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Basic Tax Issues for Low Income Clients

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AIDS LEGAL REFERRAL PANEL PRESENTATION

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AIDS LEGAL REFERRAL PANEL

Outline

- Who Must File and Who Should File
  - Filing requirements
  - Filing status
- How to File
  - Taxability of social security and other benefits
  - Cancellation of debt income
  - Tax credits
- How to Pay Outstanding Tax Debts
  - Tax collection process
  - Payment plan
  - Offer-in-compromise

WHO MUST FILE AND WHO SHOULD FILE

Filing Requirements

- Difference between who must file and who should file
- In broad strokes, people who must file either:
  - Earn over a certain amount, or
  - Owe taxes.
- People who should file are typically due a refund.
  - *E.g.*, they qualify for a refundable tax credit.

Filing Requirements – Who Must File

- If you are self-employed and earned more than $400 in the year, then you must file a return.
- In some cases, you must file for a decedent.
  - Taxpayer died with filing requirements; and
  - You are the surviving spouse, executor, administrator or legal representative
  - File the decedent's income tax return for the year.

IF your filing status is…	AND at the end of 2024 you are…	THEN file a return if your gross income was at least…
Single	Under 65	$13,850
	65 or older	$15,700
Head of household	Under 65	$20,800
	65 or older	$22,650
Married filing jointly*	Under 65 (both spouses)	$27,700
	65 or older (one spouse)	$29,200
	65 or older (both spouses)	$30,700
Married filing separately	Any age	$5
Qualifying widow(er)	Under 65	$27,700
	65 or older	$29,200

*If you do not live with your spouse at the end of 2024 (or on the date your spouse dies) and your gross income was at least $5, you must file a return regardless of your age.

Filing Requirements – Who Should File

Even if you do not have a requirement to file, you should file a federal income tax return to get money back if:

- You had federal income tax withheld or made estimated tax payments.
- You qualify for certain tax credits.

Steps to Calculate Federal Income Tax

Gross Income	Sum of all earnings, e.g., wages, salaries, tips; dividends, interest income, pensions and annuities
Adjustments to Income	See Form 1040, Schedule 1. *E.g.*, educator expenses; IRA deductions; student loan interest deductions
Adjusted Gross Income (AGI)	Used for means tests. Some tests use a Modified Adjusted Gross Income (MAGI), which includes non-taxable social security benefits, tax-exempt interest, and excluded foreign income.
Deductions	Standard or Itemized (See Form 1040, Schedule A)
Taxable Income	Used to calculate taxes.
Tax liability	
(Credits)	E.g., earned income credit, child tax credits.
(Taxes previously withheld)	
Taxes owed or (Refund amount)	

Filing Statuses

Your status is…	If you are…
Single	• Unmarried; and • Do not qualify for another filing status.
Married filing jointly	• Married; and • Both spouses agree to file a joint return.
Married filing separately	• Married; and • Both spouses do not agree to file a joint return.
Head of household	• Unmarried (except in certain circumstances); • Paid more than half the cost of keeping up a home for the year; and • A qualifying person lived with you in the home for more than half the year.
Qualifying widow(er)	• You were entitled to file a joint return with your spouse for the year your spouse died; • Your spouse died two years or less ago and you did not remarry; • You have a child or stepchild (not a foster child) whom you can claim as a dependent (or other requirements apply).

Head of Household Status

- To qualify as head of household status, you must be either unmarried or considered unmarried.
- You are considered unmarried if:
  - You file a separate return;
  - You paid more than half the cost of keeping up your home for the tax year;
  - Your spouse did not live in your home during the last 6 months of the tax year;
  - Your home was the main home of your child, stepchild, or foster child for more than half the year.
  - You are able to claim the child as a dependent.

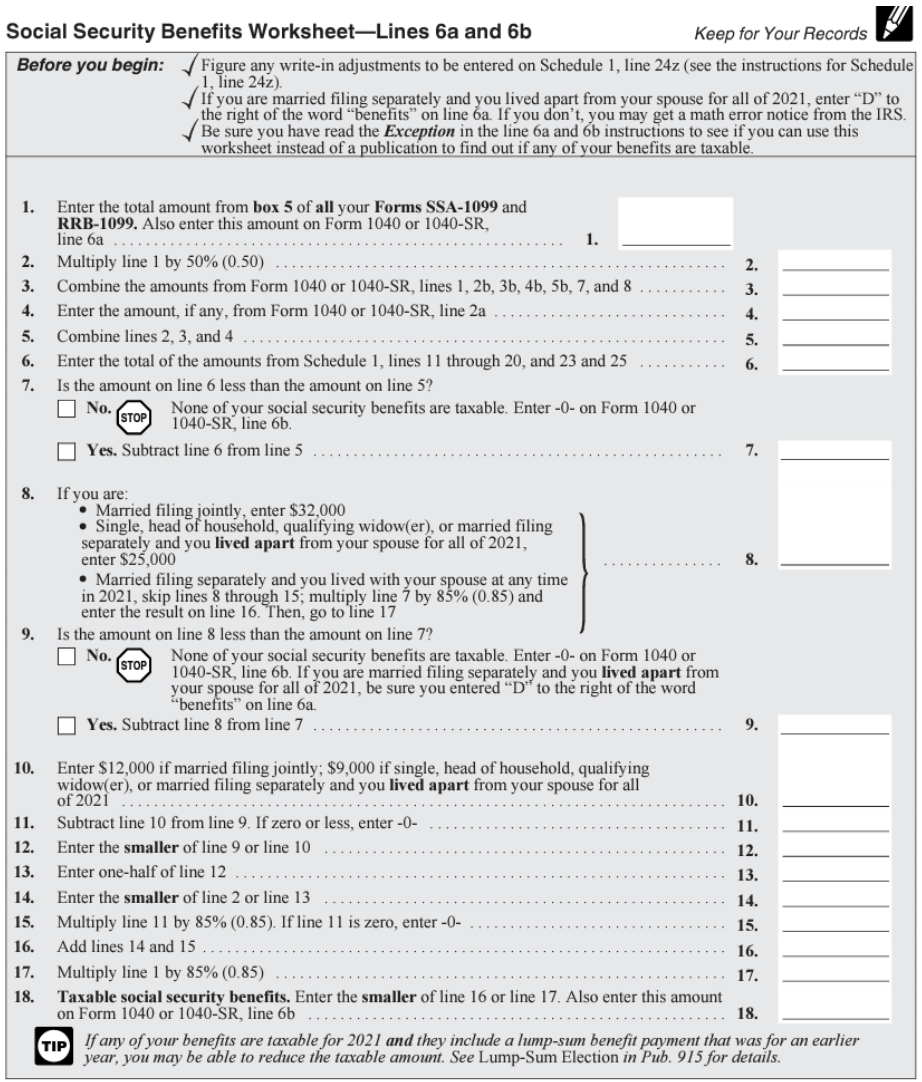
Examples

- Janet has never been married, lives by herself, and has paid all the expenses of keeping up a home for herself and no one else. She earned $13,500 at her job as an employee in 2024. Which of the following are true?
  - Janet must file a tax return.
  - Janet should file a tax return.
- In June of 2024, Donna took her daughter Eleanor and moved out of the apartment she shared with her husband. Donna and her husband are not divorced or legally separated. Since June, Donna has paid all the expenses of keeping up a home for herself. She refuses to file a joint return with her husband. Which filing status should Donna use?
  - Single
  - Head of Household
  - Married Filing Separately

HOW TO FILE

Taxability of Social Security

- Form 1040 Instructions Worksheet
- You should receive a Form SSA-1099 showing total social security benefits paid.
  - Request Form SSA-1099: https://www.ssa.gov/myaccount/replacement-SSA-1099.html
- In general, if the sum of 50% of social security benefits paid for the year and your gross income is $25,000 ($32,000 for married filing jointly) or less, then your social security benefits are not taxable.



Social Security Benefits Worksheet—Lines 6a and 6b *Keep for Your Records*

Before you begin: ✓ Figure any write-in adjustments to be entered on Schedule 1, line 24z (see the instructions for Schedule 1, line 24z).
✓ If you are married filing separately and you lived apart from your spouse for all of 2021, enter "D" to the right of the word "benefits" on line 6a. If you don't, you may get a math error notice from the IRS.
✓ Be sure you have read the ***Exception*** in the line 6a and 6b instructions to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.

1. Enter the total amount from **box 5** of **all** your **Forms SSA-1099** and **RRB-1099.** Also enter this amount on Form 1040 or 1040-SR, line 6a . . . . . 1.
2. Multiply line 1 by 50% (0.50) . . . . . 2.
3. Combine the amounts from Form 1040 or 1040-SR, lines 1, 2b, 3b, 4b, 5b, 7, and 8 . . . . . 3.
4. Enter the amount, if any, from Form 1040 or 1040-SR, line 2a . . . . . 4.
5. Combine lines 2, 3, and 4 . . . . . 5.
6. Enter the total of the amounts from Schedule 1, lines 11 through 20, and 23 and 25 . . . . . 6.
7. Is the amount on line 6 less than the amount on line 5?
   - ☐ **No.** STOP None of your social security benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b.
   - ☐ **Yes.** Subtract line 6 from line 5 . . . . . 7.
8. If you are:
   - Married filing jointly, enter $32,000
   - Single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2021, enter $25,000
   - Married filing separately and you lived with your spouse at any time in 2021, skip lines 8 through 15; multiply line 7 by 85% (0.85) and enter the result on line 16. Then, go to line 17

   . . . . . 8.
9. Is the amount on line 8 less than the amount on line 7?
   - ☐ **No.** STOP None of your social security benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b. If you are married filing separately and you **lived apart** from your spouse for all of 2021, be sure you entered "D" to the right of the word "benefits" on line 6a.
   - ☐ **Yes.** Subtract line 8 from line 7 . . . . . 9.
10. Enter $12,000 if married filing jointly; $9,000 if single, head of household, qualifying widow(er), or married filing separately and you **lived apart** from your spouse for all of 2021 . . . . . 10.
11. Subtract line 10 from line 9. If zero or less, enter -0- . . . . . 11.
12. Enter the **smaller** of line 9 or line 10 . . . . . 12.
13. Enter one-half of line 12 . . . . . 13.
14. Enter the **smaller** of line 2 or line 13 . . . . . 14.
15. Multiply line 11 by 85% (0.85). If line 11 is zero, enter -0- . . . . . 15.
16. Add lines 14 and 15 . . . . . 16.
17. Multiply line 1 by 85% (0.85) . . . . . 17.
18. **Taxable social security benefits.** Enter the **smaller** of line 16 or line 17. Also enter this amount on Form 1040 or 1040-SR, line 6b . . . . . 18.

TIP *If any of your benefits are taxable for 2021* ***and*** *they include a lump-sum benefit payment that was for an earlier year, you may be able to reduce the taxable amount. See* Lump-Sum Election *in Pub. 915 for details.*

Taxability of Unemployment

- Unemployment compensation is taxed. This includes, among others:
  - State unemployment insurance benefits
  - Benefits paid by a state or the District of Columbia from the Federal Unemployment Trust Fund; and
  - Disability benefits paid as a substitute for unemployment compensation.
- Taxpayers should consider having taxes withheld from unemployment compensation.
  - The option should be available when filing for unemployment.
  - If not, taxpayers should file a W-4V: https://www.irs.gov/forms-pubs/about-form-w-4-v

Cancellation of Debt ("COD") Income

- In general, cancellation of debt results in income.
- Cancellation of debt may occur if a creditor can't collect, or gives up on collecting, the amount the taxpayer is obligated to pay.
- Taxpayer may receive a Form 1099-C, Cancellation of Debt showing the amount canceled and date of cancellation.

Cancellation of Debt Income (2)

- Exceptions to COD income:
  1. Amounts canceled as gifts, bequests, devises, or inheritances
  2. Certain qualified student loans containing loan provisions for cancellation based on length of employment in certain professions for a broad class of employers
  3. Certain student loan discharges after December 31, 2020, and before January 1, 2026
  4. Amounts received or forgiven under certain student loan repayment assistance programs
  5. Amounts of canceled debt that would be deductible if you, as a cash basis taxpayer, had paid it
  6. A qualified purchase price reduction given by the seller of property to the buyer

Cancellation of Debt Income (3)

- Exclusions from gross income (even if it is COD income):
  1. Debt canceled in a Title 11 bankruptcy case
  2. Debt canceled to the extent insolvent
  3. Cancellation of qualified farm indebtedness
  4. Cancellation of qualified real property business indebtedness
  5. Cancellation of qualified principal residence indebtedness that is discharged before January 1, 2026, or discharged subject to an arrangement that is entered into and evidenced in writing before January 1, 2026

Earned Income Credit

- Tax credit for taxpayers who have earned income and meet certain income limit.
- Refundable credit.
- Credit is up to $7,830 (for 2024).
- Eligibility: https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/use-the-eitc-assistant

Earned Income Credit – Eligibility Requirements

1. AGI limits;
2. Valid social security number;
3. Joint return if married (with limited exceptions);
4. U.S. citizen or resident alien all year;
5. Cannot file Form 2555;
   - Foreign earned income exclusion and housing exclusion or deduction.
6. Your investment income is $11,600 or less; and
7. Earned income limits.

Earned Income Credit – Eligibility Requirements (2)

If you have a qualifying child:

1. Your child meets the relationship, age, residency, and joint return tests.
2. Your qualifying child cannot be used by more than one person to claim the EIC.
3. You cannot be a qualifying child of another person.

If you do not have a qualifying child:

1. Age requirement
   - You must be at least age 19;
   - If you are a student, you must be at least age 24.
2. You cannot be the dependent of another person.
3. You cannot be a qualifying child of another taxpayer.
4. You must have lived in the United States more than half of the year.

Child Tax Credit

- The Child Tax Credit is claimed by families with qualifying children.
- Refundable credit.
- For 2024, up to $2,000 for each qualifying child.
- Qualifying children are:
  - Under age 18 at the end of the year; and
  - Properly claimed as dependent on your tax return.

CalEITC – California Earned Income Tax Credit

- Tax credit for taxpayers who have earned income and meet certain income limit.
- Credit is up to $7,430 (for 2023).
- Eligibility:
  - At least 18 years old or have a qualifying child;
  - Taxable earned income;
  - Valid social security number **or individual taxpayer identification number (ITIN)** for you, your spouse, and any qualifying children;
  - Live in California for more than half the year; and
  - Not filing separately if married/registered domestic partner (limited exceptions).

California Nonrefundable Renter's Credit

- Tax credit for taxpayers who paid rent for at least ½ the year.
- Credit is $60 (single/married filing separately) or $120 (head of household, married filing jointly, widow(er))
- Eligibility:
  - You paid rent in California for at least ½ the year;
  - The property was not tax exempt;
  - Your California income was $50,746 or less;
  - You did not live with someone who can claim you as a dependent;
  - You or your spouse/RDP were not given a property tax exemption during the tax year.

Examples

- For 2024, Val had the following income. Which of these items may be taxable?
  - $10,000 of social security benefits;
  - $16,000 of wages; and
  - $10,000 of unemployment benefits.
- Jason and Steven, U.S. citizens and California residents, have one child, Todd (19). Jason and Steven each have earned income. They live together in an apartment, which they rent. Which tax credits might they be eligible for?
  - Earned Income Credit
  - Child Tax Credit
  - California Earned Income Tax Credit
  - California Nonrefundable Renter's Credit

TAX COLLECTIONS

Overview of Tax Collection Process

1. If you owe taxes, the IRS will send you a bill. Based on your return, the IRS will calculate how much tax you owe, plus any interest and penalties.
   - Interest and penalties accrue until the bill is paid.
2. If you do not pay the first bill, the IRS will send at least one more bill.
3. If you do not pay subsequent bills, the IRS may begin the collection process.
   - Federal tax lien: attaches to all of the taxpayer's property and rights to property owned or acquired after the date of assessment.
   - Three devices for the IRS to enforce the federal tax lien: administrative levy, administrative seizure, judicial collection.
   - Taxpayer has certain remedies (such as a Collections Due Process hearing).

Installment Agreement/Payment Plans

- The IRS allows you to make smaller periodic payments over time if you cannot make the full payment at once.
- Short-term (within 120 days) and long-term (monthly payments between 121 days and 72 months) plans are available.
- Eligibility: you must have filed all required tax returns.
- How to Apply
  - Online application: https://www.irs.gov/payments/online-payment-agreement-application
  - Phone, mail or in person: Form 9465 https://www.irs.gov/forms-pubs/about-form-9465
  - Setup fees may apply.
    - Reduced fees may apply if you submit Form 13844, *Application for Reduced User Fee* https://www.irs.gov/pub/irs-pdf/f13844.pdf within 30 days of the date the IRS accepts the agreement.
- **It is possible to change an existing payment plan** (monthly payment amount, due dates)
- IRS may ask you to complete a Collection Information Statement (Form 433F, 443-A and/or 443-B) and provide proof of financial status.
- Interest and penalties are still charged until the balance is paid in full.

Offer-In-Compromise ("OIC")

- The IRS may accept an offer-in-compromise if you cannot pay the amount you owe in full or through installments. This option is for taxpayers to settle unpaid taxes for less than the amount owed.
- Eligibility:
  - File all tax returns you are legally required to file;
  - Have received a bill for at least one tax debt included on your offer;
  - Make all required estimated tax payments for the current year; and
  - Not in a bankruptcy or undergoing an audit.
- Form 656 Booklet, *Offer in Compromise*: https://www.irs.gov/pub/irs-pdf/f656b.pdf
- How to Apply (by mail):
  - Form 656, Offer in Compromise
  - Form 443-A (OIC), Collection Information Statement for Wage Earners and Self-Employed Individuals and supporting documentation.
  - Application fee: $205 (unless you meet Low-Income Certification Guidelines) plus initial offer payment

Q&A