

# Tax Aid Experienced Volunteer Training

Presented by Andy Chang





Tax-Aid would like to thank

Fenwick

**FENWICK & WEST LLP**

for sponsoring this volunteer  
training.

# Tax-Aid Disclaimer



- This summary provides basic information regarding basic tax law. Nothing in this summary supplants or replaces the requirements of the tax code. This summary is not intended as a substitute for advice from a taxpayer's own legal and financial advisors.
- Additional information about tax law can be found on [www.IRS.gov](http://www.IRS.gov)



# Agenda

- 2016 Tax Updates
- Schedule C
- Earned Income Credit
- Education Credit, Tuition and Scholarships



# Protecting Americans from Tax Hikes Act(PATH)



PATH Act of 2015 legislation changes:

- Earned Income Tax Credit (EITC) expanded modifications made permanent
- Additional Child Tax Credit (ACTC) - the reduced earned income threshold for CTC made permanent at \$3,000
- American Opportunity Tax Credit (AOTC) made permanent
  - Employer Identification Number (EIN) of educational institution required for taxpayers claiming the AOTC
  - Educational institutions required to report tuition & expenses **actually paid** on Form 1098-T (2016-no penalty)  
2015 law requires 1098-T to take education credits/deduction

# PATH Act Legislation Changes:



- Educator expenses made permanent
  - Indexed to inflation after 2016 – still \$250
  - Expanded expenses to include professional development expenses
- State sales tax made permanent.
- Charitable deduction for IRA distributions made permanent
  - For taxpayers Over 70 ½
  - Distributions made directly to charitable organization
- Wrongly incarcerated individuals can exclude certain amounts from income

# PATH Act Legislation Changes:

Extended through 2016:

- Exclusion from gross income of qualified principal residence indebtedness
- Mortgage insurance premiums deductible as qualified residence interest
- Deduction for qualified tuition & fees
- Credit for nonbusiness energy property (residential energy credit)

# PATH Act Legislation Changes:

## Program Integrity:

- Various changes to refundable credits - EITC, Child Tax Credit and American Opportunity Credit
  - Revised due dates
  - Refund holds
  - Enhanced penalties
  - Increased due diligence
- Update to ITIN processes



# PATH Act Legislation Changes:

## Program Integrity:

- Mandates IRS hold all returns with Earned Income Tax Credit and Additional Child Tax Credit until February 15<sup>th</sup>
  - Entire refund would be held
  - Returns will be processed as normal – urge clients to file as they have in the past
  - Impacts all preparers and filing processes
- Additional screening for improper payment and income verification
- W-2's and 1099 (box 7) due by January 31<sup>st</sup>

# PATH Act Legislation Changes:

## No Retroactive Claims on EIC, CTC and AOTC

- Earned Income Credit
  - Taxpayers must have SSN by the due date of the return
  - Qualifying child must have SSN by due date of the return
- Child Tax Credit/American Opportunity Credit
  - Taxpayer must have SSN or ITIN by the due date of the return
  - Child claimed/student must have SSN, ITIN or ATIN by due date of the return
- Paid Preparers must meet new due diligence requirements returns with CTC and AOTC
  - Similar to EITC – new form 8867
  - Does not apply to volunteer tax programs

# PATH Act Legislation Changes:

- Paid Preparers must meet new due diligence requirements returns with CTC and AOTC
  - Similar to EITC – new form 8867
  - Does not apply to volunteer tax programs
- Allows IRS to assess accuracy and fraud penalties on taxpayers who erroneously claim refundable credits
  - Extends “math error” authority to CTC and AOTC
  - Establishes credit disallowance period
  - Requires taxpayers to demonstrate eligibility after credit disallowed

# PATH Act ITIN Program:



- Changes require some taxpayers to renew their ITINs beginning October 2016
- IRS putting in place a rolling renewal schedule
- No action needed by ITIN holders if they don't need to file a tax return in 2017
- Taxpayers with expired ITINs not renewed before the 2017 filing season could face refund delays and be ineligible for certain tax credits, such as Child Tax Credit and American Opportunity Credit

# Who has to renew ITIN?



## Unused ITINs

- ITINs not used on a federal income tax return in the last three years (tax years 2013, 2014 and 2015) won't be valid to use on returns as of Jan. 1, 2017
- ITIN holders in this group who need to file a tax return in 2017 need to renew
- Renewal period began Oct.1, 2016
- ITINs will expire each year if not used for 3 consecutive tax years

# Who has to renew ITIN?



## Expiring ITINs

- ITINs issued before 2013 will begin expiring December 31, 2016
- Renew ITINs on a rolling schedule; more info on this schedule to come
- First ITINs expiring have middle digits of 78 or 79 (example: 9XX-78-XXXX)
- The renewal period began Oct. 1, 2016
- IRS letters starting August 2016 explaining renewal steps

# Options to renew ITINs



## Option 1

- Complete and mail Form W-7, *Application of IRS ITIN*, to the IRS in Austin
- Use Rev 9-2016
- Follow form instructions and include all information and original or certified copies of required documentation
- Don't need to attach tax return to W-7
- Documents returned within 60 days

# Options to renew ITINs



## Option 2

- Avoid mailing original proof of identity and foreign status documents by:
- Completing Form W-7 and applying for an ITIN in person using the services of an IRS-authorized Certified Acceptance Agent
- Call and make an appointment to visit an IRS Taxpayer Assistance Center - 844-545-5640
- After processing, ITINs issued by mail in about seven weeks for both options





# Tax Changes in 2016

- Individual shared responsibility under ACA increased to \$695 per adult
- Mileage reimbursement rate change
  - 53.5 cents business
  - 17 cents medical or moving purposes
  - 14 cent charitable service



# myRA

- Retirement account: myRA
  - No fees with modest growth
  - Open account with as little as \$25 and add up to \$5 at a time
  - When account reaches \$15,000 roll over to traditional Roth IRA
  - More information at [www.myra.gov](http://www.myra.gov)



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# Schedule C vs Schedule C-EZ

- Schedule C
  - Expenses: advertising, mileage, commission/fees, insurance, interest, legal/professional services, repairs/maintenance, supplies, taxes, licenses, travel and utilities
  - Expenses not deductible: bribes, kickbacks, demolition expenses
- Schedule C-EZ
  - No expense >\$5,000
  - No employees
  - No Inventory
  - No depreciation or deducting of the cost of your home



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# Federal vs State Earned Income Credit



Federal EITC	State EITC
<ul style="list-style-type: none"><li>• Maximum Income \$14,880 (no children)</li></ul>	<ul style="list-style-type: none"><li>• Maximum income of \$6,717</li></ul>
<ul style="list-style-type: none"><li>• Maximum Income of \$53,505 (3 or more children)</li></ul>	<ul style="list-style-type: none"><li>• Maximum Income of \$14,161 (3 or more children)</li></ul>
<ul style="list-style-type: none"><li>• U.S. Citizen or Resident Alien</li></ul>	<ul style="list-style-type: none"><li>• U.S. Citizen or Resident Alien</li></ul>
<ul style="list-style-type: none"><li>• W-2 wages or self-reported</li></ul>	<ul style="list-style-type: none"><li>• W-2 wages or self-reported</li></ul>
<ul style="list-style-type: none"><li>• Ages 25 to 65 (no children)</li></ul>	<ul style="list-style-type: none"><li>• Ages 25 to 65 (no children)</li></ul>



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# Education Credit, Tuition and Scholarships



- Education Credits
  - American Opportunities Credit
  - Lifetime Learning Credit
- Tuition
- Scholarships
- Refer to Publication 970



# What's next?

## 2017 and beyond



- New administration, GOP controlled senate and house.
- Tax law overhaul appear imminent. Stay tuned.