

BASIC D: TAX CREDITS

TAX YEAR 2023

PREPARE + PROSPER

This training is
approximately 2.5 hours.
We will have a break
about halfway through.



WELCOME BACK! SAY HI!

- (Re)introduce yourself to someone sitting near you
- Share your name (and pronouns if you would like)
- Share your favorite tax credit



BASIC D OVERVIEW



Federal income tax credits



Minnesota income tax credits



Amendments



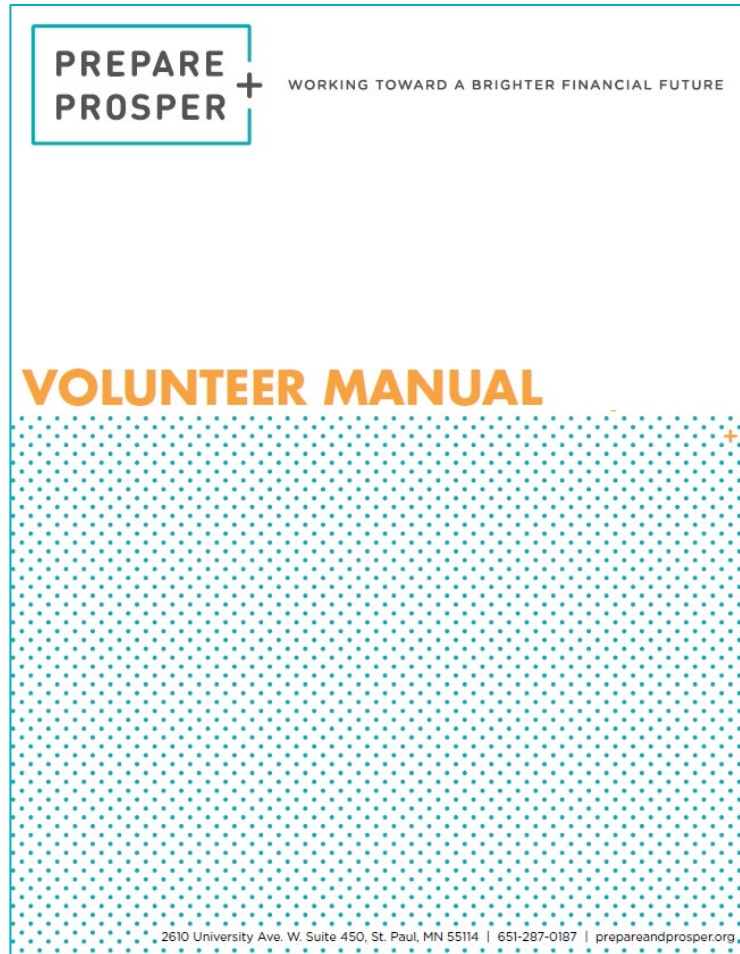
Prior year returns



GOALS FOR TODAY

- You are familiar with the power of credits on a family's financial situation.
- You can identify refundable and nonrefundable income tax credits claimed by our customers.
- You are aware of uncommon tax situations that require special tax forms.

REMINDER: FOLLOW ALONG!



CREDITS AND PAYMENTS



WHAT ARE TAX CREDITS?

- Credits provide tax benefits for certain life situations or expenses
- Two types of credits
 - **Nonrefundable:** can be used to pay income tax
 - **Refundable:** can be used to pay income tax or other taxes, and the taxpayer receives any amount greater than tax

PAYMENTS

- Refundable tax credits are considered payments
- Income tax withheld
- 2023 estimated tax payments and refunds applied from a 2022 return to 2023 taxes



TAX WITHHOLDING

- Employees often pay taxes by withholding a portion of their pay
- Amounts go directly to the IRS and state department of revenue
- Withholding is based on:
 - The employee's Form W-4 given to the employer
 - The income amount each pay period
- Form W-4 guides employers to withhold taxes matching the expected tax an employee will owe on annual income

TAX WITHHOLDING CONSIDERATIONS

- **Update Form W-4:** Life events may change employee tax situations and withholding must be adjusted
- **No tax withheld:** Can create a large balance due if income is high enough to owe taxes
- **Multiple jobs:** Can complicate the withholding calculation; employers withhold based only on the income from their company



Taxpayers can use the IRS withholding estimator throughout the year to better predict their withholding.

POWER OF TAX CREDITS



Providing an economic boost

Support for low-to-moderate income families lifting millions people out of poverty each year.



Helping with emergencies

Billions of dollars in direct financial aid to people facing health and financial emergencies during the pandemic.



Supporting basic needs

Tax refund dollars flow into local economies when families catch up on bills, pay down debt, and make important purchases.



Offering a savings opportunity

Tax refunds can amount to 30% of a family's incoming funds during the year and provide a chance to build emergency or long-term savings.



EARNED INCOME CREDIT





EIC MAXIMUM CREDIT

# of qualifying children	Single/head of household, income less than:	Married filing jointly, income less than	Maximum Credit:
0	\$17,640	\$24,210	\$600
1	\$46,560	\$53,120	\$3,995
2	\$52,918	\$59,478	\$6,604
3+	\$56,838	\$63,698	\$7,430



EARNED INCOME

Includes

- Wages, salaries, and tips
- Net earnings from self-employment
- Union Strike benefits
- Military combat pay (out of scope)

Doesn't Include

- Public Benefits
 - Social Security, SSI, welfare
- Other income, such as:
 - Unemployment
 - Alimony and child support
 - Interest on bank accounts
- Non-taxable earned income
 - Payroll deductions for dependent care or retirement plans



WHO CAN CLAIM THE EIC?

RULES FOR EVERYONE

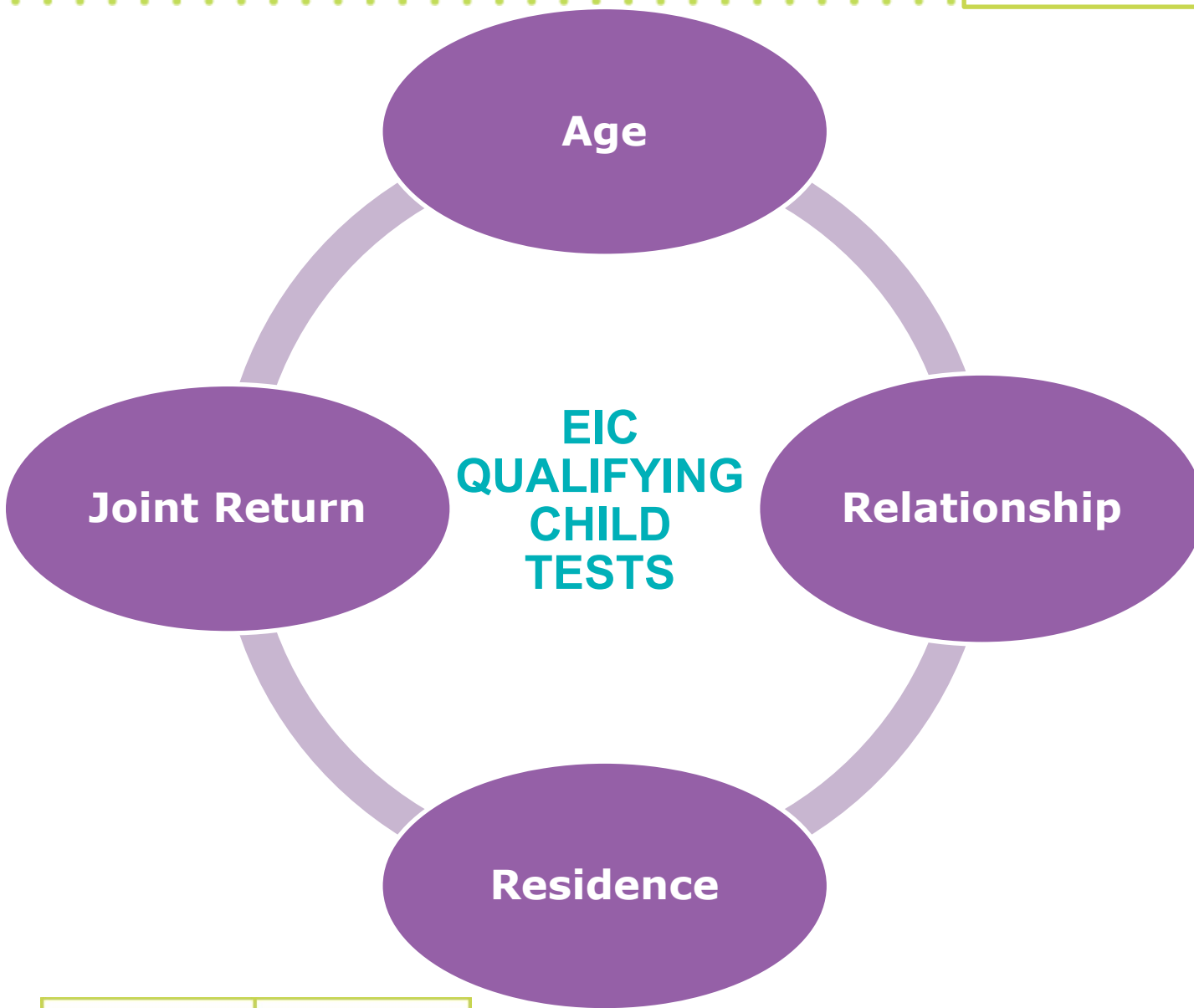
- Must have valid Social Security Number
- U.S. citizen or resident alien all year
- Investment income less than \$11,000
- Cannot be a Qualifying Person of another person



EIC FOR TAXPAYERS WITH CHILDREN

RULES WITH A QUALIFYING CHILD

- Must meet the “Rules for Everyone”
- Have a Qualifying Child
- Qualifying Child cannot be used by more than one person for purposes of the EIC
- A Qualifying Child for EIC does not need to be claimed as a dependent



- No test based on income or support
- A qualifying child for EIC does not have to be a dependent



EIC FOR TAXPAYERS WITHOUT CHILDREN

RULES WITHOUT A QUALIFYING CHILD

- Must meet the “Rules for Everyone”
- Income under \$17,640 for a single filer or under \$24,210 for a married couple filing jointly
- At least age 25 and under age 65 at the end of the tax year
- Lived in the U.S. more than ½ the year
- Cannot be the dependent or EIC Qualifying Child of another person



MINNESOTA CHILD AND WORKING FAMILY CREDITS





CHILD AND WORKING FAMILY CREDITS

- Two-part refundable credit
 - Working Family Credit
 - Minnesota Child Tax Credit
- Credit was redesigned for tax year 2023
 - Lower-income taxpayers with children will receive more support
 - In previous years, the Working Family Credit was very similar to the federal Earned Income Credit



GENERAL CWFC GUIDELINES

- Must be a full or part-year resident of Minnesota
- Investment income under \$11,000
- Taxpayer cannot be a dependent or Qualifying Child of another taxpayer
- Taxpayer, spouse, and all dependents must have Social Security numbers or ITINs
- Filers using the MFS filing status do not qualify

WORKING FAMILY CREDIT: NO QUALIFYING CHILD

- Taxpayers with no qualifying child may claim the credit
- Maximum credit is \$350
- Must be between age 19 and 64
- Must have earned income
 - Income between \$1 and \$29,500 (\$35,000 for MFJ)
 - Phases in at lower incomes; phases out at higher incomes



CWFC – QUALIFYING CHILD

- Rules are similar to Qualifying Child dependency rules
- Child must have:
 - Lived with the taxpayer for more than half the year
 - Be the taxpayer's child, stepchild, foster child, sibling, or descendent of any of them
 - Have a Social Security number or ITIN
 - Be under age 18 or meet the age requirements to be a Qualifying Older Child



MN CHILD TAX CREDIT

- Taxpayers can claim a refundable credit of up to \$1,750 per child
 - There is no limit to the number of children a taxpayer can claim for this portion of the credit
 - Credit phases out gradually with income above \$29,500 (or \$35,000 if MFJ)
- Children must be under age 18
- Taxpayers with earned income can also claim up to \$350 of Working Family Credit



WFC FOR QUALIFYING OLDER CHILDREN

- Taxpayers can claim a refundable credit for up to three qualifying older children
 - The maximum credit is based the number of children claimed
 - Credit phases out gradually with income above \$29,500 (or \$35,000 if MFJ)
- Older children must be
 - Over age 17 and totally and permanently disabled
 - Between age 18 to 23 and a full-time student

One qualifying older child	Two qualifying older children	Three qualifying older children
\$925	\$2,100	\$2,500



CWFC EXAMPLE: CHARLIE'S FAMILY

Charlie's tax situation:

- Head of Household
- Twins, age 12, and one child in college, age 22
- All income is from a job -- \$28,950

\$350 (WFC based earned income)

+ **\$925** (WFC for one qualifying older child)

+ **\$3,500** ($\$1,750 \times 2$ qualifying children for the MNCTC)

\$4,775 total Child and Working Family Credit



CHILD TAX CREDIT





CHILD TAX CREDIT

- Most families with children will qualify
- Nonrefundable credit of up to \$2,000 per child
- Eligible children follow the **Qualifying Child** dependency rules plus:
 - Child must be under age 17
 - Child must have a Social Security number





ADDITIONAL CHILD TAX CREDIT

- A refundable credit equal to the unused portion of the Child Tax Credit
 - Maximum Additional Child Tax Credit is \$1,600 per child
- To qualify a taxpayer must:
 - Have taxable earned income over \$2,500 or may
 - Have 3+ children to be eligible regardless of income



CREDIT FOR OTHER DEPENDENTS

- Available for dependents who don't qualify for Child Tax Credit
- Nonrefundable credit of up to \$500 per qualifying dependent
- Eligibility rules follow dependency rules with the addition that the dependent must live in the U.S.





CHILD AND DEPENDENT CARE CREDIT





CHILD AND DEPENDENT CARE CREDIT

- Nonrefundable federal credit for expenses paid for childcare or adult daycare
- Must have a qualifying person:
 - Child under age 13 and claimed as a dependent
 - Person who is physically/mentally incapable of self-care





DEPENDENT CARE CREDIT: QUALIFYING EXPENSES

- Expenses paid by the taxpayer or spouse to work or look for work, including
 - Daycare programs for a qualifying person
 - Nursery school or preschool for children below level of kindergarten qualifies
 - Day camp (overnight camp does not qualify)
- Report employer dependent care benefits on Form W2
 - Include amounts on the dependent care form to show benefits were used to pay for care
 - These amounts do not qualify a taxpayer for the credit



DEPENDENT CARE CREDIT: QUALIFYING PROVIDER

- Most childcare providers offer a statement listing the amount paid, EIN, and address
 - Individual providers offer their Social Security number
- Payments cannot be made to a taxpayer's dependent
- Payments to a taxpayer's child qualify if the child:
 - Is age 19+ by the end of the year, and
 - Cannot be claimed as a dependent



MN DEPENDENT CARE CREDIT

- Credit is refundable
- Rules for qualifying person and provider match federal definitions
- Special Minnesota Rule:
 - Parents with a child born in 2023
 - Calculate the maximum credit even if no childcare expenses were made



10 MINUTE BREAK



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FEDERAL EDUCATION CREDITS





WHO'S ELIGIBLE?

- Taxpayers claiming a student completing post-secondary education
- Students completing post-secondary education
 - Students claimed as a dependent cannot claim the credit
- Information reported on Form 1098-T

<input type="checkbox"/> CORRECTED FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number HAMLINE UNIVERSITY 1536 HEWITT AVE ST. PAUL, MN 55104		1 Payments received for qualified tuition and related expenses \$ 14,756 2	OMB No. 1545-1574 Form 1098-T	Tuition Statement Copy B For Student This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.
FILER'S employer identification no. 58-4567552	STUDENT'S TIN 123-33-3333	3	4 Adjustments made for a prior year \$	
STUDENT'S name RENEE KING		5 Scholarships or grants \$ 8,745	6 Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 includes amounts for an academic period beginning January–March 2020 <input type="checkbox"/>
Street address (including apt. no.) 200 3RD AVE N		8 Check if at least half-time student <input checked="" type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code BROOKLIN PARK, MN 55429		10 Ins. contract reimb./refund \$		
Service Provider/Acct. No. (see instr.)				
Form 1098-T (keep for your records)		www.irs.gov/Form1098T	Department of the Treasury - Internal Revenue Service	



EDUCATION CREDITS OVERVIEW

American Opportunity

- Up to \$2,500 per student
- 40% of the credit may be refundable (up to \$1,000)
- Available for the first 4 years of college

Lifetime Learning

- Up to \$2,000 per return
- Nonrefundable
- Available for an unlimited number of years



TAXABLE AND NONTAXABLE SCHOLARSHIPS



**Scholarships
and grants**



used to pay
qualified expenses



Nontaxable income: Include as nontaxable income on a *student's* Form M1PR when applicable.

used to pay living
expenses



Taxable income: Report as taxable income on the *student's* return.

This is a generalization—there are a lot of special rules for education credits!

Watch the Education Credits online training and review the information in your P+P tax manual to learn more!



MINNESOTA'S EDUCATION CREDITS

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MN STUDENT LOAN CREDIT

- Nonrefundable credit of up to \$500
 - \$1,000 if MFJ and both spouses qualify
- Calculated on student *loan payments*
 - Federal deduction is based on *interest paid*
- Credit calculation also requires the amount of the original loan





K-12 EDUCATION CREDIT

- Refundable credit of 75% of qualifying K-12 education expenses
- Must have qualifying child in grades K-12 at a public, private, or home school
- Credit was updated to have higher income limits and a max credit of \$1,500 starting in 2023



The taxpayer cannot use the same expenses for both the K-12 credit and the K-12 subtraction.



K-12 SUBTRACTION VS. CREDIT

	SUBTRACTION	CREDIT
INCOME	No income limit	AGI at or below \$76,000*
CHILD	a) Taxpayer's child, adopted child, stepchild, grandchild or foster child b) Lived with the taxpayer in the U.S. for > ½ the year	a) Same as EIC b) Lived with the taxpayer in the U.S. for > ½ the year
FILING STATUS	Any filing status	Cannot be MFS
MAXIMUM TAX BENEFIT	\$1,625 subtraction per child in grades K-6 \$2,500 subtraction per child in grades 7-12	\$1,500 refundable credit per child *\$76,000 is the income limit for a household with 1 or 2 qualifying children. For each additional child add \$3,000.



K-12 CREDIT & SUBTRACTION ELIGIBLE EXPENSES

- Expenses must be to improve or expand knowledge and skills in core subjects
- Some expenses need a qualifying instructor
- Private school tuition qualifies for subtraction only
- Up to \$400 for computer software and hardware expenses
 - \$200 max for the credit
 - Additional \$200 max for the subtraction



K-12 EDUCATION CREDIT + RECEIPTS

- Not required to have receipts at the tax clinic, but must have access to them
 - No receipts, no credit
 - Minnesota Revenue often asks for verification
- Remind the taxpayer to keep receipts for 2024!





**ACTIVITY:
PARR FAMILY K-12 CREDIT**

USE THE ACTIVITY HANDOUT



PARR FAMILY

- Helen and Bob Parr are interested in claiming the Minnesota K-12 education credit on their tax return. They meet the income levels to qualify.
- Their daughter Violet is a junior in high school, their son Dash is currently 10 years old, and their son Jack-Jack is 1.
- They have a shoebox for receipts with a list of all their expenses.

ACTIVITY ANSWERS

VIOLET PARR

School supplies	\$84	Qualifies
Textbooks for AP Science and Math	\$110	Qualifies
Dance lessons at Arabesque Dance School	\$650	Qualifies
Saxophone rental and reeds	\$67	Qualifies
Band uniform rental	\$50	DOES NOT qualify

JACK-JACK PARR

Loving arms Daycare	\$13,260	DOES NOT qualify; qualifies for Child and Dependent Care Credit
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PARR FAMILY EXPENSES

Computer for homework	\$550	Qualifies up to \$200 for the credit and \$200 for the K-12 subtraction
Internet for homework	\$624	DOES NOT qualify

DASH PARR

School supplies	\$106	Qualifies
Field trips to the Mill City Museum and Science Museum	\$40	Qualifies
Track shoes	\$50	DOES NOT qualify
Young Runners of Minnesota Camp	\$350	DOES NOT qualify

OTHER CREDITS

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FEDERAL RETIREMENT SAVINGS CREDIT

- Nonrefundable credit of up to \$1,000
- Credit equals a percentage of contributions to a retirement account, including:
 - Traditional IRA or a Roth IRA contributions
 - Contributions to employer-sponsored plan
- Taxpayer must be age 18 or older and cannot be a fulltime student
- Income thresholds for the credit are narrow





PREMIUM TAX CREDIT (PTC)

- Taxpayers must have Form 1095-A
- The PTC is refundable and lowers the cost of health coverage purchased through MNsure
- MNsure coverage is available as a metal level plan (bronze, silver, gold or platinum)
- MinnesotaCare and Medical Assistance plans do not qualify for the credit
 - Application for these state sponsored plans is completed on the MNsure website



The PTC is an advanced tax topic. Learn more in the P+P Volunteer Tax Manual or in Publication 4012.



OTHER CREDITS

- Foreign Tax Credit (federal)
- Credit for Taxes Paid to Another State (MN)
- Credit for Long-term Care Insurance Premiums (MN)
- Parents of Stillborn Children (MN)
- Credit for Past Military Service (MN)
- Marriage Credit (MN)
- Credit for Attaining a Master's Degree in a Teacher Licensure Field (MN)
- Education Savings Account Contribution Credit (MN)

AMENDMENTS AND PRIOR YEAR RETURNS



AMENDMENTS

- Taxpayers may not file more than one *original* return for the same tax year
- Changes to an original tax return require an amendment
 - Form 1040X, M1X, or M1PRX
- Based on the original return that was filed and tracks changes

P+P SUMMER AMENDMENT POLICIES

- P+P will prepare amended returns for any year when the original return was filed at P+P
 - Taxpayer should complete an Amendment Request form or contact staff at the main office
- Amended returns not originally filed at P+P
 - Completed at the self-employment clinic
 - An appointment is required

RETURN DEADLINES

- Income tax returns: April 15, 2024
- Property tax refunds: August 15, 2024
- Late filing
 - Extensions to file available until October 15, 2024
 - Late *income tax* returns with a *balance due* will incur penalties and interest
 - **Last date to claim an *income tax refund*** is three years after the original deadline
 - **Last date to claim a *property tax refund*** is one year after the original deadline

PRIOR YEAR RETURNS

- Prior year returns for 2018 through 2022 can be prepared in TaxSlayer
 - 2018, 2019, and 2020 returns must be paper-filed
 - Older returns cannot be filed at P+P
- Use prior year publications when preparing prior year returns
 - Tax law changes each year
 - TaxSlayer will help with accurate calculations

2022 TAX LAW HIGHLIGHTS

- Minnesota Frontline Worker Pay was issued to some taxpayers
 - Payment was federally taxable and subtracted out from MN income
- K-12 credit had a much lower income threshold than the current credit – fewer taxpayers qualified
- Renters and homeowners received a one-time increase to property tax refunds
- Homeowners with ITINs became eligible to receive homestead status



2021 TAX LAW HIGHLIGHTS

- Recovery Rebate Credit helped people claim the third round of pandemic stimulus payments
- Many temporary credit expansions:
 - Earned Income Credit
 - Child Tax Credit
 - Child & Dependent Care Credit
- Federal adjustment for taxpayers who made cash charitable contributions



2020 TAX LAW HIGHLIGHTS

- Deduction for unemployment compensation
- Recovery Rebate Credit helped people claim round one and round two stimulus payments
- Earned Income Credit could be calculated using 2019 earned income
- Special pandemic rules for retirement distributions



ACA: PRIOR YEAR HIGHLIGHT

- In tax years 2014-2018 the Affordable Care Act required all taxpayers to report information about health insurance
- If a 2018 return must be completed:
 - Use prior year reference materials
 - Work with a manager or experienced volunteer if situation is uncertain



PAPERWORK FOR MULTIPLE YEARS OF RETURNS

- Some taxpayers need to catch up on filing
- Each year should have a separate envelope to sort tax documents by year
- Each year should have a Volunteer Checklist
- Intake paperwork requirements:
 - Similar tax situation across all years: Use original intake paperwork and note any differences
 - Tax situation changed significantly across years: make copies of IRS and P+P intake sheets for each year, label with the tax year, and update info

WRAP UP

PREPARE + PROSPER



NEXT STEPS AFTER BASIC D

- View self-paced online courses
 - prepareandprosper.moodlecloud.com
- Do a practice tax return in the TaxSlayer Practice Lab
- Continue working on your certification test!
- Attend Basic E: Form M1PR & Special Tax Forms



THANK YOU!

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