

American Tax Club, Inc.
(AMERITAX)

2022

Annual Federal Tax Refresher Course
(AFTR)

Annual Filing Season Program (AFSP)

Domain 2 – Part 3: General Review of Tax Return Preparation

Domain 2 of the Annual Federal Tax Refresher (AFTR) Course reviews important concepts and guidelines to preparing individual tax returns.

Objectives

After completing Domain 2 Part 3, participants should be able to:

- Recognize forms to report capital gains and losses
- List eligible deductions for Schedule A
- Identify taxpayer eligibility for credits
- Recall different types of tax payments and tax withholding
- Determine payment and refund options
- Determine tax return due dates
- Understand tax filing extensions

2.9 Schedule D and Form 8949/Capital Gains and Losses

Assets owned and used by the taxpayer for personal or investment purposes are considered capital assets. Examples would be real estate, stocks, bonds, and cryptocurrency, among other items. When a capital asset is sold or exchanged, the difference between the basis (or investment) and the sales price is the capital gain or capital loss.

Capital gains fall into two categories long-term and short-term.

- a) If an asset was held for more than one year, it is considered long-term.
- b) if held for one year or less, it is considered short-term.

Capital gains may be taxed at a lower rate than ordinary income tax rates. Losses from the sale of personal-use property cannot be deducted; however, there are some provisions (with limitations) to deduct net capital losses from investment property.

Capital gains and deductible capital losses are reported on Schedule D and on Form 8949. Figure a gain or loss by comparing the amount realized with the adjusted basis of the property.

a) Gain - If the amount realized from a sale or trade is more than the adjusted basis of the property transferred, the difference is a gain.

b) If the adjusted basis of the property transferred is more than the amount realized, the difference is a loss.

Adjusted basis - The adjusted basis of property is the original cost or other basis properly adjusted (increased or decreased) for certain items.

Amount realized - The amount realized from a sale or trade of property is everything received for the property minus the expenses of sale. The amount realized includes the money received plus the fair market value of any property or services received.

If property and cash are traded for other property, the amount realized is the fair market value of the property received. Determine the gain or loss by subtracting the cash paid plus the adjusted basis of the property traded in from the amount realized. If the result is a positive number, it is a gain. If the result is a negative number, it is a loss.

Schedule D and Form 8949

Schedule D is used to report gains and losses as the result of the sale or trade of certain property. Form 8949 is used to report the details on each transaction.

Example:

Leo purchased 100 shares of the ABC Company at \$10 a share or \$1,000. Eighteen months after she purchased the stock, the share price increased to \$20 a share and Dionne sold all the stock for \$2,000. She had no expenses in the purchase or sale of the stock. Leo has a long-term capital gain of \$1,000 (\$2,000 sales price - \$1,000 investment). The gain is considered long-term because the stock was held for more than one year.

Schedule D

Use Schedule D for the following purposes.

- To figure the overall gain (or loss) from transactions reported on Form 8949.
- To report a gain from Form 6252 or Part I of Form 4797.
- To report a gain (or loss) from Form 4684, 6781, or 8824.
- To report capital gain distributions not reported directly on Form 1040 or 1040-SR, line 7 (or effectively connected capital gain distributions not reported directly on Form 1040- NR, line 7).
- To report a capital loss carryover from the previous tax year to the current tax year.
- To report your share of a gain (or loss) from a partnership, S corporation, estate, or trust. (However, corporations report this type of gain (or loss) on Form 8949.)
- To report certain transactions, you don't have to report on Form 8949, such as transactions reported to you on a Form 1099-B (or substitute statement) showing basis was reported to the IRS and for which you have no adjustments, as explained under Exception 1, later.

Individuals, estates, and trusts also use Schedule D to report undistributed long-term capital gains from Form 2439.

Form 8949

A taxpayer uses Form 8949 to list all capital gains and loss transactions and carries the subtotal from this form to Schedule D, where the gain or loss will be calculated in aggregate. Short-term gains are listed together in Part 1, while long-term gains are listed in Part II.

Use Form 8949 to report:

- The sale or exchange of a capital asset not reported on another form or schedule
- Gains from involuntary conversions (other than from casualty or theft) of capital assets not used in a trade or business.
- Nonbusiness bad debts
- Worthlessness of securities
- Election to defer capital gain invested in a Qualified Opportunity Fund (QOF)
- Disposition of interests in QOFs

There are some exceptions as to when Form 8949 is required. Review the instructions for Schedule D and Form 8949 to learn more.

2.10 Standard Deduction

Most taxpayers have a choice of either taking a standard deduction or itemizing their deductions. Usually, taxpayers will choose the method that gives them a higher deduction. Both the standard deduction and itemized deduction reduce taxable income. The standard deduction is a fixed amount that is usually indexed for inflation each year. The amount of the deduction is based on:

- a) Filing status
- b) Age
- c) Whether or not the taxpayer is blind
- d) Whether or not the taxpayer is a dependent of another

Some individuals are not eligible to take the standard deduction including those who:

1. file their return with the filing status of married filing separately, and his or her spouse itemized deductions
2. file a tax return for a short tax year because of a change in annual accounting period; or
3. are a nonresident alien or dual-status alien during the year

For 2022, the standard deduction amount has been raised for most taxpayers. See the table below for the standard deduction amounts.

Filing Status	Tax Year 2022	Tax Year 2021
Single	\$12,950	\$12,550
Head of Household	\$19,400	\$18,880
Married Filing Jointly	\$25,900	\$25,100
Qualifying Widow(er)	\$25,900	\$25,100
Married Filing Separately	\$12,950	\$12,550

The standard deduction amount might be increased for taxpayers who are blind or age 65 or older. Alternatively, taxpayers who file as “dependent of another” will see their standard deduction limited based on earned income.

The additional standard deduction for individuals 65 years or older, or blind, per person, is:

- a) \$1,750 for taxpayers filing Single
- b) \$1,750 for taxpayers filing Head of Household
- c) \$1,400 for taxpayers filing Married Filing Jointly, Married Filing Separately, or as Qualifying Widow(er)

Standard Deduction for Dependents

The standard deduction for individual who may be claimed as a dependent by another taxpayer cannot exceed the greater of:

- \$1,150
- Sum of earned income and \$400 (but not more than the regular standard deduction amount, generally \$12,950)

Example:

Jean and Kathy, both over age 65, have been married for over 37 years and plan to file their return as married filing jointly for 2022. They will not itemize deductions; therefore they will deduct the standard deduction on their tax return which is \$28,700 ($\$25,900 + \$1,400 + \$1,400$).

Example:

Betty, age 20, earned \$5,000 employed as a tutor during 2022; however, her parents claimed her as a dependent on their 2022 tax return. Betty will file a 2022 tax return as a dependent of another. Her standard deduction will be \$5,400 (earned income + \$400).

2.11 Itemized Deductions on Schedule A

Even though most taxpayers are eligible to take the standard deduction, it is more advantageous for some taxpayers to take the total allowable itemized deductions. The allowable itemized deductions are specific and

can sometimes be limited. If a taxpayer itemizes their deductions, Schedule A must be filed.

Once the amount of itemized deductions is determined, the amount is carried to Form 1040 or 1040-SR, line 12a, and then subtracted from AGI.

2.11.1 Medical and Dental Expenses Deduction

Generally, qualified medical expenses are deductible on Schedule A when deductions are itemized. Deductible expenses include unreimbursed amounts paid during the tax years for the medical care of the taxpayer, spouse, and dependents.

Medical expenses are the cost of diagnosis, cure, mitigation, treatment, prevention of disease, and the costs for treatments affecting any part or function of the body. They include the costs of equipment, supplies, and diagnostic devices needed for these purposes. Medical expenses also include dental care, and the cost of medical and dental insurance (not paid with pre-tax dollars). Medicare premiums can be included as medical insurance. Long-term care insurance premiums can also be deducted, up to a certain limit.

A detailed list of deductible medical expenses is included in IRS Publication 502.

All taxpayers can deduct amount of medical and dental expenses that exceed 7.5% of adjusted gross income (AGI) on Schedule A, Itemized Deductions.

2.11.2 State and Local Tax (SALT)

Prior to the TCJA, taxpayers were allowed an itemized deduction on Schedule A for state and local taxes (SALT) and foreign taxes with an election to deduct state and local general sales tax instead of state and local income tax.

Under new laws introduced by the TCJA, the total deduction for state and local tax is limited to

\$10,000 (\$5,000 for married taxpayers filing separately) for tax years beginning after December

31, 2017 and before January 1, 2026. Foreign real property tax cannot be deducted other than taxes paid or accrued carrying on a trade or business.

Taxpayers cannot deduct both sales tax and income tax. If electing to deduct sales tax, optional sales tax tables may be used. The sales tax deduction would be calculated using adjusted gross income plus any nontaxable income.

The \$10,000 aggregate SALT limitation rule does not apply to state and local tax paid or accrued in carrying on a trade or business.

2.11.3 Home Mortgage Interest Deduction

Home mortgage interest is generally deductible, subject to limits. A home mortgage is any loan that is secured by a taxpayer's main home or second home. It includes first and second mortgages, home equity loans and lines of credit, and refinanced mortgages.

Generally, home mortgage interest on loan proceeds used to buy, build or substantially improve a home are considered qualifying debt.

Generally, for qualified loans taken out before December 16, 2017, home mortgage interest deductions are limited to the first \$1,000,000 of debt. Additional rules apply for loans taken out before October 14, 1987.

Limits for the home mortgage interest deduction have been further limited by the TCJA, including interest deductions for home equity loans, home equity lines of credit (HELOC), and second mortgages. Interest deductions on loans taken out after December 15, 2017, are affected.

For tax years 2018 through 2025, the deduction for home mortgage interest is limited to the interest on up to \$750,000 (\$375,000 for married taxpayers filing separately) of acquisition indebtedness. For acquisition of debt before December 15, 2017 the pre-TCJA \$1,000,000 limit applies for the interest deduction.

The deduction for home equity loan interest has been suspended. In this context, the home equity loan is one that is not incurred to acquire, construct, or substantially improve the home. The elimination of the deduction for the interest on unqualified home equity debt applies regardless of when the home equity debt was acquired.

2.11.4 Charitable Contributions

Taxpayers can take deductions for their contributions to qualified organizations. Under pre-TCJA law, the deduction was limited to a prescribed percentage of the taxpayer's AGI, usually 50% but in some cases 20% and 30% limits applied. The deductible percentage was dependent only upon the type of organization to which the donation was made, whether the contribution was made "to" or merely "for the use of" the donee, and whether the contribution was capital gain property.

Charitable contributions remain deductible as an itemized deduction on Schedule A under the TCJA. The percentage limit for cash contributions to a qualified organization has increased from 50% to 60% for tax years ending after December 31, 2017, and before January 1, 2026.

2.11.4.1 Cash Contribution Limitations

Taxpayers can generally deduct qualified charitable contributions up to 60% of their AGI (without a deduction for any net operating loss carryback) for contributions to 60% charities (formerly known as 50% charities). Some examples of 60% limit organizations are:

- a) Churches or associations of churches
- b) Educational Organizations

- c) Hospitals and certain medical research organizations
- d) Foundations for the benefit of state colleges and universities
- e) Publicly supported organizations the 30% limit applied to the following gifts:
 - f) Gifts to all qualified organizations other than 60% limit organizations, including gifts to veterans' organizations, fraternal societies, nonprofit cemeteries, and certain private non-operating foundations
 - g) Gifts for the use of any organization
 - h) Gifts of capital gain property to a 60% limit organization (only if the FMV of the gift is used, not the cost)

A 20% limit applies to noncash contributions that are for the use of, rather than to, any other qualified organization (except 60% organizations).

NOTE: For tax years 2020 and 2021, eligible taxpayers were able to claim an additional deduction of up to \$300 for cash charitable contributions without the need to file Schedule A. The above-the-line \$300 charitable contribution deduction was available only if the taxpayer took the standard deduction and did not itemize deductions. This provision has expired after December 31, 2021. Charitable contributions can only be claimed in 2022 if itemizing.

Athletic Tickets

The TCJA eliminated the charitable contribution deduction for payments to a college or university in exchange for which the donor receives the right to purchase tickets or seating at athletic events. This change is in effect for contributions made in tax years beginning after December 31, 2017. Prior to the enactment of the TCJA, taxpayer could deduct up to 80% of these amounts as a charitable contribution.

Example:

Justin contributed \$16,000 to the University of Pottery on January 10, 2021, in exchange for the right to buy season tickets for premium box seats for the University's hockey games. Justin cannot deduct any amount of the contribution on his 2021 federal tax return.

If Justin had made the same donation on December 31, 2017, he would have been able to deduct 80% or \$12,800 ($\$16,000 \times 80\%$) on his Schedule A as an itemized deduction.

2.11.4.2 Contemporaneous Written Acknowledgement

For tax year 2017 and beyond, the TCJA repealed the provision that provided an exception to the contemporaneous written acknowledgement (CWA) requirement for certain contributions that were reported on the done organization's return.

No deduction will be allowed for any contribution of \$250 or more unless the donor validates the contribution with a contemporaneous written acknowledgement of the contribution from the done organization. The written acknowledgment must include:

- The amount of any money contributed and a description (but not value) of any property donated.
- Whether the organization did or didn't give the taxpayer any goods or services in return for their contribution. If goods or services were received, a description and estimate of the value must be included.

In figuring whether a gift is \$250 or more, do not combine separate donations. For example, if a taxpayer gave their church \$25 each week for a total of \$1,300, treat each \$25 payment as a separate gift.

2.11.5 Casualty and Theft Loss

The TCJA prescribes that personal casualty and theft losses are only deductible to the extent they are attributable to a federally declared disaster. Each personal casualty and theft loss is reduced by \$100. The total of all casualty or theft losses is further reduced by 10% of AGI. Use Form 4684 for calculations.

If a taxpayer has personal casualty and theft gain, he or she may deduct losses without regard to the federally declared disaster area to the extent of the gain.

If a taxpayer is not itemizing deductions and has a qualified net disaster loss, he or she may be able to deduct an increased standard deduction.

Miscellaneous Itemized Deduction

The TCJA has eliminated the deduction for miscellaneous itemized deduction that were subject to the 2%-of-AGI floor. Some of the deductions the TCJA has eliminated include:

- a) Unreimbursed employee business expenses
- b) Tax preparation fees
- c) Legal fees related to tax advice
- d) Safe deposit box rental
- e) Hobby expenses to the extent of hobby losses

Certain expenses, such as gambling losses to the extent of winnings, and federal estate tax in respect to a decedent, are still eligible.

The elimination of the miscellaneous itemized deductions subject to the 2% limit is effective for all tax years 2018 through 2025. See IRS Publication 529 for further information.

Pease Limitation on Itemized Deductions

The TCJA has suspended the “Pease limitation” on itemized deductions through tax year 2025. The Pease limitation is an overall limitation on itemized deductions, sometimes called the 3%/80% rule.

The Pease limitation reduced the total amount of allowable itemized deductions (after other limits were applied) by 3% of the amount the taxpayer’s AGI exceeded a certain threshold amount; however, the overall limitation did not reduce itemized deductions by more than 80%.

The suspension of the overall itemized deduction limitation is scheduled for tax years through 2025.

2.11.6 Moving Expenses

In recent years, work-related moving expenses were deductible from gross income as long as certain tests were met. Beginning January 1, 2018, the deduction for moving expenses has been suspended except for certain members of the military.

The TCJA also made changes to the income exclusion for qualified moving expense reimbursements. For tax year 2018 and beyond, most taxpayers cannot exclude reimbursed moving expenses from income.

Active-duty members of the U.S. Armed Forces who move pursuant to a military order and incident to a permanent change of station can still deduct moving expenses and exclude reimbursed moving expenses from income. Use Form 3903 and carry eligible amounts to Schedule 1, line 14.

2.11.7 Record Keeping and Documentation

Keeping accurate and well-organized records is an important component of tax return preparation. Accurate records and documentation can help substantiate items of income, deductions, and credits if a tax return is selected for review or the taxpayer receives an IRS notice.

Taxpayers must keep records that support an item of income, a deduction, or a credit as long as they are material in the administration of any provision of the Internal Revenue Code.

Generally, records should be retained until the period of limitations expire for the return. The limit is normally the later of three years from the filing date of the return, or the due date, whichever is later.

It is especially important to keep records for deductions on Schedule A, including documentation for:

- Cash and noncash contributions
- Deductible medical expenses
- Deductible taxes
- Deductible interest paid and underlying loan limit calculations
- Deductible casualty and theft losses 2.12

Tax Credit Eligibility Nonrefundable and Refundable Credits

Taxpayers might be eligible to take certain credits in order to reduce tax liability. Credits provide a dollar-for-dollar reduction in taxes owed. Most credits are limited to the tax liability and are not refundable, but some credits, such as the Earned Income Tax Credit, are refundable. Refundable credits are not limited to the tax liability and can create a tax refund.

Nonrefundable tax credits include:

- Child and Dependent Care Credit
- Education Credits (American Opportunity Credit is also partly refundable)
- Credit for Elderly or Disabled
- Child Tax Credit
- Foreign Income Tax Credit

- Retirement Savings Contribution Credit
- Adoption Credit Refundable credits include:
- Earned Income Tax Credit
- Excess Social Security Credit
- Additional Child Tax Credit
- Premium Tax Credit
- American Opportunity Credit (partially refundable)

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is a refundable credit that reduces or eliminates the taxes paid by low-income workers. To claim the credit, the taxpayers must have earned income of less than \$59,187 during the year.

To claim the credit, the taxpayers must file a tax return even if they are not required to file or do not owe any tax and they meet all the rules for taking the credits.

There are four parts for the rules for EITC:

- Rules for Everyone
- Rules for Taxpayers with Qualifying Child(ren)
- Rules for Taxpayers with no Qualifying Child(ren)
- Figuring and Claiming EITC

If the taxpayers have a qualifying child, rules in parts 1, 2, and 4 apply. If the taxpayers do not have a qualifying child, rules in parts 1, 3, and 4 apply.

<p>Earned Income Credit – Rules for Everyone Part 1 - Rules for Everyone</p>

There are seven rules that must be met by everyone who claims the Earned Income Tax Credit for 2022.

Rule 1 – Taxpayers AGI must be less than:

- \$53,057 (\$59,187 for Married Filing Jointly) with three or more qualifying children
- \$49,399 (\$55,529 for Married Filing Jointly) with two or more qualifying children
- \$43,492 (\$49,622 for Married Filing Jointly) with one qualifying child
- \$16,480 (\$22,610 for Married Filing Jointly) with no qualifying child

Rule 2 - Taxpayers must have valid Social Security Number (SSN).

A taxpayer (and spouse if filing a joint return) must have a valid SSN. Taxpayers with Individual Taxpayer Identification Numbers (ITINs) are not eligible for EITC. The Social Security card must not read “Not Valid for Employment.” Any qualifying child on the return must have a valid SSN, unless the child was born and died during the tax year.

Rule 3 – Filing status generally cannot be married filing separately; however, the ARPA states that married individuals can be treated as unmarried if:

- A MFJ return is not filed
- Qualifying child lived with taxpayer for more than half of the year
- Taxpayer did not live with their spouse the last month of the year or has a decree, instrument, or agreement (other than divorce decree) and is not a member of the same household at the end of the year

Rule 4 – Taxpayers must be U.S. citizens or resident aliens all year.

Rule 5 – Taxpayers cannot file Form 2555 or Form 2555-EZ.

Rule 6 – Investment income must be \$10,300 or less. The ARPA raised the investment income limitation from \$3,650 to \$10,000 for tax years after December 31,2020. The amount is adjusted for inflation in years after 2021.

For most taxpayers, investment income is the sum of taxable and tax-exempt interest, dividend income, and capital gain net income. If taxpayers file Schedule E, Form 4797, Form 8814, or report income on Schedule 1, line 8, for rental of personal property, review IRS Publication 596.

Rule 7 – Taxpayer (or spouse if Married Filing Jointly) must have earned income. Earned income includes:

- Wages, salaries, and tips
- Taxable employee compensation
- Net earnings from self-employment
- Certain disability pays reported as wages
- Union strike benefits
- Combat pays (if elected to include nontaxable combat pay in taxable income)
- Unearned income includes:
 - Unemployment benefits
 - Worker’s Compensation
 - Social Security benefits
 - Retirement income
 - Interest income
 - Payments from public assistance programs
 - Gambling winnings

- Child Support
- Alimony
- Nontaxable foster care payments

Part 2: Rules for Taxpayers with Qualifying Children

Taxpayers with qualifying children not only must meet all the rules in Part 1 – Rules for Everyone but must also meet all the rules in Part 2 – Rules for Taxpayers with Qualifying Children. Rules in Part 4 – Figuring and Claiming EITC also apply.

Rule 8 – Qualifying children must meet relationship, age, residency, and joint return tests. Relationship Test

To be a qualifying child, the child must be the taxpayer's:

- Son, daughter, stepchild, foster child, or a descendent of any of them
- Brother, sister, half-brother, half-sister, stepbrother, stepsister, or descendent of any of them

Age Test

The child must be:

- Under age 19 at the end of 2022 and younger than the taxpayer (or spouse if filing a joint return)
- Under age 24 at the end of 2022, a student, and younger than the taxpayer (or spouse if filing a joint return)
- Permanently and totally disabled at any time during 2022, regardless of age

Residency Test

The child must have lived with the taxpayer in the United States for more than half the year. A child who was born or died during the year is considered to have lived with the taxpayer more than half the year if the

taxpayer's home was the main home more than half the time, he or she was alive in the year.

Joint Return Test

To meet this test, the child cannot file a joint tax return for the year unless the child and his or her spouse file a joint return only to claim a refund.

Rule 9 – The qualifying child cannot be used by more than one person to claim EITC.

Even if a child meets the tests to be a qualifying child of more than one taxpayer, the child can be used as the qualifying child for EITC on only one tax return. Tiebreaker rules apply if more than one taxpayer may use the child as a qualifying child for EITC. Special rules also apply for children of divorced or separated parents. See Publication 596 for an explanation of the tiebreaker and special rules.

Rule 10 – Taxpayer cannot be the qualifying child of another taxpayer.

NOTE: If a taxpayer does not have any qualifying children but meets all the requirements in Part 1 – Rules for Everyone, he or she must also meet the rules in Part 3 – Rules for Taxpayers without Qualifying Children. Rules 11-14 must be met for these taxpayers.

Part 3: Rules for Taxpayers without Qualifying Children

Rule 11 – Taxpayer must be at least age 25 but under age 65;

Rule 12 – Taxpayer cannot be the dependent of another person.

Rule 13 – Taxpayer cannot be the qualifying child of another taxpayer.

Rule 14 – Taxpayer must have lived in the U.S. more than half of the year.

The taxpayer (and spouse if filing a joint return) must have been in the United States more than half of the year. Military personnel stationed outside the U.S. on active duty are considered to have lived in the U.S during the duty period for EITC purposes.

Part 4: Figuring and Claiming the EITC

If a taxpayer has met all the requirements in Part 1 – Rules for Everyone and Part 2 – Rules for Taxpayers with Qualifying Children, or Part 3 – Rules for Taxpayers without Qualifying Children, proceed to Part 4 – Figuring and Claiming EITC. Rules in this part must be met by anyone claiming EITC.

Rule 15 – Earned income must be less than certain limits. The earned income on the tax return must be less than:

- \$53,057 (\$59,187 for Married Filing Jointly) with three or more qualifying children
- \$49,399 (\$55,529 for Married Filing Jointly) with two or more qualifying children
- \$43,492 (\$49,622 for Married Filing Jointly) with one qualifying child
- \$16,480 (\$22,610 for Married Filing Jointly) with no qualifying child

Figure EITC using the EIC worksheet. Schedule EIC must also be completed and filed with the tax return to claim the EITC if the taxpayer has a qualifying child.

The maximum credit for tax year 2022 is:

- \$6,935 with three or more qualifying children
- \$6,164 with two qualifying children
- \$3,733 with one qualifying child

- \$560 with no qualifying child

Paid Preparer's Checklist

Paid tax return preparers must complete Form 8867 and it must also be submitted with the returns claiming EITC prepared by a paid tax preparer. Form 8867 ensures that paid preparers consider all EITC requirements and encourage proper EITC due diligence. Preparers should complete the Paid Preparer's Checklist using information provided by the taxpayers. Tax return preparers should be able to explain the meaning and reasoning for each question presented on the checklist.

Preparers are required to:

- Complete Form 8867 after obtaining information from taxpayer(s) and document additional questions asked and the answers given by the taxpayer at the time of the interview
- Submit Form 8867 electronically for every electronic return with EITC
- Attach Form 8867 to any return claiming EITC prepared and presented to the taxpayer for filing
- Provide a copy of Form 8867 to the preparer submitting the tax return if the preparer is not the preparer submitting the return to the IRS

Child Tax Credit

For tax year 2022, the Child Tax Credit (CTC) could be worth up to \$2,000 per qualifying child less than 17 years old.

Qualifying Children

For the Child Tax Credit, a qualifying child is a child, descendant, foster child, stepchild, sibling, stepsibling, or a descendant of any of these, and all of the following must be true:

- The child is a U.S. citizen, U.S. national, or resident alien
- The child is under the age of 17 at the end of the tax year
- The child provided less than half of his or her own support in the current tax year
- The child lived with the taxpayer more than half of the current tax year

A child is considered to have lived with the taxpayer if the child was born or died in the current tax year and lived in the home the entire time, he or she was alive. Temporary absences, including school, vacation, medical care, military service, or detention in a juvenile facility, count as time lived in the home.

No CTC is allowed for a taxpayer for any qualifying child unless the taxpayer provides the Social Security Number (SSN) of the child on his or her tax return. The SSN of the qualifying child must be provided in order to receive both the refundable and non-refundable portions of the child tax credit. A partial credit may be allowed for dependents who are not qualifying children.

Example:

Sara's son, Franklin, turned 17 on December 1, 2022. He is a citizen of the United States and Sara claimed him as a dependent on her return. Franklin is not a qualifying child for the Child Tax Credit because he was not under age 17 at the end of 2022.

Credit Amount

The maximum amount that can be claimed for the credit is \$2,000 for each qualifying child under age 17.

The credit is partially refundable, up to \$1,500 per qualifying child, for some lower-income taxpayers. Those taxpayers must have at least \$2,500 of earned income.

The income phaseout applies the base amount of \$2,000 per qualifying child and is reduced for taxpayer whose MAGI exceeds:

- \$400,000 married filing jointly
- \$200,000 all other filing statuses

Partial Credit for Other Dependents

In 2022, taxpayers with qualifying dependents other than qualifying children could receive a

\$500 non-refundable credit for each qualifying dependent. This is known as the credit for other dependents or ODC.

For purposes of the CTC, MAGI is the AGI plus the following amounts that may apply to the taxpayer:

- Any amount excluded from income because of the exclusion of income from Puerto Rico. On the dotted line next to Form 1040 or 1040SR, line 1, enter the amount excluded and identify it as “EPRI.” Also attach to the return a copy of any Form(s) 499R- 2/ W-2PR
- Any amount on line 45 or line 50 of Form 2555, Foreign Earned Income
- Any amount on line 15 of Form 4563, Exclusion of Income for Bona Fide Residents of American Samoa

If the taxpayer does not have any of the above, then modified AGI is the same as AGI. Child and Dependent Care Credit

The Child and Dependent Care Credit is generally a nonrefundable tax credit based on expenses incurred for the care of a qualifying person. This

care must make it possible for the taxpayer to work or seek employment and is based on a percentage of the amount actually paid for care expenses.

A taxpayer may be able to take the credit for child and dependent care expenses if the taxpayer paid someone to care for:

- The taxpayer's qualifying child under age 13 whom the taxpayer claims as a dependent
- The taxpayer's disabled spouse or any other disabled person who could not care for themselves
- The taxpayer's child who was not claimed as a dependent due to the rules for children of divorced or separated parents

In 2022, the credit can be up to 35% of the taxpayer's expenses. Expenses up to \$3,000 for one child/dependent, or up to \$6,000 for more than one. To qualify, the taxpayer must pay these expenses so he or she (and spouse if married) can work or look for work.

Tests

In order to claim the credit for child and dependent care expenses, Form 1040 or 1040-SR must be filed, and the following tests must be met:

- Qualifying Person Test
- Earned Income Test
- Work-Related Expense Test
- Joint Return Test
- Provider Identification Test

Qualifying Persons

Child and dependent care expenses must be for the care of one or more qualifying persons. A qualifying person is:

- A qualifying child who is a dependent of the taxpayer and was under age 13 when the care was provided
- The taxpayer's spouse who was not physically or mentally able to care for himself or herself and lived with the taxpayer for more than half the year
- A person who was not physically or mentally able to care for himself or herself, lived with the taxpayer for more than half the year, and either:

Was the taxpayer's dependent

Would have been the taxpayer's dependent except that:

- He or she received gross income over the limit
- He or she filed a joint return
- The taxpayer, or spouse if filing jointly, could be claimed as a dependent on someone else's return

Earned Income

To claim the credit, the taxpayer (and spouse if filing jointly) must have earned income during the year.

Earned income includes wages, salaries, tips, other taxable employee compensation, and net earnings from self-employment. A net loss from self-employment reduces earned income.

Earned income also includes strike benefits and any disability pay reported as wages.

Generally, only taxable compensation is included, but nontaxable combat pay can be included in earned income if elected by the taxpayer. If filing a joint return and both the taxpayer and spouse received nontaxable combat pay, each may make his or her own election.

Earned income does not include:
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- Pensions and annuities
- Social Security and railroad retirement benefits
- Workers' compensation
- Interest and dividends
- Unemployment compensation
- Scholarship or fellowship grants, except for those reported on a Form W-2 and paid to the taxpayer for teaching or other services
- Nontaxable workfare payments
- Child support payments received
- Income of nonresident aliens which is not effectively connected with a U.S. trade or business
- Any amount received for work while an inmate in a penal institution

Work-Related Expenses

Child and dependent care expenses must be work-related to qualify for the credit. Expenses are considered work-related only if both of the following are true:

- They allow the taxpayer (and spouse if filing jointly) to work or look for work
- They are for a qualifying person's care

Working or Looking for Work

To be work-related, the expenses must allow the taxpayer to work or look for work. If married, generally both the taxpayer and spouse must work or look for work. A spouse is treated as working during any month he or

she is a full-time student or is not physically or mentally able to care for him or herself.

Work can be for others or in the taxpayer's own business or partnership. It can be either full-time or part-time. Work also includes actively looking for work. If, however, the taxpayer does not find a job and has no earned income for the year, this credit cannot be taken.

An expense is not considered work-related merely because it was incurred while working. The purpose of the expense must be to allow the taxpayer to work.

Joint Return Test

Generally, married couples must file a joint return to take the credit. If, however, the taxpayer is legally separated or living apart from his or her spouse, the taxpayer might be able to file a separate return and still take the credit.

Only the custodial parent can claim the credit. A married taxpayer living apart from a spouse is not considered married, and he/she can take the credit if all the following apply:

- Taxpayer files a separate return
- Taxpayer's home is the home of a qualifying person for more than half the year
- Taxpayer paid more than half of the cost of keeping up a home for the year
- Spouse did not live in the taxpayer's home for the last six months of the year

Provider Identification Test

Identify all persons or organizations that provided care for the child or dependent. Use Form 2441, Part I to show the information.

To identify the care provider, give the provider's:

- Name
- Address
- Taxpayer identification number

If the care provider is an individual, the taxpayer identification number is his or her Social Security Number or Individual Taxpayer Identification Number (ITIN). If the care provider is an organization, then it is the Employer Identification Number (EIN).

It is not necessary to show the taxpayer identification number if the care provider is a tax-exempt organization (such as a church or school). In this case, enter "Tax-Exempt" in the space where the tax form calls for the number.

Figuring the Credit

The credit is a percentage of work-related expenses. Expenses are subject to the earned income limit and the dollar limit. The percentage is based on adjusted gross income.

Work-related expenses include only payments made during the tax year.

Earned Income Limit

The amount of work-related expenses used to figure the credit cannot be more than either:

- The taxpayer's earned income for the year if single at the end of the year
- The smaller of the taxpayer's or spouse's earned income for the year if married at the end of the year

NOTE: A spouse who is a full-time student or incapable of self-care is treated as having earned income of at least \$250/month if there is one qualifying person in the taxpayer's home or at least \$500/month for two or more qualifying persons.

Dollar Limit

There is a dollar limit on the amount of work-related expenses that can be used to figure the credit. The dollar limit is a yearly limit. The amount of the dollar limit remains the same no matter how long, during the year, the taxpayer has a qualifying person in their household.

The dollar limits are:

- \$3,000 if work-related expenses were paid for the care of one qualifying person at any time during the year
- \$6,000 if work-related expenses were paid for the care of more than one qualifying person at any time during the year

If work-related expenses were paid for the care of two or more qualifying persons, the \$6,000 limit does not need to be divided equally among them.

To determine the amount of the credit, multiply work-related expenses (after applying the earned income and dollar limits) by a percentage. This percentage depends on the taxpayer's adjusted gross income.

Education Credits

There are two tax credits available to taxpayers who pay expenses for higher (postsecondary) education. They are:

- The American Opportunity Credit
- The Lifetime Learning Credit

Note: For each student, a taxpayer can claim either the American Opportunity Credit, or the Lifetime Learning Credit. This means that only one of the tax breaks can be taken for the same person on the same return.

Parents claiming two or more college-age students as dependents on their return can claim one of these tax breaks for one student and another for a different student.

Taxpayers can still take the student loan interest deduction even if they're claiming one of the other tax breaks.

Expenses paid or deemed paid by a dependent are considered paid by the taxpayer. Someone other than the taxpayer, spouse, or dependent (such as a relative or former spouse) may make a payment directly to an eligible educational institution to pay for an eligible student's qualified education expenses. In this case, the student should be treated as receiving the payment from the other person and, in turn, paying the institution. If the taxpayer claims an exemption on his or her tax return for the student, he or she is considered to have paid the expenses.

For purposes of the education credits, consider only qualified education expenses in determining the credit amount. Qualified education expenses must be required for enrollment or attendance at an eligible educational institution and include tuition and required enrollment fees. Expenses include amounts paid to the institution for course-related books, supplies, and equipment.

Only certain expenses for course-related books, supplies, and equipment qualify:

American Opportunity credit. Qualified education expenses include amounts spent on books, supplies, and equipment needed for a course of study, whether the taxpayer purchases materials from the educational institution as a condition of enrollment or attendance.

Lifetime Learning credit. Qualified education expenses include only amounts for books, supplies, and equipment required to be paid to the institution as a condition of enrollment or attendance. Qualified education expenses do not include amounts paid for:

1. Room and board, insurance, medical expenses, transportation, or other similar personal, living, or family expenses.
2. Any course or other education involving sports, games, or hobbies, or any noncredit course, unless such course or other education is part of the student's degree program or (for the Lifetime Learning credit only) helps the student acquire or improve job skills.
3. Nonacademic fees, such as student activity fees, athletic fees, insurance expenses, or other expenses unrelated to the academic course of instruction.

American Opportunity Credit

This credit is for students who are earning their undergraduate degrees. The credit is specifically limited to those expenses incurred in the first four years of college.

The American Opportunity Credit is an amount equal to 100% of qualified tuition and related expenses up to \$2,000 plus 25% of those expenses in excess of \$2,000, but not in excess of

\$4,000. The maximum credit allowed for tax year 2022 is \$2,500.

The full credit is available to taxpayers with a MAGI of \$80,000 or less (\$160,000 or less if filing jointly). The amount of the credit is gradually reduced if the taxpayer's MAGI is between

\$80,000 and \$90,000 (\$160,000 and \$180,000 if filing jointly). If the MAGI is above \$90,000 (\$180,000 if filing jointly) the taxpayer cannot take the credit.

Up to 40% of the credit (up to \$1,000) is refundable, up to certain income limits.

Lifetime Learning Credit

Where the American Opportunity Credit is limited to the first four years of college, the Lifetime Learning Credit has a wider availability. This credit can be used for graduate school, undergraduate expenses, even professional or vocational courses. Basically tuition, fees and course materials are eligible expenses. There is no limit to how many years it can be claimed for each student.

The credit is 20% of the first \$10,000 of qualified education expenses paid for all eligible students. This credit is nonrefundable, and the maximum credit is \$2,000 per return, regardless of the number of eligible students.

Adoption Credit

Taxpayers may be able to take a credit for qualified expenses paid to adopt an eligible child. For 2022, the maximum adoption credit is \$14,890 per child. The adoption credit is nonrefundable, and most taxpayers can claim the credit in the year the adoption is final; however, there are some allowable exceptions and requirements. The credit is calculated on Form 8839 Qualified Adoption Expenses.

Unused credits can be carried forward up to 5 years, or until fully used, whichever comes first. The adoption credit is not refundable.

The amount of the Adoption Credit begins to phase out when 2022 modified adjusted gross income (MAGI) reaches \$223,410 and is eliminated at \$263,410.

Qualifying adoption expenses include expenses that are reasonable and necessary in order to adopt the eligible child, including:

- Adoption fees
- Court costs
- Attorney fees

- Travel expenses while away from home

Re-adoption expenses related to adoption of a foreign child

For the adoption of a special-needs child, the maximum credit is available regardless of actual qualifying expenses. In 2022 the maximum credit is \$14,890.

For the adoption credit, an eligible child is considered to be:

- Any child under age 18. If the child turned 18 during the year, the child is considered eligible for the part of year they were under age 18
- Any physically or mentally disabled person unable to care for himself or herself Retirement Contribution Credit

Taxpayers who make eligible contributions to an employer-sponsored retirement plan, or to an individual retirement arrangement (IRA), may be able to take a credit on his or her tax return. This credit is figured on Form 8880.

Taxpayers may be able to take the Retirement Savings Credit if the taxpayer or spouse (if filing jointly) made:

- Contributions (other than rollover contributions) to a traditional or Roth IRA
- Elective deferrals to a 401(k) or 403(b) plan (including designated Roth contributions) or to a governmental 457, SEP, or SIMPLE plan
- Voluntary employee contributions to a qualified retirement plan (including the federal Thrift Savings Plan)
- Contributions to a 501(c)(18)(D) plan

Taxpayers cannot take the Retirement Contribution Credit if either of the following applies:

- The AGI shown on Form 1040 or 1040-SR is more than \$34,000 (\$51,000 if head of household; \$68,000 if married filing jointly)
- The person(s) who made the qualified contribution or elective deferral:
 - (a) was born after January 1, 2005, (b) is claimed as a dependent on someone else's 2022 tax return, or (c) was a student

Credit for the Elderly or the Disabled

Elderly or disabled taxpayers who qualify may be able to reduce tax owed by taking a credit on Schedule R.

Individuals are considered to be qualifying individuals for the Credit for the Elderly and the Disabled if they are U.S. citizens or resident aliens and either of the following apply:

- The taxpayer was age 65 or older at the end of the tax year
- The taxpayer was under age 65 at the end of the tax year and all three of the following statements are true:
 - a. The taxpayer is retired on permanent and total disability
 - b. The taxpayer received taxable disability income for the tax year
 - c. On January 1st of the tax year, the taxpayer had not reached mandatory retirement age

Permanent and Total Disability

Taxpayers are considered permanently and totally disabled if they can't engage in any substantial gainful activity because of a physical or mental condition. A qualified physician must certify that the condition has lasted or can be expected to last continuously for 12 months or more, or that the condition can be expected to result in death.

Disability Income

Disability income must meet both of the following requirements: • It must be paid under your employer's accident or health plan or pension plan

It must be included in your income as wages or payments for the time absent from work because of the permanent and total disability

Generally, if a taxpayer is married, he or she must file a joint return with his or her spouse in order to qualify for the Credit for the Elderly or the Disabled. If the taxpayer did not live with his or her spouse at any time during the tax year, taxpayers can file either a joint return or separate returns and still take the credit.

Taxpayers can file as head of household and still take the credit even if their spouse lived with them during the first six months of the year, if certain tests are met.

Income Limits

To be eligible for the Credit for the Elderly or the Disabled, two income limits must be considered.

- The first limit is the amount of the adjusted gross income (AGI).
- The second limit is the amount of the nontaxable social security and other taxable pensions, annuities, or disability income.

If the filing status is single, head of household, or qualifying widow(er), to qualify for the credit the AGI limit is \$17,500 and the nontaxable social security and other nontaxable pensions is limited to \$5,000.

If the filing status is married filing jointly and both spouses qualify for the credit the AGI limit is

\$25,000 and the nontaxable social security and other nontaxable pensions is limited to \$7,500.

If the filing status is married filing jointly and only one spouse qualifies for the credit, the AGI limit is \$20,000 and the nontaxable social security and other nontaxable pensions is limited to \$5,000.

If the filing status is married filing separately, to qualify for the credit the AGI limit is \$12,500 and the nontaxable social security and other nontaxable pensions is limited to \$3,750.

Claiming the Credit

The Credit for the Elderly or the Disabled is calculated on Schedule R and the credit can be figured by the IRS or on the return before the return is filed.

The credit is generally limited to the amount of tax and is not refundable.
Foreign Tax Credit

Taxpayers who paid or accrued foreign taxes to a foreign country or U.S. possession and are subject to U.S. tax on the same income, may be able to take either a credit or an itemized deduction for those taxes.

Qualifying Foreign Taxes

Taxpayers can claim a credit only for foreign taxes that are imposed by a foreign country or U.S. possession. Generally, only income, war profits, and excess profit taxes qualify for the credit.

The credit or deduction cannot be taken for foreign income taxes paid on income that has been excluded from U.S. taxes under any of the following:

- Foreign earned income exclusion
- Foreign housing exclusion
- Income from Puerto Rico exempt from U.S. tax
- Possession exclusion

Choosing a Credit or a Deduction

Taxpayers can choose to take the amount of any qualified foreign taxes paid during the year as a foreign tax credit or as an itemized deduction.

To choose the deduction, taxpayers must itemize deductions on Schedule A. To choose the foreign tax credit, generally Form 1116 must be completed and filed with the return. A taxpayer must choose either the foreign tax credit or itemized deduction for all foreign taxes paid or accrued during the year annually.

Claiming the Credit

Taxpayers can elect to claim the credit for qualified foreign taxes without filing Form 1116 if they meet all of the following requirements:

- All foreign source income is passive income, such as interest and dividends
- All foreign source income and the foreign income taxes are reported to the taxpayer on a qualified payee statement, such as Form 1099-INT, Form 1099-DIV, or Schedule K-1 from a partnership, S corporation, estate, or trust

The total qualified foreign taxes are not more than \$300 (\$600 MFJ)

If the credit is claimed directly on Form 1040 or Form 1040-NR without filing Form 1116, taxpayers cannot carry back or carry forward any unused foreign tax to or from the tax year.

If Form 1116 is used to figure the credit, the foreign tax credit will be the smaller of the amount of foreign tax paid or accrued, or the amount of U.S. tax attributable to the foreign source income. Compute the limit separately for passive income, income resourced under a tax treaty, income derived from sanctioned countries, and all other income.

Carryback and Carryover of Unused Credit

If a taxpayer cannot claim a credit for the full amount of qualified foreign income taxes paid or accrued in the year, he or she is allowed a carryback and/or carryover of the unused foreign income tax, if the credit was claimed using Form 1116. The amounts can be carried back for one year and then carried forward for 10 years. For more information on this topic see Publication 514, Foreign Tax Credit for Individuals.

2.14 Tax Withholding and Estimated Tax Payments

Pay-As-You-Go Tax

The United States uses a pay-as-you-go tax system for federal income tax which means that tax must be paid as income is earned or received. Individuals should make installments of expected tax liability either through withholding or by making estimated tax payments.

When a tax return is filed after the end of the tax year, the amount paid through withholding or estimated tax payments is reconciled against the actual tax owed calculated on Form 1040 or 1040-SR. If the amount of taxes paid in is more than the tax owed, a tax refund will be due. If the amount paid in is not enough to cover the tax owed, a balance would be due, and the taxpayer would be required to pay that amount by the return due date.

If a taxpayer did not pay enough tax throughout the tax year, either by withholding or by timely estimated tax payments, he or she may be subject to a penalty. Taxpayers can have the IRS figure the amount of the penalty for them or use Form 2210 to calculate the penalty.

Withholding

For most employees, the employer withholds income tax from pay and submits it to the IRS under the employee's name. Tax can also be withheld

from other types of income including retirement income, commissions, gambling winnings, and unemployment compensation.

Employers' withholding is usually based upon the amount of pay received and the information included on Form W-4 by the employee.

Taxpayers should use Form W-4P, Withholding Certificate for Periodic Pension or Annuity Payments, to request withholding on periodic pension or annuity payments. (Previously, Form W-4P was also used to request additional withholding on nonperiodic payments and eligible rollover distributions.)

Taxpayers should use Form W-4R, Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions, for additional withholding on nonperiodic payments and eligible rollover distributions. The Form W-4R is new for 2022 but is not required until 2023.

Income statements, such as Forms W-2, 1099-MISC, 1099-NEC, W-2G, 1099-R, etc. should be provided to the taxpayer after the end of the tax year to not only report income received but also to report withholding submitted to the IRS on behalf of the taxpayer.

Estimated Tax Payments

For income not subject to withholding, estimated tax payments should be made throughout the tax year. This includes income from self-employment, certain alimony payments, rents, prizes, and gains from the sale of assets. Taxpayers can make estimated tax payments if their withholdings from salary or other income is not sufficient.

Estimated tax payments are used to pay both federal income tax and self-employment tax. Generally, taxpayers should make estimated tax payments for 2022 if:

1. There is an expectation of at least a \$1,000 balance due for 2022 (after subtracting refundable credits and withholdings)

2. The sum of withholdings and refundable credits are expected to be less than the smaller of:

- 90% of the tax shown on the 2022 tax return
- 100% of the tax shown of the 2021 return

Note: Special rules apply for farmers, fishermen, certain household employers, and higher income taxpayers. IRS Publication 505 has more information on these and other exceptions.

The estimated tax payments should be made quarterly during the tax year. Payment periods and due dates for calendar year taxpayers are:

Payment Period	Due Date	Tax Year 2022 Due Date
January 1 – March 31	April 15	April 18, 2022
April 1- May 31	June 15	June 15, 2022
June 1 – August 31	September 15	September 15, 2022
September 1 – December 31	January 15, next year	January 17, 2023

If the due date falls on a Saturday, Sunday, or legal holiday, the payment will be due on the next day that is not a Saturday, Sunday, or legal holiday.

If the 2022 tax return is filed by February 1, 2023, and tax is paid in full, the payment due on January 15, 2023, is not needed.

2.15 Payment and Refund Options

Payments Options

At the end of the tax year, taxpayers usually have a balance due to the IRS or a refund due. If a balance is due and is more than \$1, the payment should be made by the return due date, usually April 15 for calendar-year taxpayers. Even if an automatic extension is filed, the time to pay tax due is not extended. If a balance due is not paid by the return due date, interest and penalties can be assessed.

There are several different payment options available for taxpayers. Payments may be made electronically, by phone, or by mailing a check or money order. If the taxpayer's return is e-filed, the payment may also be made via electronic funds withdrawal, or by credit or debit cards. Information on payment options is available at www.irs.gov/e-pay.

Payments can also be made through the Electronic Federal Tax Payment System (EFTPS), a free tax payment system for online and phone payments.

If the taxpayer cannot pay the full amount due, the taxpayer can request an installment agreement. If accepted, the taxpayer can make installments on the tax due. Penalties and interest might still be charged even if the installment agreement is granted. To request an installment agreement, file Form 9465 or apply online.

Taxpayers may also file Form 1127, Application for Extension of Time for Payment of Tax Due to Undue Hardship, to request an extension of time to pay. This extension generally is not granted for more than six months. "Undue hardship" is more than an inconvenience; taxpayers must show they will have a substantial financial loss if taxes are paid on the date due and must attach supporting documentation.

Refund Options

If an overpayment is calculated when the return is complete, the taxpayer might be due a refund. If filing Form 1040, the taxpayer can choose to apply all or part of the overpayment to next year's estimated tax. In some cases, it is possible the taxpayer's refund could offset amounts owed for past-due federal tax, state income tax, unemployment compensation debts, child or spousal support and other federal debts.

Offsets are made by the Treasury Department's Bureau of the Fiscal Service, unless it is a federal tax debt which is offset by the IRS. Taxpayers will be notified if their refund has been offset.

Taxpayers have three options for receiving their individual federal income tax refund:

- Direct deposit
- Purchase of U.S. Series I Savings Bonds
- Paper check

Direct Deposit of Refund

Taxpayer can have their refund deposited directly into a checking or savings account, including an Individual Retirement Arrangement (IRA), in the United States financial institution.

Taxpayers can also request to have all or some of the refund deposited into a Treasury Direct® online account to buy U.S. Treasury marketable securities and savings bonds. In addition, up to \$5,000 of the refund can be directly allocated to buy paper Series I savings bonds (not through Treasury Direct).

If the taxpayers choose direct deposit, they may be able to split the refund and have it deposited among two or three accounts using Form 8888, Allocation of Refund.

For returns that are e-filed, direct deposits are usually sent in fewer than 21 days from the date of return acceptance by the IRS. If an accurate and complete tax return is paper filed, the direct deposit could take more than six weeks. Taxpayers can use the online tool, Where's My Refund at www.irs.gov, to check the status of their refund, or they can call the Refund Hotline at 1- 800-829-1954.

Additional Direct Deposit Requirements

Preparers must never charge a separate fee for direct deposit and must accept any direct deposit election by a taxpayer to any eligible financial institution. The preparer must advise taxpayers they cannot rescind a direct deposit election and they cannot make changes to the routing transit numbers of financial institutions or account numbers after IRS has accepted the return. The preparer must not alter the direct deposit information in the electronic record after taxpayers have signed the tax return.

Example:

Jerry is expecting a refund of \$400. He chooses to deposit \$150 into his checking account, \$150 into his savings account, and \$100 into an IRA account.

In January 2015, the IRS imposed new limits on direct deposited refunds in an effort to combat fraud. The number of tax refunds electronically deposited into a single account will be limited to three. Additional refunds sent to the account will automatically be converted to a paper refund check and be mailed to the taxpayer. The IRS will notify taxpayers that the intended account has exceeded the direct deposit limits and a paper check will be issued.

This limit applies to financial accounts, such as bank savings or checking accounts, and to prepaid, reloadable cards and debit cards.

Purchasing U.S. Series, I Savings Bond with Tax Refund

Taxpayers can elect to use all or part of the tax refund to purchase U.S. Series I Savings Bonds using a Treasury Direct® online account, or by paper. Bonds must be purchased in increments of \$50 up to a total of \$5,000. Any unused refund amount can be refunded via paper check or direct deposit. Use form 8888.

A bank account is not required in order to purchase the paper Series I bonds, nor is it required to open an account in advance with the Treasury Department.

Paper Series I savings bonds are ordered after the IRS completes processing the tax return. Once the bonds are ordered, it may take up to three weeks for the taxpayer to receive the paper Series I bonds in the mail.

Direct Depositing into a Treasury Direct online account

Taxpayers can request a direct deposit of all or a portion of a tax refund to an existing Treasury Direct online account. The funds can then be used to purchase any US Treasury marketable securities. File Form 8888, Allocation of Refund to do so.

Example:

Venus has a refund of \$20,000 on her 2022 return. For example, on Form 8888, she could request Part I Direct Deposit \$8,000 to her personal checking account, \$7,000 to her Treasury Direct account, and Part II US Series I Savings Bonds Purchases \$5,000 be used for paper US Series I Savings Bond Purchases.

Refund Checks

If a direct deposit is not indicated, a taxpayer will receive a paper check in the mail. Taxpayers should cash a tax refund check soon after it is received. Checks expire the last business day of the 12th month of issue.

If the check has expired, the taxpayer can apply to the IRS to have it reissued.

Other notes regarding refund checks:

- If the taxpayers receive a check for a refund they are not entitled to, or for an overpayment that should have been credited to estimated tax payments, the check should not be cashed. Instead, contact the IRS. Normally the IRS will tell the taxpayer to write “VOID” in the endorsement section on the back of the check and to return it to a designated IRS location with a letter of explanation.
- If the taxpayer receives a check for more than the refund claimed, he or she should not cash the check until the taxpayer receives a notice explaining the difference.
- If the refund check is for less than what was claimed, it should be accompanied by a notice explaining the difference. Cashing the check does not stop the taxpayer from claiming an additional amount of refund.

If the taxpayer did not receive a notice and he or she has any questions about the amount of the refund, wait two weeks. If the taxpayer still has not received a notice, contact the IRS.

2.16 Due Date and Extensions

Return Due Dates

Individual tax returns are due the fifteenth day of the fourth month after the close of the tax year, deeming April 15 as the due date for taxpayers using the calendar year. If the due date falls on a Saturday, Sunday, or legal holiday, the due date is then delayed until the next business day.

The IRS considers a paper return “on time” when it arrives with a proper address and sufficient postage and bears a postmark on or before the due date. A return sent using IRS e-file is on time if the authorized electronic return transmitter postmarks the transmission by the due date.

If a U.S. citizen or resident has a main place of business located outside of the United States or Puerto Rico, he or she is allowed an automatic extension until June 15 to file and pay tax that is due. This also applies to members of the military stationed outside the United States or Puerto Rico. If taxpayers use an automatic extension, a statement must be attached to the return showing the requirements were met for the extension.

Returns should be filed when they are due. Failure to file can be costly, and a delay in filing may result in a late penalty and interest charges.

Extensions

If more time is needed to file a return, a taxpayer might be able to get an automatic six-month extension by filing Form 4868 no later than the return due date; however, the extension of time to file does not extend the time to pay tax due. If the tax due is not paid by the original return due date, interest and penalties could be charged. Form 4868 can be filed electronically through e-file or via U.S. Mail.

October 15 is the final due date for all calendar year returns that have been extended.

Example:

Bill and Rose needed more time to file their 2022 federal tax return. On April 10, 2023, they filed Form 4868 for an automatic six-month extension of time to file. Since they expected to have a balance due of \$500 with their tax return, they remitted that amount with the extension filed in April because Form 4868 does not extend the time to pay tax, only the time to file.

Combat Zone

Deadlines are extended for certain taxpayers serving in a combat zone or a contingency operation in support of the Armed Forces. When

individuals serve in a qualified combat zone, the deadline for filing and payment increases by 180 days after the latter of the last day in a qualified combat zone or the last day of a continuous hospitalization related to injury from service. In addition to the 180 days, a service member in a qualified combat zone can receive a deadline extension of up to three and a half months, based on the number of days remaining to file upon entering the combat zone. This period is representative of the time normally allotted for filing taxes (January 1–April 15). If entering the combat zone before the first of the year, the service member may add the entire three and a half months to the 180-day extension.

The term combat zone is a general term that includes all of the following hostile areas where the military may serve—actual combat areas, direct combat support areas, and contingency operations areas. A contingency operation is a military operation that is designated by the Secretary of Defense or results in calling members of the uniformed services to active duty (or retains them on active duty) during a war or a national emergency declared by the President or Congress.

There are multiple classes of taxpayers serving in the combat zone that qualify for the same treatment:

- US Armed forces such as the Army, Navy, Air Force, Marine Corps, and Coast Guard
- Uniformed services, which includes merchant marines, and the commissioned corps of the National Oceanic and Atmospheric Administration (NOAA) and the Public Health Service
- Support personnel, such as the Red Cross
- Civilian personnel acting under the direction of the US Armed Forces in support of combat forces

Review question for Domain 2 Part:

Sandy was swindled out of \$10,000.00 in a dating scam. How much can he deduct as a theft loss in 2022?

- a) \$10,000.00
- b) \$9,900.00
- c) \$8,900.00
- d) Zero

Review question for Domain 2 Part – Answer keywords

- a. \$10,000

Incorrect. This theft loss is not caused by a federally declared disaster.

- b. \$9,900.

Incorrect. This theft loss is not caused by a federally declared disaster.

- c. \$8,900

Incorrect. This theft loss is not caused by a federally declared disaster.

- d. **Zero**

Correct. This theft loss is not caused by a federally declared disaster, so it is not deductible.