

As an AARP Foundation Tax-Aide Counselor, you investigate and incorporate the tax impact of any prior year state or local tax refund you received in the tax year.

Learning Objectives

- Report income correctly on Form 1040:
- Taxable refunds, credits, or offsets of state and local income taxes

Getting Started:



Review the specific discussion related to state and local income tax refunds usually reported on a Form 1099-G in the **VITA/TCE Volunteer Training Guide Pub 4491** page 9-12



In the Volunteer Resource Guide, find the references to

“State Tax Refund”:

- i. In Tab O, Using TaxSlayer Pro Online. Find all the references to “State Tax Refund”:
Note the occurrences:

- ii. Find and Study the pages that relates to “State Tax Refund” in the Volunteer Resource Guide, Tab D.
Note the pages you found.

Resources:

Volunteer Training Guide – Pub 4491
Volunteer Resource Guide – Pub 4012

Many of these are IRS or NTTC documents edited for Self-Study.

From the VITA/TCE Volunteer Training Guide Pub 4491:

Only taxpayers who **itemized** last year and received a federal income tax benefit for **deducting their state or local income taxes** have to include their state/local tax refunds in income.

If they itemized and deducted the state sales tax instead of the state income tax withheld, none of the refund is taxable.

The refund or reimbursement of tax paid in 2018 is taxable
... only to the extent Federal taxes were reduced in 2017

Out of Scope: If refund is for other than the preceding year and the refund is not wholly taxable or wholly nontaxable

Feedback: Please email:
selfstudy@aarpfoundation.org
Appreciate suggestions and comments.

Income – State and Local Tax Refunds

Do not report state and local tax refunds for prior years if:

- Taxpayer claimed a standard deduction for the year associated with the refund
- Taxpayer chose to include state or local sales tax as part of their itemized deduction

Use the State and Local Refund Worksheet in Volunteer Resource Guide, Pub 4012, page D-12 for guidance with input into TaxSlayer.

Hint from NTTC Modifications to the IRS Training Guide

State tax refunds

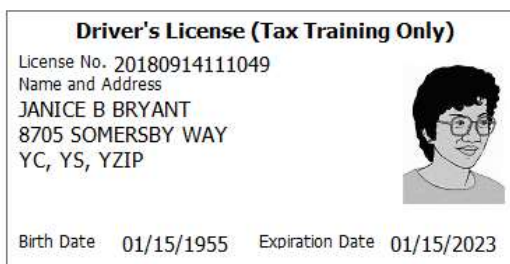
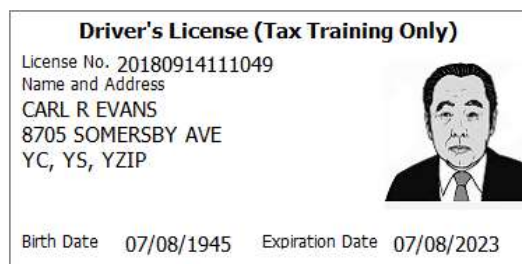
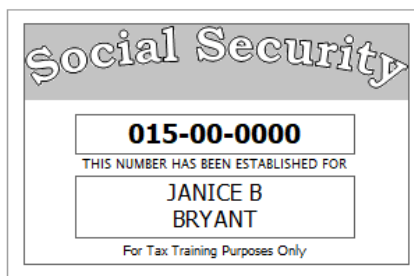
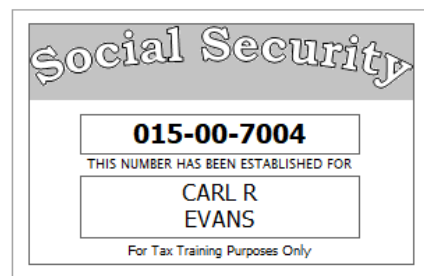
A refund from a year prior to 2017 is in scope for Tax-Aide if it can be quickly determined that the refund is entirely taxable or entirely nontaxable.

For example, it is wholly nontaxable when the standard deduction was claimed in prior years. Or, the taxpayer agrees that the refund is wholly taxable.

Practice Lab

Open **TaxSlayer Practice Lab** and login.

1) Create a new return with this detail:



2) Hypothetical situation:

- Carl and Janice are married and will file Married Filing Jointly, no dependents
- Both have Minimum Essential Coverage through Janice's family plan from work
- Asked to use the Standard Deduction

Income – State and Local Tax Refunds

- Want their refund mailed to them

3) Input the Form 1099-G.

See Volunteer Resource Guide, Pub 4012, Tab O, Navigating TaxSlayer for guidance.

<input type="checkbox"/> CORRECTED (if checked)					
PAYER'S name, address, city, state, ZIP code {YS} TREASURY 33 B AVENUE YOUR CITY, YOUR STATE, YOUR ZIP		1 Unemployment compensation 2 State or local income tax refunds, credits or offsets \$680.00		<div style="font-size: 2em; font-weight: bold;">2018</div> Form 1099-G	
PAYER'S Federal identification number 25-9321654		RECIPIENT'S identification number 015-00-7003		4 Federal income tax withheld	
RECIPIENT'S name, address, city, state, ZIP code CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP		5 RTAA payments 7 Agriculture payments 9 Market gain		6 Taxable grants 8 If checked, box 2 is trade or business income > <input type="checkbox"/>	
Account number (see instructions)		10. State -----		10b State identification no. -----	
				11 State income tax withheld -----	
Form 1099-G					

Copy B For Recipient
 This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Carl and Janice itemized deductions last year. Their adjusted gross income for last year was \$86,033. Their total itemized deductions were \$19,660. The amount of state income taxes deducted was \$2,816. The sales tax deduction would have been \$2,700, including sales tax on the car they purchased of \$1,565.

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

Learning Review

State and Local Income Tax Refunds

Nancy itemized her deductions on last year's federal return. She included the income taxes paid to her state on Schedule A. During the current tax year, she received a state refund on the overpaid portion of those taxes. How is the tax impact calculated and reported?

Answer to the Learning Review

When filing her current year tax return, she must use the state tax refund worksheet to see how much of the refund to include in her federal taxable income. Use the State and Local Refund Worksheet in Volunteer Resource Guide, Pub 4012, page D-12 for guidance with input into TaxSlayer.