

This document provides how-to information for those items that are in scope for Tax-Aide but out of scope for VITA/TCE (and therefore not covered in Pub 4012.)

See Tax-Aide Scope Summary from OneSupport>Tax Training>Scope for differences between Tax-Aide scope and VITA/TCE scope.

This optional document can be broken apart and added to your Pub 4012 tab by tab or all in one place. Your instructor or coordinator may have other pages to add as well.

Income—Tab D

State Income Tax Refunds from Years Earlier than the Prior Year:

- If taxpayer did not itemize in the year the refund is for or claimed the sales tax deduction instead of the state income tax deduction in that year, the refund is not taxable. Do not enter it.
- If the taxpayer itemized and agrees to pay tax on the full amount, enter the full amount on a scratch pad linked to Line 10.
- If the taxpayer does not agree to pay tax on the full amount, the return is out of scope.

Schedule C Income and Form 1099-K:

- If taxpayer receives a Form 1099-K for self-employment income (not for the sale of goods or rental income such as Airbnb), make sure the total shown on the 1099-K is included on Schedule C Line 1.

Schedule C Expenses:

- Vehicles rented for more than 30 days are subject to special limitation rules and are out of scope.
- Rentals of other business equipment are deductible and in scope.
- See “Guidelines for Preparing Schedule C” in OneSupport>Tax Training>Policy/Tax Law for additional guidance.

Sale of Bonds:

- A bond that matured or was sold with no gain or loss is entered on the Capital Gain Worksheet with the same amount for sales price and for cost basis.
- If the sale of a bond is reported on a brokerage statement with a gain or loss but no ordinary income, enter it on the Capital Gain Worksheet as reported.
- If there is ordinary income associated with the sale, the return is out of scope.

Sale of Property Inherited in 2010:

- The taxpayer is responsible for providing the basis and acquisition date. Property inherited in 2010 may have a carryover basis (the decedent’s basis, not fair market value on the date of death) if the estate filed an estate tax return and made the carryover election. In that case, the taxpayer should present Form 8939 with the information. In all other cases, the basis will be the fair market value on the date of death.

Sale of Property Received as a Gift:

- Sale of gifted property is entered in the Capital Gain Worksheet, with the basis and acquisition date provided by the taxpayer. If the value on the date of gift is less than the donor's basis, it is used to measure a subsequent loss. If the value on the date of gift is more than the donor's basis, the donor's basis is used to measure a subsequent gain. It is possible that there is no gain and no deductible loss on the disposition. The return is out of scope if the taxpayer cannot provide the basis.

“Sale” of Totally Worthless Securities:

- If a security is deemed totally worthless on the brokers' statement, enter it on the Capital Gains Worksheet with WO/RT/HL/SS in the Date sold column.

Form 1099-R Box 7 Codes:

- **Code 6** (tax-free Section 1035 exchange) is not taxable but must be reported.
- **Code J** is for an early distribution from a Roth IRA. If the account has existed for less than five years or there were any conversions from a traditional IRA or qualified retirement plan in the last five years, additional taxes apply so the return is out of scope. Otherwise, TaxWise® enters the distribution on 1040 Line 15b and opens Form 8606 with the distribution on lines 19 and 21. Enter the taxpayer's basis (the amount contributed to or transferred to the Roth, less previous distributions from the Roth, if any) on line 22. If the distribution is greater than the basis, the excess is taxable, a 10% penalty applies, and the return is out of scope. If not, TaxWise® moves the distribution amount from Line 15b to 15a, and no further action is needed.
- **Code T** is used for a distribution from a Roth IRA if the participant has reached age 59½, but the 5-year holding period may not have been met. Ask the taxpayer if any part of this account was rolled over from a traditional IRA or qualified retirement plan within five years of the distribution. If so, some of the earnings may be taxed. If taxpayer did meet the 5-year rule, no further action is needed (-0- taxable). If not, the return is out of scope.
- **Code W** (payment for LTC contract) is not taxable, but must be reported.

Distribution from IRA if Any Contributions Were Not Deductible:

- On screen below 1099-R, check the box under line 5 of the exclusion worksheet. Form 8606 appears in forms tree. In Form 8606, enter remaining basis (from carry forward data or prior year Form 8606) in Line 2 and year end value (provided by taxpayer) in Line 6.
- May need a second Form 8606 if each spouse has basis in their IRAs.

Income from the Rent of Land Reported on 1099-MISC or Received as Cash:

- On Schedule E, answer questions A and B about needing to file Form(s) 1099. Then enter the address, code “5” and the number of rental days on Line 1.” From Line 3, link to 1099-Misc or scratchpad. If it’s a 1099-Misc, use the pull down menu on the first line to identify the column (A, B or C) from Schedule E and complete the form.

Other Rental Income (see page D-38):

- Rental income from sources such as a home is out of scope except for an active duty military taxpayer **AND** the Counselor and Quality Reviewer both have Military certification. All other rental situations (room in home, apartment over garage, separate building, for profit, not for profit, Airbnb, etc.) are out of scope regardless of certifications.

Canadian or German Social Security:

- Canada Pension Plan, Quebec Pension Plan and Old Age Security from Canada and Germany are treated like U.S. Social Security. If amounts are reported in foreign currency, convert to U.S. dollars and enter on scratchpad that links to Social security amount on Worksheet 1. All other foreign old age pensions are out of scope.

Form 1099-LTC:

- Add Form 8853 Page 2 to the return. Complete Lines 14, 15, 16 and 17 based on the information on Form 1099-LTC. On Line 21, enter the number of days covered. Most payments will not be taxable.

Form 1099-Q (Payments from Qualified Education Programs such as a 529 plan or a Coverdell Education Savings Account (Coverdell ESA):

- If the entire distribution is less than qualified education expenses (books, supplies, equipment and, if at least half-time student, room and board), the distribution is neither taxable nor reportable. If the distribution is greater than qualified education expenses, the return is out of scope. Note that qualified education expenses applied to reduce the taxable portion of a distribution cannot be used again for other education benefits, such as an education credit.

Form 1099-QA (Distributions from ABLE Accounts):

- If the entire distribution is less than qualified disability expenses, the distribution is neither taxable nor reportable. If the distribution is greater than qualified expenses, the return is out of scope.

Itemized Deductions—Tab F

Non-cash donations of more than \$500 but less than \$5,000 in total:

- In Schedule A Detail, link from Other Than Cash Contributions first line right-hand column to Form 8283 to report non-cash contributions more than \$500 but less than \$5,000. Items must be in good condition to be deductible. For each donation date, enter the **complete** address and a description of the items in the top part of the page then complete the corresponding row in the next section. The taxpayer needs to provide additional information as required if a single item is valued at more than \$500. Column (f) is typically “Purchase,” “Gift,” or “Inherited.” Column (i) might be “Thrift store values” or “25% of cost,” etc. Taxpayer should estimate the fair market value. Remind the taxpayer that the IRS requires receipts (or similar evidence) of all charitable donations.
- Motor vehicles include any motor vehicle intended for use on roads, a boat or an airplane. A donation of any of these is out of scope.

Unreimbursed Employee Business Expenses:

- From Schedule A Line 21, link to Form 2106-EZ. Enter unreimbursed employee expenses as described on Pages F-9 through F-13. Form 2106 is in scope for military only.

Other Taxes—Tab H

Failure of Taxpayer to Take Required Minimum Distribution

- If taxpayer has failed to take RMD from a qualified retirement plan, open Form 5329. Complete Part IX to request a waiver of the 50% penalty. Link to the explanation form to describe the reasons the taxpayer failed to take the distribution (illness, relied on trustee, clerical error in calculation, etc.). Taxpayer needs to correct the error by taking the missed distribution as soon as possible. This will result in paying tax on two distributions in following year.

Early Distribution Exceptions – Form 5329 Part I

Notes:

- *Some codes apply only to IRAs, some apply only to employer plans such as a 401(k); some apply to both.*
- *Code 03 applies if the taxpayer was considered disabled when the distribution occurred, i.e., it does not apply if the disability occurred after the distribution.*
- *For codes 05, 07 and 08, the distributions do not have to be specifically for the stated expenses, but the distribution and the expenses must occur in same tax year.*
- *For all other codes, the distribution must be specifically for the reason applicable to that code – see Pub 590-B and Form 5329 Instructions for details*

05 Qualified retirement plan distributions up to the amount paid for unreimbursed medical expenses during the year minus 10% (or 7.5% if taxpayer or spouse were 65 or older) of adjusted gross income (AGI) for the year. Applies to IRA and employer plan distributions.

Example: Joyce, age 50 withdrew \$10K from her 401(k). Her total unreimbursed qualified medical expenses for the year were \$8K. Her AGI is \$50K.

Item	Amount
Early distribution included in income	\$10,000
Amount of early distribution not subject to additional tax	\$8,000 of medical expenses less 10% of her \$50K AGI or \$8,000 minus \$5,000 = \$3,000
Amount subject to additional tax	\$10,000 minus \$3,000 = \$7,000
10% Additional tax	\$700

08 IRA distributions made for qualified higher education expenses. It does not apply to employer plan distributions.

Example: Bob, age 54, withdrew \$10,000 from his traditional IRA. Bob’s son James is a more than half-time student at a local college. Bob can apply expenses paid for himself, his spouse, his or his spouse's child, foster child, adopted child, or descendant of any of them to this exception. Note – the student does **not** have to be a dependent. If the student is at least a half-time student, room and board are qualified education expenses only to the extent they are not more than the greater of the allowance for room and board, as determined by the educational institution, that was included in the cost of attendance (for federal financial aid purposes) for the academic period, and the actual amount charged if the student is residing in housing owned or operated by the educational institution.

Scenario	Applicable to Exception
Bob pays college \$12,000 for tuition, books and fees	\$10,000
Scholarship covers tuition, books and fees. <ul style="list-style-type: none"> <li data-bbox="272 1024 760 1094">– James lives in on-campus housing with room and board* <li data-bbox="272 1102 597 1136">– James lives at home* <li data-bbox="272 1228 776 1262">– James lives in off-campus housing* 	<ul style="list-style-type: none"> <li data-bbox="828 982 1317 1052">– Standard cost for school-operated housing <li data-bbox="828 1102 1409 1220">– Actual cost for room and board limited to amount determined by Institution for students residing at home <li data-bbox="828 1228 1409 1381">– Actual cost for room and board limited to amount determined by Institution for students residing off-campus in private facilities

* Taxpayer must obtain the appropriate room and board allowance from the Institution. This allowance represents either the only amount (on-campus housing) or the maximum amount that can be claimed toward this exception. See <https://www.admissions.ucla.edu/prospect/budget.htm> for an example. If the Institution has no allowance for a specific room and board situation, then nothing can be claimed.

Education Benefits—Tab J

See “Education Cookbook” from OneSupport>Tax Training>Tools and “Education Calculator” at <http://tools.cotaxaide.org> for help in maximizing tax benefits from education expenses.