. However, if the accrual method is chosen, the taxpayer must continue to use the accrual method for the foreign tax credit on all future returns.

Form 1116 – Foreign Tax Credit (continued)

Foreign Country or U.S. possession

- Please Select -

Select the country that imposed the tax.

Qualified Dividends/Capital Gains Taxed at 0% from Country

$

Qualified Dividends/Capital Gains Taxed at 15% from Country

$

Qualified Dividends/Capital Gains Taxed at 20% from Country

$

Gross income from sources within the country of the specified type (Do not include income excluded by Form 2555, Foreign Earned Income)

$

Enter the gross income (not the tax) of this category type where indicated. Enter income from this category type only, not total income. Do not enter any income excluded by Form 2555.

Expenses Directly Allocable to Income $

Other Deductions $

Gross income from sources within the country of the specified type (Including any income exluded by Form 2555, Foreign Earned Income)

$

Enter the gross income of this category type where indicated. Enter income from this category type only, not total income. Include any income excluded by Form 2555, but only if that income is of the category selected (passive or general income).

Home mortgage interest

$

If your gross foreign source income (including income excluded on Form 2555 or Form 2555-EZ) does not exceed $5,000, you can allocate all your interest expense to U.S. source income. Otherwise, deductible home mortgage interest (including points and qualified mortgage insurance premiums) is apportioned using a gross income method. See Instructions for Form 1116.

Other interest expense

$

Losses from foreign sources

$

Enter the date the tax was paid or accrued.

Date paid or accrued *

MM DD YYYY

Select the itemized amounts boxes to enter taxes paid in foreign currency in the appropriate category.

Foreign taxes paid or accrued in foreign currency

Tax Withheld on Dividends (in Foreign Currency) $

Tax Withheld on Rents/Royalties (in Foreign Currency) $

Tax Withheld on Interest (in Foreign Currency) $

Other Foreign Taxes (in Foreign Currency) $

Foreign taxes paid or accrued in U.S. dollars

Dividends

$

Rents and royalties

$

Interest

$

Other taxes

$

Generally, you must enter the amount of foreign taxes, in both the foreign currency denomination(s) and as converted into U.S. dollars, that relate to the category of income checked (Passive or General limited income).

Enter the taxes paid (in U.S. dollars) in the appropriate category.

CANCEL CONTINUE

Income – Key Highlights (continued)

Public Safety Exclusions

To enter the amount of the health insurance exclusion for a Public Safety Officer (PSO), from the Main Menu of the Tax Return (Form 1040)

1. Select **Income Menu**
2. Select **IRA/Pension Distributions (Form 1099-R/RRB, SSA)**
3. Select **New** and fill out the Payer's Information
4. Enter the Gross Distribution in Box 1 as it is shown on the 1099-R
5. Subtract the amount of any Qualified Retired Public Safety Officer Distribution from the Gross Distribution and enter the different Taxable Amount. Exit this menu. The smaller of the amount of the premiums for health and/or long-term care (LTC) insurance or $3,000 can be excluded (subtracted) from distribution.
6. Select the **Other/Roth** Button
7. Select **Public Safety Officers Insurance Distribution**
8. Select **Yes**
9. Select the line on **Form 1040** where Form 1099-R is reported. When you view Form 1040, the abbreviation **PSO** will be displayed in the left margin.

If you selected Form 1040 wages line, you will be prompted to input the amount of distribution being excluded. The exclusion and the abbreviation PSO will print on the dotted line next to the wages amount.

Note: This is a guide on entering Public Safety Officer Distributions into TaxSlayer. This is not intended as tax advice.

TIP Any amount exceeding $3,000 is entered on Schedule A, Itemized Deductions as insurance cost. The insurance can be for the taxpayer, spouse and family. When Form 1099-R, Box 7 is Code 4 (distribution due to death), the PSO deduction may no longer be used.

Entering Medicaid Waiver Payments:

Scenario A: If income is reported on Form W-2 (and payer will not change), enter the Form W-2 as provided. Then, go to Other income not reported elsewhere and enter IRS Notice 2014-7 in the description field and the amount as a negative number. Next, go to Other Income, Other Compensation and enter the income as Medicaid Waiver wages. This will remove the income from EIC and other credit calculations as necessary.

Scenario B: If income is reported on Form 1099-MISC, Miscellaneous Income, go to Other income not reported elsewhere, enter IRS Notice 2014-7 in the description field and $0 in the amount field.

Scenario C: If income is reported on Form 1099-MISC and you are in the business of providing home care services, enter the full amount of payments under Gross Receipts in the Schedule C Income section. In Other Expenses, enter Notice 2014-7 as the description and the amount as a positive number. You cannot exclude gross receipts that are not Notice 2014-7 Medicaid waiver payments.

Credits – Key Highlights

- To enter tax credits select the Credits Option to bring up the Credits Menu.

- To enter a specific credit select the appropriate menu option and then follow the software prompts.