

# College Financial Aid Planning



## College Financial Aid Planning

Many factors affect eligibility for federal financial aid; therefore, all students should apply for financial aid every year even if they think they do not otherwise qualify.

**FAFSA.** The Free Application for Federal Student Aid (FAFSA) is the first step in the financial aid process. Students use the FAFSA to apply for federal student aid, such as grants, loans, and work-study.

The FAFSA must be submitted for each year the student wants financial aid.

**Income tax return.** If you are filing a 2021–2022 FAFSA form, the federal information from your 2019 income tax return is used.

**Expected Family Contribution.** The questions on the FAFSA are required to calculate the student's Expected Family Contribution (EFC). The EFC measures the student's family's financial strength and is used to determine the student's eligibility for federal student aid. The EFC is split between an expected amount contributed from the student (usually more) and an expected amount being contributed from the parents.

**Student Aid Report.** A student's EFC will be listed on their Student Aid Report (SAR). The SAR summarizes the information submitted on the student's FAFSA.

**Financial need.** Financial need is the difference between the EFC and the college's cost of attendance (which can include living expenses), as determined by the college. The college will use the student's EFC to prepare a financial aid package to help meet financial need.

**Need analysis formula.** To determine financial need, a need analysis formula measures the parents' and student's assets and income. Assets are measured as follows.

- Assets in the student's name are assessed at a maximum rate of 20%, whereas parents' assets are assessed at a maximum rate of 12%.
- Assets of other children are not considered.
- Specific types of property (automobiles, computers, furniture, books, clothing and school supplies, boats, and appliances) do not count as assets.
- Retirement funds and pensions are generally not considered assets.
- Annuities and life insurance policies are generally not considered assets.
- Small businesses are excluded as assets if they are a) owned and controlled more than 50% by the student's close family and b) the business has 100 or fewer employees. However, if the business is owned 50% or less, that portion of the business assets are included as investments. Close family include those directly related to the student's household members and those related by current or former marriage to those people.
- Consumer debt (such as a credit card balance) is not counted against assets and income.
- Only debt secured by property (mortgage on home or business loan for equipment) is counted against assets and income.

## Planning Strategies

### Income Strategies

- Avoid selling items that will produce a capital gain during the base year (first year of financial aid application) because capital gains are treated like income.
- Avoid taking money out of a retirement fund to pay for educational expenses. If distributions are made, this converts a sheltered asset into an included asset. Therefore, it is more beneficial to spend down cash in a bank account first.

*continued*



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- Reduce parents' income to increase eligibility for financial aid when parents' AGI is close to \$50,000. If the parents' AGI is under \$50,000, then the family may qualify for the Simplified Needs Test (SNT) which disregards assets when determining the EFC.
- Delay taking money from section 529 college savings plans not owned by the student or parents until the last two years of school. When used, these funds count as money received by the student and impact the EFC.

### Asset Strategies

- Avoid saving money in the student's name. Assets should be saved in the parents' name because parents' assets are assessed at a much lower rate for determining need (12% for parent versus 20% for student).
- A section 529 college savings plan saved in the parents' name has minimal impact on financial aid eligibility, and one owned by a grandparent has no impact on the student's eligibility.
- Avoid paying the student a salary from the family business.
- Spending down the student's assets, preferably within the first year, before using any parent asset.
- Put parent assets in the name of another sibling not in college because assets of other children are not considered by the need analysis formula.
- Buy necessary purchases prior to applying for financial aid. Specific types of property (automobiles, computers, furniture, books, clothing and school supplies, boats, and appliances) do not count as assets.
- Grandparents who wish to pay for college should pay money directly to the school to avoid increasing parental or student assets by giving money to them outright. Or, if the grandparents wait until the child has graduated, they could pay off the student loans instead.
- Make maximum contributions to retirement funds because these assets are not considered by the need-based formula.
- Buy life insurance policies or tax-deferred annuities because these assets are not considered by the need-based formula.
- The value of bank accounts and investments is based on the day the FAFSA is prepared. Consider paying all bills before filing and before your next deposit to minimize this value.

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### Consumer Debt

Paying off credit card debt and automobile loans will increase eligibility for financial aid by reducing available cash.

### Mortgage Debt

To maximize eligibility for financial aid, reduce cash and other assets by prepaying mortgage debt. In addition, parents could take out a home equity line of credit each year to pay for the student's school expenses. The loan would reduce assets considered by the need-based formula.

### Change in Financial Circumstances

A student should contact his or her financial aid office if the student or his or her family has unusual circumstances that should be taken into account in determining financial need. Some examples of unusual circumstances are unusual medical or dental expenses or a large change in income from last year to this year.

### Non-Federal Assistance

Information about other non-federal assistance may be available from foundations, religious organizations, community organizations, and civic groups, as well as organizations related to a student's field of interest, such as the American Medical Association or American Bar Association. Check with the parents' employers or unions to see if they award scholarships or have tuition payment plans.

### Independent Status

If a student is considered an independent, he or she does not have to include any parental income or assets on the FAFSA application. A student is considered an independent if he or she:

- Gets married before submitting the FAFSA.
- Attains age 24.

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- Job change.
- Marriage.
- Attainment of age 59½ or 72.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
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- Self-employment.
- Charitable contributions of property in excess of \$5,000.



# Death of a Taxpayer

## Death of a Taxpayer

When a taxpayer dies, there are certain returns that still need to be filed, a responsibility that falls onto the personal representative.

### Personal Representative

Under state law, a personal representative is the person appointed by a court to administer an estate. The term includes both executors (appointed when the decedent has a will) and administrators (appointed in the absence of a will). A personal representative nominated in a will has no authority over estate assets unless appointed by a court.

### Duties of Personal Representative

Duties include collecting all of the decedent's property, paying any creditors, and distributing assets to beneficiaries. In addition, the representative is responsible for filing various tax returns and seeing that the taxes owed are properly paid.

### No Court-Appointed Representative

When there is no probate and no appointed representative, the IRS will allow a "person charged with property of the decedent" to file the decedent's income tax returns and claim refunds. IRS written guidance does not specify who this person should be. If there is a surviving spouse, he or she usually files a joint final Form 1040 and any other required returns. If there is no surviving spouse, the person who files is commonly:

- The trustee of the decedent's revocable trust,
- The personal representative nominated in the will who would have been appointed if probate was required, or
- A beneficiary receiving nonprobate assets who undertakes the work.

The IRS uses the term "personal representative" to refer to anyone filing for a decedent, whether or not court appointed.

### Decedent's Tax Returns

The personal representative is responsible for the following returns when required.

- **Form 1040.** Final return for year of death (gross income of a decedent from January 1 until the date of death is reported on the decedent's final income tax return).
- **Form 1041.** Income tax returns for the probate estate (required if income greater than \$600 is received after death by the decedent's estate).
- **Form 706.** Estate tax return (required if decedent's estate exceeds the estate tax exclusion (\$11,700,000 in 2021) or if portability election is made).
- **Form 709.** Gift tax for year of death (required if the decedent gave more than the annual exclusion (\$15,000 for 2021) to any one person in the year of death or failed to file any prior year gift tax returns).
- Returns not filed by decedent for prior years—Form 1040, Form 1040-X, or Form 709.
- State income tax and estate tax returns. Some states do not have an estate tax, but several states have annual estate tax exclusions that are significantly less than the federal exclusion.

A personal representative may be personally liable for unpaid tax if he or she distributed assets, the estate is insolvent as a result, and the personal representative had notice of the tax claim.





## Death of a Taxpayer

### Application for Employer Identification Number (EIN)

An executor should obtain an EIN for the probate estate as soon as possible. The identification number must be included on estate returns, statements, and other documents. The executor can obtain an EIN immediately at [www.irs.gov](http://www.irs.gov) by searching "EIN online."

**Note:** The processing time for an EIN application by mail is four weeks.

### Notice of Fiduciary Relationship

The personal representative must notify the IRS of the fiduciary relationship. Form 56 can be used for this purpose. File separate forms for the decedent and estate. Form 56 can also be used to notify the IRS of a change in fiduciary or termination of fiduciary relationship.

### Prompt Assessment

Form 4810 can be filed to shorten the statute of limitations for tax returns from three years to 18 months. File Form 4810 separately after the returns are filed. Prompt assessment can be requested for Forms 1041 and Form 1040, including returns filed by the decedent. Prompt assessment cannot be requested for federal estate tax.

### Discharge From Personal Liability

Personal representatives can request discharge from personal liability for estate, gift, and income tax after returns are filed. The personal representative is discharged from personal liability nine months after receipt of the request by the IRS, unless notified of unpaid tax.

### Fees

All personal representatives must include in their gross income any fees paid to them from an estate. Generally, a taxpayer is not in the trade or business of being an executor and will report these fees as other income on Form 1040.

## Income in the Year of Death

Report income actually or constructively received by the decedent before death on the final Form 1040. Report income received after death on the return of the recipient.

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- Probate assets on Form 1041.
- Nonprobate assets on the tax return of the beneficiary, surviving joint tenant, or successor who received the asset.

Reporting Income of a Decedent	
Before Death	After Death
<b>Final Form 1040</b> Income received by decedent.	<b>Estate's Form 1041</b> <ul style="list-style-type: none"> <li>• Income in respect of a decedent (IRD) paid to the probate estate.</li> <li>• Income paid on probate assets during administration.</li> <li>• Sale of capital assets by the probate estate.</li> </ul>
	<b>Beneficiary's Form 1040</b> <ul style="list-style-type: none"> <li>• IRD paid directly to the beneficiary.</li> <li>• Income paid after death on assets received directly from decedent.</li> <li>• Sale of capital assets received from decedent.</li> </ul>

**Example:** Gene died in 2021. His will leaves all his property to his wife, Kelly. Gene had the following assets:

- House, bank accounts, and vehicles owned jointly with Kelly.
- Brokerage account in Gene's name alone.
- Life insurance and 401(k) that name Kelly as beneficiary.
- IRA that names Gene's adult son, Emmett, as beneficiary.
- Unpaid wages.

Gene's only probate assets are the brokerage account and unpaid wages.

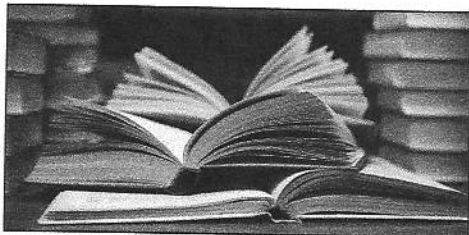
All other assets are paid to a surviving joint tenant or beneficiary and bypass probate. Income is reported as follows:

- All income received before death is reported on Gene's final Form 1040.
- After-death earnings on the brokerage account and the wages paid to the estate are reported on Form 1041. If brokerage assets are sold during probate, the sales are reported on the estate's Form 1041.
- Emmett reports taxable income from the IRA on his Form 1040 in years he receives distributions.
- Kelly reports taxable income on all other assets on her Form 1040 in the year she receives the income.

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# Estate Planning, Wills, Probate, and Transfer of Assets

## Wills and Intestacy

A will allows the testator (the person creating the will) to specify:

- Who receives property at the testator's death.
- Whether beneficiaries receive gifts outright or in trust.
- Who will act as personal representative.
- Who will be the guardian of minor children.

In the absence of a will, these matters are settled by state law.

## Who Needs a Will?

- **Include persons who are not heirs.** Wills are needed to provide for a person who is not an heir under state law, such as unmarried partners, stepchildren, friends, charities, and in-laws.
- **Exclude an heir.** Heirs are the persons who inherit an estate under state law in the absence of a will. A will is needed to prevent an heir from inheriting probate assets.
- **Minors and disabled adults.** Trust provisions can be included in a will to delay receipt of an inheritance or to allow assets to be used on behalf of an adult who is disabled.
- **Estate tax planning.** Married couples can include trust provisions to reduce estate tax.

## Dying Intestate—Without a Will

State law determines who receives probate property if a decedent dies without a will.

- Most states provide first for the surviving spouse and children. Children of the decedent always inherit a share in some states while in others they inherit only if they are not also children of the surviving spouse. Children also receive a share in some states if the surviving spouse has any children who are not also children of the decedent.

- Intestacy laws generally provide for distribution by representation, also known as per stirpes distribution. The share of any heir who dies before the decedent passes in equal shares to that heir's children.
- When there are no descendants, the surviving spouse receives the entire estate in some states, but commonly shares the estate with the decedent's parents in other states.
- When there is no spouse and no descendants, parents and siblings share the estate in some states. In others, parents inherit the entire estate, and siblings inherit only if there is no surviving parent.
- If there are no parents or descendants of parents, grandparents generally inherit next, followed by their descendants.
- The final beneficiary under intestacy law is the state. Only relations up to a certain degree inherit under each state's laws. After that point, the decedent's property "escheats" to the state. State laws vary, whereas a third cousin thrice removed may inherit in one state but a second cousin may be too remotely related to inherit in another state.

**Example:** Nola died at age 103 without a will. Under state law, her property passes to her descendants per stirpes. Nola's three children, Brian, Kyle, and Lloyd, all died before Nola. Nola's six grandchildren inherit her \$900,000 estate. Brian's only child receives \$300,000. Kyle's two children each receive \$150,000. Lloyd's three children each receive \$100,000.



## Estate Planning, Wills, Probate, and Transfer of Assets

### Property Passing at Death

The disposition of property after death depends on the form of ownership of each asset. Some assets may need to be probated (go through a court process) while others pass automatically to new owners. Property ownership rules vary by state law. Generally:

- **Joint assets.** Joint tenancies and tenancies by the entirety pass to the surviving joint tenant. Bank accounts in joint tenancy only for convenience and not intended to pass the property to the surviving joint tenant may be probate assets in some states.
- **Assets with designated beneficiaries.** Life insurance policies, annuities, IRAs, and similar assets pass to designated beneficiaries if the beneficiaries are alive when the insured or plan owner dies. Pay-on-death (POD) bank accounts and transfer-on-death (TOD) security registrations also pass assets to beneficiaries. TOD deeds (available in some states) allow real property to pass to a beneficiary without probate.
- **Trust assets.** Property passes to beneficiaries specified in the trust document.
- **Life estates and remainders.** Property passes to the remainder owners at the death of the life tenant.

### Probate Assets

Other assets—those that will not pass automatically to new owners at death—are subject to state probate rules. These assets pass to the beneficiaries named in the decedent's will or, if none, according to state intestacy law.

Probate Assets	Nonprobate Assets
Pass to beneficiaries named in a will or (if none) according to state law.	Pass to new owners without probate.
<ul style="list-style-type: none"> <li>• Assets owned solely by decedent.</li> <li>• Decedent's share of assets owned as tenant-in-common.</li> <li>• Assets that name the estate as beneficiary.</li> <li>• Assets with no designated beneficiary or a predeceased beneficiary.</li> <li>• Assets that do not take joint ownership or beneficiaries, such as wages, tax refunds of a single filer, or other refunds.</li> </ul>	<ul style="list-style-type: none"> <li>• Most joint tenancies.</li> <li>• Life insurance, IRAs, retirement plans with living designated beneficiaries.</li> <li>• Bank accounts POD to living designated beneficiaries.</li> <li>• Stock or real property TOD to living designated beneficiaries.</li> <li>• Assets held in trust if the trust instrument provides for distributions at death.</li> <li>• Remainder interests.</li> </ul>

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### Probate

Probate is the court-monitored process for administering the estate of a decedent. The process includes notifying heirs, submitting and validating the will, collecting the decedent's assets, paying taxes and creditors, and distributing property to the estate's beneficiaries. An estate is probated in the decedent's state of domicile. If the decedent owned real property outside his or her home state, an ancillary probate proceeding in that state may also be required. Probate is required if the decedent's probate assets are above the state's threshold (generally \$10,000–\$100,000). When probate is required, nonprobate assets are not included in the proceeding.

### Small Estates—Collection of Personal Property By Affidavit

If the decedent's probate assets are less than the state threshold, no court proceeding is required. The assets can be collected using an affidavit under state procedures for small estates. Typically, the decedent's successors (those entitled to property under the will or state law) complete an affidavit following the form specified by state law. The affidavit is given to anyone in possession of decedent's assets (e.g., banks, brokerages, or DMVs). Ownership of the assets passes directly to successors, who also report any after-death income.

### Wills and Nonprobate Assets

Only probate assets pass according to the terms of a decedent's will. Nonprobate assets pass to the surviving joint tenant or beneficiary.

*Example: Betty's will leaves half her estate to her church and half to her children. In 2019, Betty changed title to her home to joint tenancy with her children. When Betty died, the only probate asset was her car. Her church is entitled to one-half of the value of Betty's car.*

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# Financial Planning Guide

## Personal Financial Planning

### Budgeting

Steps to managing income and expenses include:

- Be realistic when making a budget.
- Identify monthly outflows as living expenses, savings, and discretionary.
- Estimate low for income.
- Estimate high for expenses.
- Track every expense.
- Track income and expenses monthly and review periodically.
- Save for large purchases.
- Save first.
- Budget for fun.

### Education Funding

Several tax advantages are available to help save for education expenses.

- Savings bond interest may be tax free if used for qualified education expenses.
- Coverdell education savings accounts (ESAs) provide tax-deferred growth and tax-free distributions for qualified education expenses.
- Qualified tuition programs (529 plans) provide tax-free distributions for qualified tuition expenses.
- A gift of low-basis stock allows the individual's child to sell the stock and use the proceeds to fund education expenses. This is beneficial when the individual is in a higher tax bracket and the student is in a lower tax bracket. Kiddie tax rules may apply.
- Roth IRAs can be used as a savings vehicle for education purposes. Contributions are removed from a Roth IRA without tax or penalty. Parents and grandparents fund the Roth IRA with the intention of removing the

contribution and gifting that amount to the student. If the student does not go to college, or has the costs covered by other means, the contributions can stay in the Roth IRA without concern for tax or penalty.

- Cash-value life insurance can also be used as a funding mechanism for college expenses.

### Insurance

The purpose of insurance is to transfer the risk of loss to a third party to prevent catastrophic financial loss should that risk become a reality. For this reason, people choose to insure the larger risks and take on the smaller potential losses at their own risk.

- Liability insurance protects from financial loss due to specific incidents that create a liability. Automobile and homeowner insurance are examples of insurance that provide liability protection.
- Health insurance provides financial protection from medical costs associated with illness and/or injury.
- Disability insurance provides for income replacement in the event a person is unable to work due to injury or illness.
- Long-term care insurance protects financial assets and income in the event a person is confined to a long-term nursing home or needs in-home care for an extended period of time.
- Life insurance provides for an immediate lump-sum amount of money in the event of the insured's death. The purpose of life insurance is to provide income replacement in the event the income earner dies.

➔ **Planning Tip:** Individuals may want to ask their insurance agent about purchasing umbrella liability protection. The cost is typically economical and it can provide additional protection from a liability loss.



## Financial Planning Guide

### Investment Planning

Stocks, bonds, money markets, mutual funds, commodities, real estate, and options are the most common types of investments. Most financial professionals will recommend diversifying an investment portfolio across the different spectrum of investments. Investors need to be aware of the risks involved with any investment.

- **Market risk.** This is the risk that the value of the investment will be below the purchase price when or if it needs to be sold.
- **Inflation risk.** If the increase in value of an investment is less than the increase in the inflation rate, the future purchasing power will be less.
- **Liquidity risk.** Not all investments can be sold at a moment's notice. Some investments do not have a marketplace where they can be sold.
- **Interest rate risk.** If an individual buys an interest-bearing investment and interest rates go up, the current investment value can decrease.
- **Tax risk.** Buying and selling repeatedly for a profit will lead to taxable gains. The tax paid presents a risk to the investment value.
- **Political risk.** Specifically, when investing globally, political changes within a country can decrease investment values.
- **Currency risk.** Fluctuations in world currencies will cause investment values to rise or fall, independent from the true value of the investment.

### Income Tax Planning

In addition to the economic logic that a financial transaction must have, it is important to evaluate the tax consequences of those transactions.

### Basis and Holding Period

Knowing the basis and holding period in advance of a transaction can prevent costly tax consequences. Selling highly-appreciated assets will increase the amount of tax owed. Selling investments that are below basis can provide tax benefits by allowing a dollar-for-dollar reduction against capital gains. In addition, individuals are allowed to write off investment losses in excess of gains up to \$3,000 per year. Any amount not used can be carried forward to future tax years.

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**Example:** Val owns the following shares of stock.

	Stock A	Stock B	Total
Cost.....	\$1,000	\$3,000	\$4,000
FMV.....	\$4,000	\$1,000	\$5,000
Unrealized gain/loss....	\$3,000	(\$2,000)	\$1,000

Val wants to make a \$5,000 charitable donation by selling stock and contributing the cash to charity. If she sells both stocks and donates the proceeds, she will generate a taxable capital gain of \$1,000 and take a charitable deduction of \$5,000. Instead of selling both stocks, Val could gift stock A to the charity, along with the proceeds from the sale of stock B. Her tax result would be a capital loss of \$2,000 from the sale of stock B and a charitable deduction of \$5,000 (\$4,000 FMV of stock A, plus \$1,000 proceeds from the sale of stock B). She thus avoids paying tax on the \$3,000 appreciation on stock A while achieving the same charitable deduction.

### Annuity or Life Insurance Exchanges

A life insurance or annuity contract can be exchanged to a different life insurance or annuity contract without the exchange becoming taxable. Limitations may apply.

### Early Retirement

Early retirees (before age 59½) are allowed to take distributions from retirement plans and avoid the 10% additional tax. In order to do so, they must follow certain rules.

- Distributions must be taken at least annually in substantially equal amounts.
- Distribution amounts are determined by life expectancy of the recipient.
- Distributions must be taken for a minimum of five years beginning with the year of the first distribution. If, at the end of the five years, the recipient has not yet attained the age of 59½, he or she must continue the distributions until attaining age 59½.

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- Disability insurance provides for income replacement in the event a person is unable to work due to injury or illness.
- Long-term care insurance protects financial assets and income in the event a person is confined to a long-term nursing home or needs in-home care for an extended period of time.
- Life insurance provides for an immediate lump-sum amount of money in the event of the insured's death. The purpose of life insurance is to provide income replacement in the event the income earner dies.

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- **Interest rate risk.** If an individual buys an interest-bearing investment and interest rates go up, the current investment value can decrease.
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In addition to the economic logic that a financial transaction must have, it is important to evaluate the tax consequences of those transactions.

### Basis and Holding Period

Knowing the basis and holding period in advance of a transaction can prevent costly tax consequences. Selling highly-appreciated assets will increase the amount of tax owed. Selling investments that are below basis can provide tax benefits by allowing a dollar-for-dollar reduction against capital gains. In addition, individuals are allowed to write off investment losses in excess of gains up to \$3,000 per year. Any amount not used can be carried forward to future tax years.

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**Example:** Val owns the following shares of stock.

	Stock A	Stock B	Total
Cost.....	\$1,000	\$3,000	\$4,000
FMV.....	\$4,000	\$1,000	\$5,000
Unrealized gain/loss....	\$3,000	(\$2,000)	\$1,000

Val wants to make a \$5,000 charitable donation by selling stock and contributing the cash to charity. If she sells both stocks and donates the proceeds, she will generate a taxable capital gain of \$1,000 and take a charitable deduction of \$5,000. Instead of selling both stocks, Val could gift stock A to the charity, along with the proceeds from the sale of stock B. Her tax result would be a capital loss of \$2,000 from the sale of stock B and a charitable deduction of \$5,000 (\$4,000 FMV of stock A, plus \$1,000 proceeds from the sale of stock B). She thus avoids paying tax on the \$3,000 appreciation on stock A while achieving the same charitable deduction.

### Annuity or Life Insurance Exchanges

A life insurance or annuity contract can be exchanged to a different life insurance or annuity contract without the exchange becoming taxable. Limitations may apply.

### Early Retirement

Early retirees (before age 59½) are allowed to take distributions from retirement plans and avoid the 10% additional tax. In order to do so, they must follow certain rules.

- Distributions must be taken at least annually in substantially equal amounts.
- Distribution amounts are determined by life expectancy of the recipient.
- Distributions must be taken for a minimum of five years beginning with the year of the first distribution. If, at the end of the five years, the recipient has not yet attained the age of 59½, he or she must continue the distributions until attaining age 59½.

### Contact Us

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- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 72.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.

# Identity Theft and Your Taxes



## Identity Theft and Your Taxes

Your identity and money can be stolen in a tax-related scam via email (“phishing”), fax, phone, or letters. Some recent examples of identity theft scams are:

- **Phone scam.** A bogus phone call where you are told you owe the IRS money and threatened that a warrant will be issued for your arrest. Variations include the threat of other law-enforcement agency intervention, deportation, or revocation of licenses. Some scam artists program their computers to display IRS phone numbers on your Caller ID.
- **Email phishing scam.** A bogus email that appears to be from the IRS or a program closely related to the IRS, such as the Electronic Federal Tax Payment system (EFTPS), that attempts to trick you into revealing personal and financial information. The email includes links to bogus websites intended to mirror the official IRS website.
- **Tax transcript.** The bogus email carries an attachment labeled “Tax Account Transcript” or something similar, and the subject line uses some variation of the phrase “tax transcript.” The attachment may contain a computer virus or malware.
- **IRS refunds.** A bogus email, claiming to come from the IRS, tells you that you are eligible to receive a tax refund for a given amount if you just follow the instructions in the email.

### Notify the IRS

If you receive a tax-related phishing email, do not click on the links or open any attachments. Forward the email to [phishing@irs.gov](mailto:phishing@irs.gov) or call the IRS at 800-366-4484.

## How the IRS Contacts Taxpayers

- The IRS will never initiate contact with you by email or any social media tools to request personal or financial information.
- It is unusual for the IRS to initiate contact by fax or phone call. You can call the IRS at 800-829-1040 to verify that an unexpected fax or phone call is legitimate.

## Fraudulent Tax Returns

An identity thief might use your Social Security Number to fraudulently file a tax return and claim a refund. You could be completely unaware that your identity has been stolen until your return is rejected for e-filing or you get an IRS notice or letter.

### Rejected e-File

Your electronically-filed return is rejected because the Social Security Number belonging to you, your spouse, or a dependent has already been used on a tax return.

- This situation can occur because of a mistyped number or dispute about claiming a dependency exemption. Such cases do not necessarily indicate identity theft.
- If your return has been rejected because of a previously used Social Security Number, it cannot be e-filed. You must file a paper return.

### IRS Notice

You receive an IRS notice or letter stating that:

- More than one return was filed in your name for the year,
- You have a balance due, refund offset, or initiation of collection action for a year when you did not file a return, or
- IRS records indicate that you received wages from an employer you didn’t work for.





## Identity Theft and Your Taxes

You should respond immediately to the name and phone number printed on the IRS notice or letter. You will be asked to complete Form 14039, *Identity Theft Affidavit*, and provide identifying information.

### IRS Identity Theft Victim Assistance (IDTVA)

If you believe there is a risk of identity theft due to lost or stolen personal information, contact the IDTVA immediately so the agency can take action to secure your tax account.

- Call 800-908-4490.
- You will be asked to complete Form 14039, *Identity Theft Affidavit*.

### Form 14039, Identity Theft Affidavit

Form 14039 has two purposes.

- 1) Informs the IRS you are an actual or potential victim of identity theft that has or could affect your tax account.
- 2) Requests that the IRS mark your account to identify any questionable activity.

You must provide details of the actual or potential identity theft situation, tax years impacted (if known), address and other contact information, and a photocopy of valid government-issued identification.

### Identity Protection PIN (IP PIN) Program

If the IDTVA determines that you do have a tax-related identity theft problem, the IDTVA will research your account, identify the IRS business unit handling the case, and monitor the case to ensure it is being handled in a timely manner.

- The IRS may issue you an Identity Protection PIN (IP PIN). The computer-generated IP PIN has six digits and is specific to the tax year for which it was provided.
- The IRS issues IP PINs to allow a legitimate taxpayer's return to bypass the identity theft filter, prevent fraudulent returns from being processed, and minimize taxpayer burden associated with potential delays when a return fails one or more of the identity theft filters.

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- A new IP PIN will be issued to you every filing season as long as the identity theft indicator remains on your account.

### Using an IP PIN

You will receive an IRS notice in the mail containing the single-use six-digit PIN. The IRS does not use email or fax to notify taxpayers of an IP PIN.

- All six digits must be input on your Form 1040 in the space to the right of the occupation line. Use of the IP PIN on the return acts as an authenticator to validate you as the legitimate owner of the Social Security Number on the tax return.
- If you lose or misplace the IP PIN letter, retrieve your IP PIN at [www.irs.gov](http://www.irs.gov) and search for "Retrieve Your Identity Protection PIN (IP PIN)." You may file a paper return without the IP PIN, but processing and refunds may be significantly delayed.

### Surprise IP PIN Letter

The IRS has been known to mail an IP PIN letter to a taxpayer who was previously unaware of a potential tax-related identity theft problem. If you receive an unexpected IP PIN letter, you can call the IDTVA phone number (800-908-4490) to verify that the IP PIN letter is legitimate.

### Identity Theft Outside the Tax System

You may be at increased risk for tax-related identity theft for various reasons.

- You have lost or had stolen a wallet, purse, or documents that include sensitive identifying information.
- You have noted questionable credit card activity or credit report information.
- You have fallen victim to an identity theft scam.

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- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.



# Pandemic Relief

## Pandemic Relief

The following is a brief summary of key tax provisions included in the Consolidated Appropriations Act, 2021, signed into law on December 27, 2020.

### Charitable Contributions

- The CARES Act permits taxpayers who claim the standard deduction a deduction of up to \$300 for qualified charitable contributions made during 2020. The new law extended this provision for 2021 with a maximum deduction of \$300 (\$600 for Married Filing Jointly).
- The increased charitable contribution deduction limit of 100% (from 60%) is extended through 2021.

### Tax Provisions Made Permanent

- The threshold for deducting medical expenses as an itemized deduction is 7.5% of AGI.
- The tuition and fees deduction is no longer available for expenses paid after December 31, 2020.
- The Lifetime Learning Credit phaseout range is equal to the American Opportunity Credit effective for tax years beginning after December 31, 2020. The modified AGI limitation for both credits is \$80,000 – \$90,000 (\$160,000 – \$180,000 MFJ).
- The deduction for energy efficient commercial building property.
- The gross income exclusion for certain benefits provided to volunteer firefighters and emergency medical responders.

### Tax Provisions Extended

A number of provisions that were set to expire at the end of 2020 were extended. These provisions include:

- Mortgage insurance premium deduction (2021).
- Nonbusiness Energy Property Credit (2021).
- Residential Energy Efficient Credit (2023).
- Exclusion from gross income of cancellation of qualified principal residence indebtedness (2025).
- Educational assistance program to include certain employer payments of employee student loans (2025).

### Earned Income

For purposes of determining earned income for the 2020 Earned Income Credit and Additional Child Tax Credit, you may elect to use your 2019 earned income if 2020 earned income is less than 2019.

### Business Meal Expense Deduction

Generally, the deduction for business meals is limited to 50% of the cost of the meal. For the period January 1, 2021 through December 31, 2022, the limitation is increased to 100% of the cost of food or beverages provided by a restaurant.

### Paycheck Protection Program (PPP)

The new law extends the PPP to March 31, 2021 with additional funding and makes several modifications to the PPP provisions.

- The list of expenses that are allowable uses of PPP funds for loan forgiveness was expanded. Expenses added to the 40% category for non-payroll costs include covered operations expenditures, covered property damage costs, covered supplier costs, and covered worker protection expenditures.

*continued*



## Pandemic Relief

- Allowable payroll costs include group life, disability, vision, and dental insurance benefits.
- A “PPP second draw” loan was created for smaller, harder-hit businesses, with a maximum loan amount of \$2 million. Eligible entities must not have more than 300 employees, have used or will use the full amount of the first PPP loan, and demonstrate at least a 25% reduction in gross receipts in the 1st, 2nd or 3rd quarter of 2020 relative to the same quarter in 2019.

### PPP—Tax Treatment of Expenses

PPP loans that are forgiven are excluded from taxable income. Expenses that are otherwise tax deductible and paid for with PPP loan proceeds are allowed as a deduction on your tax return.

The new law clarifies that gross income does not include any amount that would otherwise arise from the forgiveness of a PPP loan. The new law also clarifies that no deduction shall be denied, no tax attribute reduced, and no basis increase shall be denied by reason of the exclusion of gross income under the PPP loan program.

### Payroll Tax Credits

- The Paid Sick and Family Leave Credit was extended for wages paid through March 31, 2021.
- The Employee Retention Credit was extended for wages paid through June 30, 2021. Changes to the Employee Retention Credit, effective for calendar quarters beginning after December 31, 2020, include the following.
  - The credit limit was increased from 50% to 70%.
  - The \$10,000 limit applies on a per calendar quarter per employee basis, rather than a limit for all calendar quarters.
  - A significant decline in gross receipts means less than 80% of gross receipts for the same calendar quarter in 2019.
  - You may elect to use the immediately preceding calendar quarter instead of the corresponding calendar quarter in calendar year 2019 for purposes of determining a significant decline in gross receipts.
  - The 100 employee threshold is increased to 500 employees.

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### Emergency Financial Aid Grants

Qualified emergency financial aid grants made after March 26, 2020 to college and university students are not included in the gross income of a student receiving the grant. The grant also does not reduce the amount of qualified tuition and related expenses for purposes of the education credits.

### Tax Treatment of Loan Forgiveness

The new law clarifies that gross income does not include forgiveness of certain loans, emergency EIDL grants, and certain loan repayment assistance, as provided by the CARES Act. Deductions are allowed for otherwise deductible expenses paid with the amount not included in income, and that tax basis and other attributes will not be reduced as a result of the exclusion from income. This provision is effective for tax years ending after March 27, 2020. A similar treatment applies for Targeted EIDL advances and Grants for Shuttered Venue Operators, effective for tax years ending after December 27, 2020.

## Contact Us

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- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.



# 1099/W-2 ROADMAP

## EXPLANATIONS AND WHERE TO REPORT 1099 AND W-2 ITEMS ON THE TAX RETURN FAST ANSWER CHARTS

TAX YEAR **2020**

### W-2, Wage and Tax Statement

Box	Description	Report On
1 Wages, tips, other compensation	Wages, tips, and other compensation subject to federal income tax. Includes value of taxable fringe benefits. Does not include elective deferrals such as employee contributions to 401(k) plans. <b>Statutory employees:</b> Includes payments subject to Social Security and Medicare taxes but not subject to federal income tax withholding.	Line 1, Form 1040.  <b>Statutory employees:</b> Line 1, Schedule C and check the box.
2 Federal income tax withheld	Total federal income tax withheld from the employee's wages for the year.	Line 25a, Form 1040.
3 Social Security wages	Wages subject to withholding of Social Security tax. Maximum applicable wages \$137,700 (2020). Includes elective deferrals such as employee contributions to a 401(k) plan. Does not include Social Security tips or allocated tips.	Not reported on Form 1040. (Line 8a, Schedule SE, if also self-employed.)
4 Social Security tax withheld	Total employee Social Security tax (6.2%) withheld on wages (box 3) and tips (box 7). Maximum Social Security tax withholding is \$8,537.40 (2020). Excess withholding for employees with two or more jobs is reported as a refundable credit on Form 1040.	Line 10, Schedule 3, only if maximum withholding is exceeded.
5 Medicare wages and tips	Wages and tips subject to withholding of Medicare tax. There is no maximum limit of wages subject to Medicare tax.	Not reported on Form 1040. (Line 1, Form 8959, if subject to additional Medicare tax.)
6 Medicare tax withheld	Medicare tax rate of 1.45% applied to Medicare wages and tips (box 5). Additional Medicare tax withheld at 0.9% on Medicare wages over \$200,000.	Line 19, Form 8959, <i>Additional Medicare Tax</i> , if applicable.
7 Social Security tips	Tips the employee reported to the employer.	Already included in box 1 and box 5, Form W-2.
8 Allocated tips	Tips allocated to an employee by certain food and beverage establishments. This amount is not included in boxes 1, 3, 5, or 7, and no tax is withheld from these tips. Form 4137, <i>Social Security and Medicare Tax on Unreported Tip Income</i> , is used to compute the Social Security and Medicare tax owed on allocated tips.	Line 1, Form 1040. Line 1, Form 4137.
10 Dependent care benefits	Benefits received under an employer's dependent care assistance program. Any amount over \$5,000 is also included in box 1. If benefits do not exceed actual expenses, none of the benefits are taxable. If benefits exceed qualified expenses for dependent care, the excess is added to wages.	Line 12, Part III, Form 2441, <i>Child and Dependent Care Expenses</i> .
11 Nonqualified plans	Distributions from a nonqualified plan or nongovernmental section 457(b) plan. Used by SSA to determine if amounts in boxes 1, 3, and/or 5 were earned in a prior year.	Already included in wages in box 1 (or box 3 and/or box 5), Form W-2.
12 Codes	Letter codes indicating a variety of taxable and nontaxable items. For an explanation of Form W-2 codes, see <i>2020 Form W-2 Codes and Form 1099-R Codes</i> , Tools for Tax Pros, <a href="http://www.thetaxbook.com/tools">www.thetaxbook.com/tools</a> .	Various.
13 Checkboxes	Checkboxes indicating pay as a statutory employee (see box 1 above), enrollment in an employer retirement plan, or third-party sick pay.	Various.
14 Other	Reports other information to the employee such as state disability insurance taxes withheld, union dues, nontaxable income, educational assistance payments, and railroad retirement (RRTA) compensation.	Various.
15-20 State and local	State and local income tax information. Used to report wages and taxes for multiple states and localities.	Various.

### W-2G, Certain Gambling Winnings

Box	Description	Report On
1 Reportable winnings	Gambling winnings of \$1,200 or more from bingo or slot machines, \$1,500 or more in winnings (reduced by wager) from keno, more than \$5,000 in winnings (reduced by wager or buy-in) from a poker tournament, \$600 or more in other gambling winnings, or any other gambling winnings subject to federal income tax withholding. Gambling losses up to the amount of gambling winnings are deductible as an other itemized deduction.	Line 8, Schedule 1, for winnings. Line 16, Schedule A, <i>Itemized Deductions</i> , for losses.

Note: Unless indicated, all schedules refer to Form 1040, U.S. Individual Income Tax Return.

# DEPENDENTS

## HOW A CHILD OR OTHER QUALIFYING PERSON AFFECTS A CLIENT'S TAX RETURN FAST ANSWER CHARTS

TAX  
YEAR **2020**

### Dependency Tests for 2020

All seven of the following tests must be met in order for a taxpayer to claim another person as a dependent. Test numbers 4 through 7 vary depending on whether the person is a qualifying child or a qualifying relative.

1) **Dependent taxpayer test.** To claim another person as a dependent, the taxpayer, or spouse of the taxpayer if filing jointly, cannot be eligible to be claimed as a dependent on someone else's tax return.

2) **Joint return test.** A person cannot be treated as a dependent if he or she files a joint return with a spouse. This rule does not apply if the joint return was filed only to claim a refund of withheld income tax or estimated tax paid.

3) **Citizen or resident test.** The person claimed as a dependent must be either a U.S. citizen, U.S. national, U.S. resident alien, or a resident of Canada or Mexico. An adopted child (or child lawfully placed for legal adoption) that lived with the taxpayer all year passes this test if the taxpayer is a U.S. citizen or U.S. national.

Qualifying Child	Qualifying Relative
<p>4) <b>Relationship test.</b> The child must be the taxpayer's son, daughter, stepchild, foster child, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of these, such as a grandchild, niece, or nephew.</p> <p><b>Note:</b> If a child meets tests 4 through 7 for more than one taxpayer, see <i>Qualifying Child of More Than One Person</i>, page 3-3.</p>	<p>4) <b>Relationship or member of household test.</b> A relative of the taxpayer must be:</p> <ul style="list-style-type: none"> <li>• A son, daughter, stepchild, foster child, or a descendant of any of these (such as a grandchild),</li> <li>• A brother, sister, half brother, half sister, or a son or daughter of either of these (such as a niece or nephew),</li> <li>• A father, mother, or a direct ancestor or sibling of either of them (such as a grandmother, grandfather, aunt, or uncle), but not foster parent,</li> <li>• A stepbrother, stepsister, stepfather, stepmother, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law, or</li> <li>• Any other person (other than the spouse) who lived with the taxpayer all year as a member of the taxpayer's household if the relationship does not violate local law. See <i>Exceptions to Time Lived With Taxpayer</i>, below.</li> </ul>
<p>5) <b>Residency test.</b> The child must have lived with the taxpayer for more than half of the year. See <i>Exceptions to Time Lived With Taxpayer</i>, below.</p>	<p>5) <b>Not a qualifying child test.</b> The relative must not be a qualifying child of any other taxpayer for the year. For this purpose, a person is not a taxpayer if he or she is not required to file a tax return and either does not file a return or only files a return to get a refund of withheld income tax or estimated tax paid.</p>
<p>6) <b>Age test.</b> The child must be:</p> <ul style="list-style-type: none"> <li>• Under age 19 at the end of the year and younger than the taxpayer (or spouse, if MFJ), or</li> <li>• A student under age 24 at the end of the year and younger than the taxpayer (or spouse, if MFJ), see <i>Student</i>, below, or</li> <li>• Permanently and totally disabled at any time during the year, regardless of age. See <i>Permanently and Totally Disabled</i>, below.</li> </ul>	<p>6) <b>Gross income test.</b> The relative must have gross income of less than \$4,300 in 2020.</p> <p><b>Gross income defined.</b> Gross income is all income (money, property, services) that is not exempt from tax. Gross income includes all taxable unemployment compensation, taxable Social Security benefits, and certain scholarship and fellowship grants. Scholarships received by degree candidates that are used for tuition, fees, supplies, books, and equipment required for particular courses are generally not included in gross income. See <i>Exception to Gross Income Test</i>, below.</p>
<p>7) <b>Support test.</b> The child cannot provide over half of his or her own support during the year.</p> <p><b>Note:</b> Third party payments (welfare, TANF, etc.) and scholarships received by a student are not considered support provided by the child.</p>	<p>7) <b>Support test.</b> The taxpayer must provide over half of the relative's total support during the year. This test does not apply for persons who qualify as dependents under the children of divorced or separated parents rule, the multiple support agreements rules, and the rule for kidnapped children. See <i>Dependent Parent Special Rule</i>, below.</p>
<p><b>Note:</b> If a taxpayer's child is not a dependent under the qualifying child rules, the child may still qualify as a dependent under the qualifying relative rules. However, claiming the child as a dependent under the qualifying relative rules will not qualify the taxpayer for the Earned Income Credit or the Child Tax Credit.</p>	
<p><b>Exceptions to Time Lived With Taxpayer</b></p>	<p>Temporary absences for special circumstances, such as school, vacation, business, medical care, military service, or detention in a juvenile facility, count as time the person lived in the home. A child who was born or died during the year is treated as having lived with the taxpayer for more than half of the year if the taxpayer's home was the child's home for more than half the time he or she was alive. A stillborn child does not qualify as a dependent. A child kidnapped by a non-family member may still be a qualifying child. See <i>Kidnapped Child</i>, page 3-2.</p>
<p><b>Student</b></p>	<p>A student must be enrolled full-time during some part of each of any five calendar months during the year at a school, or taking a full-time on-farm training course given by a school, or a state, county, or local government agency. See <i>School Defined</i>, page 3-2.</p>
<p><b>Permanently and Totally Disabled</b></p>	<p>A person is permanently and totally disabled if, at any time during the year, he or she cannot engage in any substantial gainful activity because of a physical or mental condition, and a doctor has determined that this condition has lasted, or can be expected to last, continuously for at least a year or can be expected to lead to death.</p>
<p><b>Exception to Gross Income Test</b></p>	<p>If the taxpayer's qualifying relative is permanently and totally disabled at any time during the year, certain income for services performed at a sheltered workshop is excluded for this test.</p>
<p><b>Dependent Parent Special Rule</b></p>	<p>If the taxpayer's qualifying person is the taxpayer's father or mother, the taxpayer may be eligible to file as Head of Household even if the father or mother does not live with the taxpayer. However, the taxpayer must be able to claim the father or mother as a dependent and pay more than half the cost of keeping up a home that was the main home for the entire year for the father or mother. This includes paying more than half the cost of keeping the parent in a rest home or home for the elderly.</p>



# SOCIAL SECURITY & MEDICARE

## SOCIAL SECURITY BENEFITS, REPORTING, TAXATION, AND MEDICARE FAST ANSWER CHARTS

TAX YEAR **2020**

### Social Security—How to Qualify for Benefits

- Work and pay Social Security taxes to earn credits toward Social Security benefits.
- The number of credits needed depends on when the individual was born.

#### Credits

- A worker receives one credit for each \$1,410 earned in 2020.
- The amount of earnings needed for a quarter of coverage increases automatically each year with increases in the national average wage index.
- A maximum of four credits may be earned annually.

### Taxability of Social Security Benefits

Taxable		Nontaxable
• Retirement benefits	• Spousal benefits	• Supplemental Security Income (SSI)
• Survivor benefits	• Disability benefits	• Lump-sum death benefit
• Family benefits		

### Working While Receiving Social Security Benefits

A person can receive Social Security retirement or survivor's benefits and work at the same time. However, benefits may be reduced based on age and earnings amount. Different rules apply to disability benefits recipients who continue to work.

Age	Reduction in Benefits
Full retirement age.	No reduction in benefits.
Prior to attaining full retirement age during 2020.	Benefits are reduced by \$1 for every \$3 in excess of \$48,600 (2020).
Younger than full retirement age at the end of 2020.	Benefits are reduced by \$1 for each \$2 earned above \$18,240 (2020).

### Social Security—Full Retirement Age

Year of Birth	Full Retirement Age	Year of Birth	Full Retirement Age
Born prior to 1938	Age 65	1955	Age 66, 2 months
1938	Age 65, 2 months	1956	Age 66, 4 months
1939	Age 65, 4 months	1957	Age 66, 6 months
1940	Age 65, 6 months	1958	Age 66, 8 months
1941	Age 65, 8 months	1959	Age 66, 10 months
1942	Age 65, 10 months	1960 or later	Age 67
1943 – 1954	Age 66		

**January 1 birthday.** Individuals born on January 1 of any year should refer to the previous year in this chart.

### 2020 Social Security and Medicare Highlights

Social Security benefits increase ... 1.60%	Medicare tax rate:
Maximum earnings subject to: Social Security tax ..... \$137,700 Medicare tax ..... No limit	Employee ..... 1.45% Self-employed ..... 2.90%
Maximum Social Security tax: Employee ..... \$8,537.40 Self-employed ..... \$17,074.80 Maximum Medicare tax ..... No limit	Earnings needed for one quarter of coverage ..... \$1,410
Social Security tax rate: Employee ..... 6.20% Self-employed ..... 12.40%	Earnings limit to receive full Social Security benefits: Under full retirement age <sup>1</sup> ..... \$18,240 Year of full retirement age <sup>2</sup> ..... \$48,600 Full retirement age ..... No limit
Maximum Social Security benefits at full retirement age: Maximum monthly benefit ..... \$3,011 Full retirement age ..... 66 and 0 months	Medicare premiums: Part A (per month) ..... \$458.00 Part B (per month) <sup>3</sup> ..... \$144.60 Hospital deductible ..... \$1,408.00

<sup>1</sup> \$1 in benefits is withheld for every \$2 in earnings above limit.

<sup>2</sup> Applies only to earnings for months prior to attaining full retirement age. \$1 in benefits is withheld for every \$3 in earnings above the limit.

<sup>3</sup> Standard monthly premium. High income taxpayers see *2020 Medicare Costs* chart, page 4-6.

**Additional Medicare tax on earned income.** Medicare tax for FICA and self-employment income is increased by 0.9% for earned income in excess of \$250,000 MFJ, \$125,000 MFS, and \$200,000 any other filing status.

**Additional Medicare tax on net investment income.** A 3.8% Medicare tax applies to net investment income in excess of \$250,000 MFJ and QW, \$125,000 MFS, and \$200,000 any other filing status.

### Social Security—Early Retirement Reduced Benefits

A person can begin receiving Social Security benefits early, at age 62. The following table illustrates the effect on a primary beneficiary's benefit, and a spouse's benefit who normally would receive 50% of the primary beneficiary's primary insurance amount (PIA) when Social Security benefits begin at age 62.

Year of Birth	Primary's Reduction Percentage	Spouse's Reduction Percentage	A \$1,000 (\$500 Spousal) Benefit Reduced To:
1937 or earlier	20.00%	25.00%	\$800 (\$375)
1938	20.83%	25.83%	\$791 (\$370)
1939	21.67%	26.67%	\$783 (\$366)
1940	22.50%	27.50%	\$775 (\$362)
1941	23.33%	28.33%	\$766 (\$358)
1942	24.17%	29.17%	\$758 (\$354)
1943 – 1954	25.00%	30.00%	\$750 (\$350)
1955	25.83%	30.83%	\$741 (\$345)
1956	26.67%	31.67%	\$733 (\$341)
1957	27.50%	32.50%	\$725 (\$337)
1958	28.33%	33.33%	\$716 (\$333)
1959	29.17%	34.17%	\$708 (\$329)
1960 and later	30.00%	35.00%	\$700 (\$325)

### Lump-Sum Death Benefits

If the beneficiary is...	Then the evidence the claimant needs to submit is...					
	Age	Relationships		Dependency or Support	School Attendance	Death of Worker
Surviving spouse living in same household	–	X	–	–	–	X
Eligible surviving spouse, excluding divorced spouse	X <sup>3</sup>	X <sup>3</sup>	–	–	–	X
Eligible children	X <sup>3</sup>	–	X <sup>3</sup>	X <sup>1,3</sup>	X <sup>2,3</sup>	X

<sup>1</sup> A legitimate or adopted child is ordinarily considered dependent on his or her parent, however, certain evidence may be needed in the case of other types of children.

<sup>2</sup> Proof of full-time school attendance required if child is 18–19 and is not disabled.

<sup>3</sup> To qualify for the lump-sum, the claimant must present evidence that proves he or she does (or could) qualify for monthly benefits in the month the worker died.



# INTERNATIONAL

## FOREIGN INCOME, EXCLUSIONS, AND CREDITS FAST ANSWER CHARTS

TAX  
YEAR **2020**

### Taxation of Worldwide Income

The following general rules apply to U.S. citizens and resident aliens.

- Worldwide income from all sources is subject to federal income tax, regardless of where the taxpayer is living.
- The same filing requirements apply no matter where the taxpayer is living.

### Form 1040 or Form 1040-NR?

#### Form 1040, U.S. Individual Income Tax Return

- U.S. citizens and resident aliens who meet usual filing requirements.
- A nonresident alien who:
  - Elects to be taxed as a resident alien, and
  - Is married to a U.S. citizen or resident alien at the end of the tax year.

#### Form 1040-NR, U.S. Nonresident Alien Income Tax Return

- All nonresident aliens engaged in a trade or business in the U.S.
- File even if no gross income was earned in the U.S. or if U.S. income was exempt from U.S. tax under a tax treaty or any IRC section.

### Resident Aliens

- A resident alien of the United States is a noncitizen who meets either the green card test or substantial presence test for the calendar year.
- Resident aliens of the U.S. are subject to federal income tax on their worldwide income from all sources, regardless of where they live.

#### Green Card Test

- The taxpayer was a lawful permanent resident of the United States at any time during the calendar year.
- Lawful residency means that the taxpayer has been given the privilege, according to immigration laws, of residing permanently in the U.S. as an immigrant.
- The taxpayer is generally issued an alien registration card, or "green card," by U.S. immigration services.

#### Substantial Presence Test

- The taxpayer lived in the U.S. for at least 183 days during the current calendar year and the two preceding years, with a minimum of 31 of those days occurring during the current year.
- For purposes of counting the 183 days, count one-third of the days in the first preceding year and one-sixth of the days in the second preceding year.
- Do not count days spent commuting between the U.S. and Canada or Mexico, days when the taxpayer was in transit between the U.S. and other countries, or days spent as a crew member of a foreign vessel. Do not count days when the taxpayer had to remain in the U.S. because of a medical condition that occurred while he or she was in the U.S. Do not count days the taxpayer was an exempt individual.

### Taxpayer Abroad Extension Summary<sup>1</sup>

Extension Type	Who Qualifies?	How to File	When to File Extension	Calendar Year Return Extended To
Automatic two-month <sup>2</sup>	U.S. citizens or resident aliens who, on the regular due date of the return are: <ul style="list-style-type: none"> <li>• Living outside of the U.S. and Puerto Rico and whose main place of business or post of duty is outside those areas.</li> <li>• In military or naval service on duty outside those areas.</li> </ul>	Attach a statement to the return explaining which of the two situations qualified the taxpayer for the extension.	June 15	June 15
Additional four-month	Taxpayers who qualify for the automatic two-month extension can generally get an additional four months to file, for a total of six months from the regular due date.	File Form 4868, <i>Application for Automatic Extension of Time to File U.S. Individual Income Tax Return</i> .	June 15	October 15
IRS discretionary two-month <sup>3</sup>	Taxpayers who are out of the country and qualify for the automatic two-month and six-month extension. This option is not available for taxpayers who use Form 2350.	Write a letter to the IRS explaining why the additional time is needed. Mail to: Department of the Treasury, Internal Revenue Service Center, Austin, TX 73301-0045	October 15	December 15
Extension of time to qualify for the Foreign Earned Income Exclusion <sup>2</sup>	U.S. citizens or resident aliens who: <ul style="list-style-type: none"> <li>• Expect to meet either the bona fide residence test or physical presence test, but not until after the return is due, and</li> <li>• Whose tax home is in a foreign country (or countries) throughout the period of bona fide residence or physical presence.</li> </ul>	File Form 2350, <i>Application for Extension of Time to File U.S. Income Tax Return</i> .	June 15	30 days after taxpayer expects to meet test.

<sup>1</sup> Additional extension provisions apply for U.S. Armed Forces personnel serving in combat zones or qualified hazardous duty areas.

<sup>2</sup> Automatic two-month extension of time to pay but interest applies during extension.

<sup>3</sup> Extension is not automatic and may be denied.



# Tax Scams – Protect Yourself

## Tax Scams – Protect Yourself

There are many tax scams out there with the purpose of stealing your identity, stealing your money, or filing fraudulent tax returns using your private information. Tax scammers work year-round, not just during tax season and target virtually everyone. Stay alert to the ways criminals pose as the IRS to trick you out of your money or personal information.

The best thing to remember to protect yourself is that the IRS will never initiate contact with you via telephone, text message, email, or social media to request personal or financial information. The IRS will always first send a letter requesting information.

## IRS-Impersonation Telephone Scam

An aggressive and sophisticated telephone scam targeting taxpayers, including recent immigrants, has been making the rounds throughout the country. Callers claim to be employees of the IRS, but are not. These con artists can sound convincing when they call. They use fake names and bogus IRS identification badge numbers. They may know a lot about their targets from information gathered from online resources, and they usually alter the caller ID (caller ID spoofing) to make it look like the IRS is calling. Also, if the phone is not answered, the scammers often leave an urgent callback request.

Victims are often told they owe money to the IRS and it must be paid promptly through a pre-loaded debit card, gift card, or wire transfer. If the victim refuses to cooperate, they are then threatened with arrest, deportation, or suspension of a business or driver's license. In many cases, the caller becomes hostile and insulting.

Alternatively, victims may be told they have a refund due to try to trick them into sharing private financial information.

You should note that the IRS will never:

- Call to demand immediate payment, nor will the agency call about taxes owed without first having mailed you a bill.
- Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.
- Require you to use a specific payment method for your taxes, such as a prepaid debit card.
- Ask for credit, debit card, or PIN numbers over the phone.
- Threaten to bring in local police or other law-enforcement groups to have you arrested for not paying.

**What to do.** If you receive a phone call from someone claiming to be from the IRS and asking for money, take the following steps.

- Do not provide any information to the caller. Hang up immediately.
- If you know you owe tax, or think you might owe, you should call the IRS at 1-800-829-1040 where you can get help with a payment issue.
- If you know you do not owe any tax, or have no reason to believe that you do, report the incident to TIGTA (Treasury Inspector General for Tax Administration) at 1-800-366-4484 or at [www.tigta.gov](http://www.tigta.gov).
- You should also contact the Federal Trade Commission and use the "FTC Complaint Assistant" at [www.ftc.gov](http://www.ftc.gov). When filing the complaint, add "IRS Telephone Scam" to the comments.



## Tax Scams— Protect Yourself

### Phony IRS Emails — “Phishing”

Scammers copy official IRS letterhead to use in emails they send to victims. Emails direct the consumer to a web link that requests personal and financial information, such as a Social Security Number, bank account, or credit card numbers. The practice of tricking victims into revealing private personal and financial information over the internet is known as “phishing” for information.

The IRS does not notify taxpayers of refunds or payments due via email. Additionally, taxpayers do not have to complete a special form or provide detailed financial information to obtain a refund. Refunds are based on information contained on the federal income tax return filed by the taxpayer. The IRS never asks people for the PIN numbers, passwords, or similar secret access information for their credit card, bank, or other financial accounts.

**What to do.** If you receive an email from someone claiming to be from the IRS and asking for money, take the following steps:

- Do not reply to the email message.
- Do not give out your personal or financial information over email.
- Do not open any attachments or click on any of the links. They may have a malicious code that will infect your computer.
- Forward the email to the IRS at [phishing@irs.gov](mailto:phishing@irs.gov).
- Delete the email.

**Fake charities.** Be on guard against groups masquerading as charitable organizations to attract donations from unsuspecting contributors. Contributors should take a few extra minutes to ensure their hard-earned money goes to legitimate and currently eligible charities. [IRS.gov](http://IRS.gov) has the tools taxpayers need to check out the status of charitable organizations. Be wary of charities with names that are similar to familiar or nationally-known organizations.

**Abusive tax shelters.** Avoid using abusive tax structures to avoid paying taxes. The IRS is committed to stopping complex tax avoidance schemes and the people who create and sell them. The vast majority of taxpayers pay their fair share, and everyone should be on the lookout for people peddling tax shelters that sound too good to be true. When

in doubt, taxpayers should seek an independent opinion regarding complex products they are offered.

**Frivolous tax arguments.** Avoid using frivolous tax arguments to avoid paying taxes. Promoters of frivolous schemes encourage taxpayers to make unreasonable and outlandish claims to avoid paying the taxes they owe. These arguments are wrong and have been thrown out of court. While taxpayers have the right to contest their tax liabilities in court, no one has the right to disobey the law or disregard their responsibility to pay taxes. The penalty for filing a frivolous tax return is \$5,000.

### Ways to Protect Yourself From Scams

There are many precautions you can take to protect yourself from becoming a victim. These include:

- Personal information should not be provided over the phone, through the mail, or on the internet unless the taxpayer initiated the contact or is sure he or she knows with whom he or she is dealing.
- Social Security cards or any documents that include your Social Security Number (SSN) or individual taxpayer identification number (ITIN) should not be carried around.
- Do not give a business your SSN or ITIN just because they ask—provide it only if required.
- Financial information should be protected. Do not give out any financial information over the phone or via email.
- Credit reports should be checked yearly.
- You should review your Social Security Administration earnings statements annually.
- Protect personal computers by using firewalls and anti-spam/virus software, updating security patches and changing passwords for internet accounts.
- Report any instances of tax scams to the IRS.

### Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 72.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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