

Payments, Estimates, Finishing the Return

As an AARP Foundation Tax-Aide Counselor, we account for the taxpayers' payments and help estimate their current payments to the IRS. Then we start the process to prepare the tax return for Quality Review.

Learning Objectives

Identify the following types of payments and credits that are applicable for most low- and moderate-income taxpayers:

- Federal income tax withheld from Forms W-2 and Forms 1099
- Estimated tax payments and amounts applied from the prior year's return
- Amount paid with a request for an extension to file
- Excess social security and tier 1 RRTA tax withheld
- Report these payments and credits correctly on the taxpayer's return.

Getting Started:



Revisit [Pub 4012 Volunteer Resource Guide](#) **Tab H and K**.



Study the associated IRS VITA/TCE Training Guide:

Chapters 28 - Payments

Chapter 30 - Refund and Amount of Tax Owed,

Chapter 31 - Completing the Return

Hints from NTTC Modifications to the IRS Training Guide

In Tax-Aide, you can assist taxpayers by preparing **estimated tax payment** vouchers for the next year using Form 1040-ES. Generally, when a taxpayer has timely paid in at least the amount of net tax shown on their prior year return, there is no penalty. So, often, taxpayers can pay in the prior year's tax amount using Form 1040-ES. If substantial changes are anticipated, work with the taxpayer to compute the amount of estimated tax payments to be made. Refer to Form 1040-ES instructions.

Repayments of previously taxed income

When a taxpayer repays income that they included in a prior year's tax return of more than \$3,000, the taxpayer may choose between an itemized deduction for the repayment (not subject to the 2% rule) or a tax credit on the return of the year of repayment. The tax credit

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is computed on a with-and-without basis to measure the incremental tax that was paid when the income was included and is reported on Schedule 5, Line 74. Refer to the Volunteer Resource Guide for software entries.

If the taxpayer repaid income of \$3,000 or less, there is no deduction or credit.

Estimated tax payments

- Some taxpayers have income from self-employment, dividends, interest, capital gains, rent, and royalties. The U.S. Treasury's "pay as you go" tax system also applies to this income. If the tax due on this income exceeds certain limits, estimated tax must be paid quarterly by the taxpayer. If estimated tax payments are not paid when they are required, a penalty could be imposed. This also applies if taxpayers do not have enough income tax withheld from their salary or wages.

Previous year tax payments

- Taxpayers who overpay their income taxes in one year can apply all or part of their overpayment to the next year's estimated tax by indicating the amount they want to apply.

TaxSlayer: Navigate to: Federal Section>Payments & Estimates

Review Volunteer Resource Guide, Pub 4012, Tab H for input guidance.

Taxpayer Payments Resource: <https://www.irs.gov/payments>

Practice Lab

Open [TaxSlayer Practice Lab](#) and login.

Find and view the Entering Refunds, Payments, and Estimates video.

Use the same Clark Exercise already created in Lesson 22 Foreign Tax Credit.

- Open the return in TaxSlayer
- Enter the Clark's estimated payments and prior year payments.

• Amount applied from prior year refund	\$350
• Estimated Federal Tax paid (4/18/2018)	\$250
• Estimated Federal Tax paid (9/15/2018)	\$250
• Estimated Federal Tax paid (1/12/2019)	\$250

Find answers in the file: *Answers to Practice Lab Self-Study Exercises* in the Self-Study 2018>H. Answers, etc. Module.

Concluding the interview properly ensures that taxpayers have

- Complete record of the return
- Understand what will happen next
- Know how to get answers to questions that come up later

Handle the interview well, as it can help taxpayers develop a more positive attitude toward the tax experience. This fosters greater accuracy in returns and timeliness in filing.

Follow your local site procedures to assemble the tax packet and how to end the interview. The taxpayers should leave with instructions:

- Tax-Aide sites maintain no paper records of their tax filing
- They should keep and maintain their tax records

Taxpayers are responsible for the accuracy of their tax filing.

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Learning Review

1: Using direct deposit is one way to reduce the chance that a refund will be lost or stolen.	True or False
2: When entering an account number for direct deposit, make sure to include all spaces and hyphens.	True or False
3: For which of the following will the taxpayer be charged a convenience fee? A. Direct deposit of a refund B. Electronic funds withdrawal of a tax payment C. Using a credit card to make a tax payment D. Using a personal check to make a tax payment	
4: Dion's total tax liability is \$1,044. After withholding, she owes \$640. This means Dion might have to pay a penalty for underpayment of estimated tax.	True or False

Feedback:

Please email: selfstudy@aarpdfntaxaide.org. Appreciate suggestions and comments.

Answers to Learning Review

1: True. Direct deposit is safer since there is no check to be lost or stolen.
2: False. Enter the account number from left to right, leaving out all spaces and special characters.
3: C. The credit card processor covers its costs by assessing a “convenience fee” to taxpayers using this system. Taxpayers will be advised of the amount of this fee when they call the interactive voice response system.
4: False. The tax Dion owes is less than \$1,000, so she does not have to pay a penalty.