

As an AARP Foundation Tax-Aide Counselor, you will determine if the taxpayer owes additional taxes, and determine their total tax.

Learning Objectives

- Identify the different types of other taxes on a return
- Determine if a taxpayer is liable for other taxes that are within scope of AARP Foundation Tax-Aide
- Determine how to report these additional taxes on the tax return

Getting Started:



Study the associated IRS VITA/TCE Training Guide Chapter 27.



Open [Pub 4012 Volunteer Resource Guide](#) Tab H-1 through H-3.

TaxSlayer Hint: The software makes most of the calculations and displays the resulting tax on Form 1040.

Tax-Aide Learning Hints:

It is very important for a volunteer to follow the Pub 4012 when handling Other Taxes and to insist that taxpayers with out of scope input requirements to have their return prepared by a professional provider.

Taxpayers can find the [First Time Homebuyer Credit Account Look-up](#) at IRS.gov useful. Note, the IRS will reject any efiled tax return where the First Time Homebuyer Credit is not recognized when an annual amount is owed. Most of the time the taxpayer knows if the situation applies to them though they may forget.

Self-employment tax

The software automatically transfers the appropriate information from Schedule C or C-EZ to Schedule SE and calculates the self-employment tax and the adjustment of the deductible part of the self-employment tax.

Social Security and Medicare taxes on tip income

Self-employed taxpayers who receive tips should include the tips in gross receipts on Schedule C

Tips that the employee did not report to the employer

Pub 4491 – p 27-3

Volunteer Resource Guide, Tab D, Income, for instructions on reporting tip income.

Example Scenario:

Carla waits tables at a café. Her employer reports all tips that customers add to their credit card tabs, but she leaves it up to Carla to keep track of her cash tips. Carla receives more than \$20 per month in cash tips. Carla keeps a record but, because she doesn't report her cash tips to her employer, they are not included on her Form W-2. Carla includes the unreported tips as income on Form 1040. Use Form 4137 to calculate and pay the Social Security and Medicare taxes on those tips.

Practice Lab

Build a fake return for Nancy in Practice Lab and use Form 4137 to calculate and pay the Social Security and Medicare taxes on those tips.

Scenario 1: Nancy had a summer job at a coffee hut. She made \$18 in tips in May, \$755 in June, \$600 in July, and \$45 in August. Until a co-worker told her, she didn't realize she had to report her tips to their employer. She then reported \$1,000 in tips to her boss. What amount of tips will Nancy have to add to her Form 1040 as wages?

A. \$1,418

B. \$1,000

- C. \$418
- D. \$18

Scenario 2: What amount of unreported tips does Nancy have to pay Social Security and Medicare taxes on when she files her tax return?

- A. \$1,418
- B. \$400
- C. \$45
- D. \$18

Answers are on next page.

Additional taxes on IRAs and other qualified retirement plans

Pub 4491, p 27-4. Taxes for IRAs and qualified retirement plans –Form 5329

The additional tax for each situation is outlined on Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts.

Only Parts I and IX of Form 5329 are in scope. These parts provide for the exceptions to the additional tax on part or all of the early distributions from IRAs or qualified pension plans. The other parts of Form 5329 are out of scope; refer taxpayers with these issues to a professional tax preparer.

Repayment of first-time homebuyer credit

Taxpayers can find the [First Time Homebuyer Credit Account Look-up](#) at IRS.gov

The 2008 homebuyer credit had different rules. The credit functions like a no-interest loan and must be paid back. Taxpayers who received the credit in 2008 continue to repay the credit over a 15-year period that began with the 2010 tax return.

Answers to Nancy’s Scenarios (on previous page):

Scenario 1: C. Nancy's combined tips for May, June, July, and August were \$1,418, and she reported only \$1,000 to her employer. She needs to add \$418 as wages on her tax return.

Scenario 2: B. Nancy does not have to pay Social Security and Medicare taxes on the tips she received in May, because they amounted to less than \$20 for the month.

Household employment taxes out of scope

Additional Medicare tax on wages (Form 8959, Additional Medicare Tax) out of scope

Net investment income tax (Form 8960, Net Investment Income Tax Individuals, Estates, and Trusts) out of scope

What situations are out of scope for the VITA/TCE programs?

The following are out of scope for this lesson. While this list may not be all inclusive, it is provided for your awareness only.

- Household employment taxes
- IRA minimum distributions not withdrawn when required
- Excess contributions to an IRA that are not withdrawn by the due date of the return including extensions
- Distributions or excess contributions shown on parts II through VIII of Form 5329 (only Parts I and IX are in scope to remove a penalty)
- Distribution from an ABLE account that exceeds the qualified disability expenses
- Individuals subject to the additional Medicare tax on Form 8959
- Individuals subject to the net investment income tax on Form 8960

Tax for certain children who have unearned income (Kiddie Tax)

See Pub 4491, page 20-5

For children under age 18 and certain older children, unearned income over a certain amount is taxed using the tax rates applicable to trusts and estates. For this purpose, “unearned income” includes all taxable income other than earned income, such as taxable interest, ordinary dividends, capital gains, rents, royalties, etc. It also includes taxable Social Security benefits, pension and annuity income, taxable scholarship and fellowship grants not reported on Form W-2, unemployment compensation, alimony, and income received as the beneficiary of a trust. If the child’s unearned income is more than the ceiling amount, and the child is required to file a tax return, Form 8615 must be used to figure the child’s tax. (See the Volunteer Resource Guide for the ceiling amount.)

When must Form 8615 be filed?

Form 8615 must be filed for the child if all the following are true:

1. The child's unearned income was more than the ceiling amount.
2. The child is required to file a return for the tax year.
3. The child either:
 - Was under age 18 at the end of the year,
 - Was age 18 at the end of the year and did not have earned income that was more than half of his or her support, or
 - Was a full-time student at least age 19 and under age 24 at the end of the tax year and did not have earned income that was more than half of the child's support.
4. At least one of the child's parents was alive at the end of the tax year.
5. The child does not file a joint return for the tax year.

Hint from NTTC Modifications to the IRS Training Guide

Page viii,
Kiddie Tax

The net unearned income over the kiddie tax threshold amount of \$2,100 for 2018, up to the amount of taxable income, is taxed at the trust rates.