

OUT OF SCOPE - VITA 2018 TAX YEAR

The following are out of scope. While this list may not be all inclusive, it is provided for your awareness only.

Legislative Extenders

Residential energy-efficient property credit (Form 5695, Part I)

Cancellation of debt for issues other than “qualified principal residence indebtedness” or nonbusiness credit card debt

Cancellation of debt for a principal residence that was used in a business or as rental property

Cancellation of debt when Form 1099-C includes an amount for interest

Cancellation of debt was because the taxpayer filed bankruptcy or was insolvent immediately before the debt was canceled

Affordable Care Act

Self-employed health coverage deductions for taxpayers who are allowed a PTC Form 8962 Parts IV (shared policy allocation) and V (Alternative Calculation of Year of Marriage)

Individuals eligible for the health coverage credit

If there is a code FF on Form W-2, box 12 and the employee has a Marketplace policy and is otherwise eligible for PTC

Filing Basics

Taxpayers who may qualify for the health coverage tax credit

Taxpayers who cannot substantiate their identity

Filing Status

A spouse who may be relieved of joint liability as an innocent spouse

Depending on your tax assistance program, community property tax laws for married taxpayers who file a separate return from their spouse

Taxpayers who are not certain they are in a common law marriage (rules are complex and differ from state to state)

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Unique Filing Status and Exemption Situations

Taxpayers with F, J, M, or Q visas, unless there is a volunteer and quality reviewer at your site with Foreign Student certification

Nonresident aliens who do not meet the green card or substantial presence test and are not married to a U.S. citizen or resident alien

Individuals having a dual status for the tax year

Income – Wages, Interest, Etc.

Taxpayers with income from the following sources:

- Other gains/losses
- Farm income

Taxpayers affected by the Additional Medicare Tax

Accrual method for reporting income

Taxpayers who buy or sell bonds between interest payment dates

Form 1099-INT, box labeled Specified private activity bond interest if AMT applies

Adjustments needed for any of the amounts listed on Form 1099-OID, or if the taxpayer should have received Form 1099-OID but did not receive one

Form 1099-DIV, boxes labeled Unrecap. Sec. 1250 gain, Section 1202 gain, Cash liquidation distributions, and Noncash liquidation distributions

State or local income tax refunds received during the current tax year for a year other than the previous tax year

Alimony/divorce agreements executed before 1985

Tax returns for ministers and members of the clergy because of unique tax issues

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Income – Business

Schedule C with:

Hobby income or not-for-profit activity

Expenses over \$25,000

Return and allowances

Cost of goods sold

Expenses for employees

Business use of home

Contract labor

Casualty losses

Vehicle expenses reported as actual expenses

Depreciation or the election to expense business assets (other than the de minimus expense safe harbor election)

Rental or lease expenses – vehicle, machinery, and equipment leases of more than 30 days

Accounting methods other than the cash method

Net losses

A “No” response that indicates the taxpayer does not meet any of the tests of material participation, or is uncertain about materially participating in a business

Taxpayers who receive any credit card or similar payments that are not includible in income

A “Yes” response indicating there is a requirement to file Form(s) 1099

Income from the manufacture, distribution, or trafficking of controlled substances (such as marijuana)

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Income – Capital Gain or Loss

Taxpayers who have sold any assets other than stock, mutual funds, and a personal residence

Taxpayers who trade in options, futures, or other commodities, whether or not they disposed of any during the year

Determination of basis issues:

- Basis of stock acquired other than by purchase or inheritance, such as a gift or employee stock option plan, unless the taxpayer provides the basis and holding period
- Basis of inherited property determined by a method other than the FMV of the property on the date of the decedent's death, unless the taxpayer provides the basis and holding period
- Basis of property acquired from a decedent who died in 2010

Like-kind exchanges and worthless securities

Form 1099-B, boxes on Bartering: Profit or (loss) realized on closed contracts; Unrealized profit (loss) on open contracts – prior year; Unrealized profit or (loss) on open contracts – current year; or Aggregate profit (loss) on contracts; Proceeds from collectibles; or FATCA filing requirement

Reduced exclusion computations/determinations in the sale of a home

Married homeowners who do not meet all requirements to claim the maximum exclusion on the sale of a home

Decreases to basis, including:

- Deductible casualty losses and gains a taxpayer postponed from the sale of a previous home before May 7, 1997
- Depreciation during the time the home was used for business purposes or as rental property

Taxpayers with “nonqualified use” issues

Sale of a home used for business purposes or as rental property

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Income – Retirement Income

The taxpayer needs to file Form 8606

Taxpayers who made nondeductible contributions to a traditional IRA

Taxpayer subject to additional tax due to excess IRA contributions

Roth IRA distributions that are taxable or partially taxable, and distributions with Form 1099-R, code J or T

IRA rollovers that do not meet the tax-free requirements

Taxpayers who used the General Rule to figure the taxable portion of pensions and/or annuities for past years

Form 1099-R, distribution code A (lump-sum distribution qualifying for special tax treatments)

Income – Schedules K-1 and Rental

Income reported on Schedules K-1 (other than what is listed in the introduction to this lesson)

Deductions, credits, and other items reported on Schedules K-1

Royalty income reported on Form 1099-MISC with associated expenses

Taxpayers who rent their property at less than fair rental value

Rental-related interest expenses other than mortgage interest

The actual expense method (auto and travel expense deductions)

Casualty loss

Completing Form 8582 if volunteers are required to enter additional data in form 8582 in the software

Completing Form 4562

Taxpayers who filed or need to file Form(s) 1099

Income – Other Income

Distributions from Educational Savings Accounts in which the:

- Funds were not used for qualified education expenses, or
- Distribution was more than the amount of the qualified expenses

Taxpayers who are insolvent and had debt canceled

Distributions from an ABLE account in which the funds were not fully used for qualified disability expenses

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Military Income

U.S. Armed Forces members who were provided a commuter highway vehicle (such as a van) by their employer

Adjustments to Income

Other adjustments to income on Form 1040, such as:

- Self-employed health insurance deduction
- Self-employed SEP, SIMPLE, and qualified plans
- Domestic production activities deduction

Form 8606, Nondeductible IRAs

Itemized Deductions

Casualty and theft losses

Investment interest

Form 1098-C, Contributions of Motor Vehicles, Boats and Airplanes

Taxpayers affected by limits on charitable deductions

Taxpayers that file Form 8283 to report noncash contributions of more than \$500

If the taxpayer is donating property that was previously depreciated

If the taxpayer is donating capital gain property

Credit for Child and Dependent Care Expenses

Taxpayers who need assistance in determining if employment taxes are owed for household employees

Education Credits

Taxpayers who must repay (recapture) part or all of an education credit claimed in a prior year.

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Foreign Tax Credit

Taxpayers who must complete Form 1116 because they cannot elect to report foreign tax on Form 1040, unless your site has a volunteer with an International certification

Taxpayers who may deduct a foreign income tax that is not allowed as a credit in certain circumstances

Certain expenses deducted to reduce foreign gross income

Taxpayers who must report a carryback or carryover on Form 1116

Taxpayers who must file a separate Form 1116 required for foreign income from a sanctioned country, using the "Section 901(j) income" category

Miscellaneous Credits

Mortgage interest credit

Other Taxes

Household employment taxes

IRA minimum distributions not withdrawn when required

Excess contributions to an IRA that are not removed by the due date of the return including extensions

Distributions or excess contributions shown on Parts II through IX of Form 5329 (only Part I is in scope)

Distribution from an ABLE account that exceeds the qualified disability expenses

Individuals subject to the additional Medicare tax on Form 8959

Individuals subject to the net investment income tax on Form 8960

Payments

Taxpayers who choose to claim any of the following credits:

- Form 4136, Credit for Federal Tax Paid on Fuels
- Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains
- Form 8839, Qualified Adoption Expenses
- Form 8885, Health Coverage Tax Credit

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Refund and Amount of Tax Owed

Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts

Amended and Prior Year Returns

Taxpayers who may qualify for an exception to the three-year time limit for filing an amended return for a refund