

# ADVANCED TAX TOPICS TRAINING

## TAX YEAR 2023 ACTIVITY ANSWERS

### SELF-EMPLOYMENT EXPENSES – WHAT QUALIFIES?

#### Lionel

Lionel has his own photography business. He writes the following expenses on the SETO, which qualify and which to not? What other questions would you ask Lionel?

- Zoom lens - \$519
- Studio space rental - \$6,600
- Business miles – 2,520 (Commuting miles – 385 Personal miles – 2,100)
- Parking tickets -- \$115
- Photo backdrop - \$36
- USB drives - \$130
- Website fees - \$119
- Photo props - \$30
- Acuity Scheduling - \$49
- Adobe subscription - \$720
- Meals while working - \$412

**A few ideas for follow-up questions:** Revisit common expenses on the SETO (ex basic office supplies, health insurance, etc). Ask about the meals to clarify if they were while he was working an event and eating on his own, meeting with clients to discuss business, or working out of town (the first example is not a business expense, but the other two examples could be).

#### Christine

Christine has a full-time job as an employee, but also works as a Lyft driver in the evenings and on weekends to make extra money. She doesn't think she has any expenses to report. What follow-up questions would you ask Christine? What next steps would you advise?

**A few ideas for follow-up questions:** Ask about business miles driven. Did she keep a mileage log? Did the Lyft app track any mileage for her? How can she recreate documentation of her mileage? This is a standard expense for someone in this line of work, so recreating some sort of log is necessary. Use the SETO to review other possible expenses.

#### Cally

Cally is a self-employed interpreter and translator. She works with several different interpreter placement agencies to pick up work. She often works from home doing translations for clients and interpreting in virtual meetings.

- Medical interpreting certification test: \$165
- Business cards: \$39.99
- Printer paper: \$2.68
- Office supplies: \$9.40
- World Languages Inc (professional organization) renewal: \$42
- Dress clothes: \$363
- Business miles: 10,461 (Commuting miles: 1,940 Personal miles: 3,086)
- Parking fees: \$340
- American Translators Association membership: \$134

**A few ideas for follow-up questions:** Can Cally claim business use of home? Is the work space she does at home regularly and exclusively used for business? If not, it may be wise for her to establish a space that is, then her commuting miles will count as business miles. Does she use her cell phone and home internet for work? A percentage of that may be a business expense.

## ITEMIZED DEDUCTIONS – WHO SHOULD ITEMIZE?

### Jayden

Jayden files on his own. His total income is \$36,000 from a job. He had \$1,300 in Minnesota tax withheld. As potential deductions he shares that he paid:

- \$3,000 in medical expenses
- \$600 in dental expenses
- \$900 in charitable contributions
- \$2,600 in real estate taxes
- \$1,400 in mortgage interest
- \$120 in car registration tax
- \$250 in gambling losses (Jayden did not win any money gambling)

**Not itemizing!** Total eligible expenses (all listed except gambling losses) do not add up to more than the standard deduction for a single person, and only a portion of medical and dental expenses will actually be included. It's likely Jayden also paid state income taxes that would be deductible, but those would be unlikely to shift him over to itemizing.

### Yvette and Toni

Yvette is helping her mother, Toni, with her taxes. She has an IRS Power of Attorney. Toni's income comes from a pension and Social Security. The pension is \$25,000 and fully taxable. She has \$3,000 of taxable Social Security. Toni moved into a nursing home this year and had significant medical expenses. Yvette brought documentation of these expenses:

- \$9,000 in medical expenses
- \$1,700 in Medicare Part B insurance premiums
- \$18,000 in nursing home costs
- \$2,200 in real estate taxes (on the home Toni will be selling this year)

**Itemizing!** Toni's total expenses add up to much more than the standard deduction. Even when considering the medical expenses, Medicare, and nursing home costs would only partially qualify, she has enough expenses to itemize and lower her taxable income. The expenses that are above 7.5% of her AGI will qualify as deductible.

### Crystal and Damien

Crystal and Damien file jointly. They are renters and have a total of \$49,000 in income from their two jobs (with \$2,200 in Minnesota tax withheld). They donated \$600 in cash to charity, and they also helped a friend by donating \$100 to a GoFundMe page when the friend's house burned down. Crystal and Damien paid some medical expenses, but they aren't exactly sure of the amount. Insurance covered everything except the \$20 co-pay at a few doctor visits. They also paid registration taxes for two cars, but they don't remember how much that cost.

**Not itemizing!** The state income tax and donations would be deductible, but the GoFundMe support to an individual would not. The small amount of medical expenses is not likely to reach above the 7.5% threshold to include any as deductible. Their standard deduction will be much higher. However, they can qualify for a small subtraction on the Minnesota return for their charitable donations – the subtraction equals 50% of the amount over \$500 (so for them it would reduce taxable income by \$50).

## ADVANCED, BASIC, OR OUT OF SCOPE?

### Diamond

Diamond has two children and both are in college. She will claim them both as dependents, and she has Form 1098-T for each child. Last year she got a tax credit last year for her older child and hopes that both will qualify now that they are both working on four-year degrees.

**Basic** – education credits are difficult, but not an advanced topic.

### Charles

Charles works as a self-employed house painter in addition to working as an employee in a UPS warehouse part-time. He has a two-car garage at home, and dedicates half of it to storing supplies for his business. He made \$8,600 last year painting and \$31,000 working at UPS.

**Advanced, and out of scope at the regular clinic** – refer this return to the P+P self-employment clinic to correctly report the business use of home.

### Scott

Scott graduated from college last year and started working as a computer programmer in September. His income from work was \$26,000. While he was in college, Scott opened a few credit cards and couldn't keep up with the payments. In May of last year, he remembers getting a letter from one of the companies saying he didn't need to pay the remaining balance due, and in January he received Form 1099-C showing \$1,126 as discharged debt.

**Advanced** – cancellation of debt is an advanced topic.

### Krissy

Krissy is 48 years old, and last year she took \$2,000 out of her 401k retirement account. She needed the money to pay an arborist to remove two trees that were at risk of falling on her home. Krissy also has a W-2 showing wages of \$37,200.

**Basic** – there is not exception to the 10% additional tax on early retirement distributions for the purpose Krissy took the money out. Retirement income is an advanced topic when an exception needs to be claimed or when the taxable amount is not determined.

### Kyle

Kyle worked a full-time job as an employee at a construction firm but was laid off during the winter months. In addition to the \$49,000 he made while working, he collected \$5,400 in unemployment, and \$12,300 as an Uber driver. While he was off work, he made some major improvements to his home to make it more energy efficient. He installed new windows and doors and a new furnace.

**Out of scope** – Kyle's income is above the income limits at P+P. If his income was lower, his return could be done as an advanced return (likely at the self-employment clinic because his Uber driving income is over \$10,000).