

P+P 2023 TAX TIP 1: FRONTLINE WORKER PAY

Intro to Minnesota Frontline Worker Pay

In 2022, the state of Minnesota issued Frontline Worker Pay to eligible workers. Workers had to apply in June and July to receive a payment and the state determined the amount of the payment based on the total number of eligible applicants. **All eligible applicants received \$487.45 in October.** Many P+P customers qualified for these payments. There is no tax form or letter as documentation, so watch carefully for the answer to the Frontline Worker Pay question on the P+P Tax Intake Sheet.

The payments must be entered as federal taxable income, subtracted from state taxable income, and subtracted from state household income (used to figure some MN credits).

TaxSlayer Data Entry Updates

At the time the P+P tax manual was printed, TaxSlayer did not have 2022 software available. **UPDATE THE INSTRUCTIONS ON PAGE 91** of your P+P manual to match the instructions on the following pages. Data entry is needed in up to four places depending on the taxpayer's situation.

1. Enter as federal taxable income

- Income entered in the Federal Section as Other Income >> Other Income Not Reported Elsewhere
- Select "Other Income" from the dropdown menu
- Enter "MN FRONTLINE WORKER PAY" as the description
- Enter 487 as the income amount
- DO NOT check the Earned Income box

Reviewers: Look at Schedule 1, line 8z to confirm the entry.

The screenshot shows the 'Other Income' data entry form in TaxSlayer. The form is titled 'Other Income' and indicates it belongs to the 'Taxpayer'. It contains the following fields and options:

- Other Income Description ***: A dropdown menu with 'Other Income' selected.
- Description of other income ***: A text input field containing 'MN FRONTLINE WORKER PAY'.
- Amount of other income ***: A text input field containing '\$487.45'.
- Earned Income**: A checkbox that is currently unchecked.

Below the input fields is a yellow informational banner with an exclamation mark icon and the text: 'Income reported here will carry to Line 8 of Schedule 1. Examples can include income reported on Form 1099-MISC, Boxes 3 and 8 as well as qualifying hobby related income to name a few.' At the bottom of the form are two buttons: 'CANCEL' on the left and 'CONTINUE' on the right.

2. Enter as a Minnesota Subtraction from taxable income

- Minnesota subtraction in the State Section >> Minnesota Return >> Subtractions from Income
- Scroll down to the bottom of the subtractions page
- Enter 487 in the box labeled "Payment from the Minnesota Frontline Worker Pay Program"

Reviewers: Look at Minnesota Schedule M1M, line 29 to confirm the entry.

Minnesota Return

Subtractions From Income

We have automatically carried over certain subtractions from income to your Minnesota return, however, Minnesota does not tax certain items of income that are taxed by the Federal Government. Enter the amounts to be subtracted to the extent they were included as income on your Federal tax return.

K-12 Education Expense Subtraction	<input type="button" value="BEGIN"/>
Deduction for Age 65 or Older/Disabled (Sch M1R)	<input type="button" value="BEGIN"/>
Education Savings account Contribution Subtraction	<input type="button" value="BEGIN"/>
First-Time Homebuyer Savings Account Subtraction	<input type="button" value="BEGIN"/>
Active Duty Military Pay	<input type="button" value="BEGIN"/>
Depreciation Subtraction	<input type="button" value="BEGIN"/>

Enter certain Interest and/or Dividends on US Obligations
\$

Enter the amount earned on an Indian Reservation
\$

scroll down!

\$

Volunteer mileage reimbursement subtraction.
\$

Payment from the Minnesota Frontline Worker Pay Program.
\$ 487.45

Itemized Deductions - Amount of mortgage interest reported on the Federal Schedule A that is from equity loan interest.
\$

Federal Adjustments not adopted by MN (Form M1NC)

3. Enter as a subtraction from MN household income on Schedule M1ED for the K-12 Credit

- Subtractions from household income in the State Section >> Minnesota Return (click pencil to edit) >> Credits >> K-12 Education Credit
- Enter -487 (include the negative sign) in the box labeled "Payment from the Minnesota Frontline Worker Pay Program as a negative amount"
- *Remember, this entry is not needed if the taxpayer does not claim the K-12 education credit.*

Reviewers: Look at Schedule M1ED, line 5b to confirm the entry. Confirm it is listed as a negative number and not an addition to income.

Minnesota Return

K12 Education Credit Schedule M1ED

You may qualify to receive a credit if you paid qualifying education-related expenses in 2022 for your qualifying children in grades K-12.

Are you eligible for the K-12 Education Credit?

Yes

No

Enter the total welfare received (including benefits from MFIP and MSA)

\$

Enter the payment received from the Frontline Worker Pay Program as a negative amount.

\$ -487.45

Enter PC hardware and educational software expenses up to the \$200 per family maximum. (If these are the only expenses you are claiming, you are still required to enter at least one student)

\$

If you entered an amount above for the PC Hardware and Education Software Expenses, you must complete at least one student information section below. If you have additional expenses, enter them in the student information section. You can add up to six (6) students

Student Information

4. Enter as a subtraction from MN household income on Form M1PR for the renters and homeowners credit

- Subtract from household income in the State Section >> Property Tax Refund >> Enter your total Household Income
- Scroll down to the Other Subtractions box and enter 487
- Enter "MN FRONTLINE WORKER PAY" as the description
- *Remember, this entry is not needed during the original preparation if the taxpayer is not filing a renters or homeowners credit.*
 - *If you are providing a purple Homeowner + Renter Info handout so the customer can submit their property tax information later, you can help ensure the Frontline Worker Pay is entered correctly by adding a note to the form.*

Reviewers: Look at schedule M1PR, line 10 to confirm the entry.

Minnesota M1PR Return

Your taxable income and allowable adjustments are automatically pulled to your Form M1PR. To complete Household Income section, you must enter any nontaxable income that is not included on your Federal return below.

Enter any Welfare, Minnesota Family Investment Program (MFIP) and General Assistance (GA) assistance payments you received
\$

Enter any Minnesota Supplemental Aid (MSA), Supplemental Security Income (SSI), and Group Residential Housing (GRH) assistance received
\$

Homeowners - Income of Persons other than spouse or renter
\$

Additional Retirement Account Subtraction
\$

If you are a Part Year Resident and you need to adjust the amount of nontaxable SSA Benefits being included in household, enter your adjustment below.

Adjustment to amount of nontaxable SSA benefits automatically calculated (The amount entered will automatically subtract from the calculated amount)
\$

COVID-related IRA distributions from prior years
\$

Other Subtractions
\$ 487.45

Description of Other Subtractions

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The payments must be entered as federal taxable income, subtracted from state taxable income, and subtracted from state household income (used to figure some MN credits).

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- Select "Other Income" from the dropdown menu
- Enter "MN FRONTLINE WORKER PAY" as the description
- Enter 487 as the income amount
- DO NOT check the Earned Income box

Reviewers: Look at Schedule 1, line 8z to confirm the entry.

The screenshot shows the 'Other Income' data entry form in TaxSlayer. The form is titled 'Other Income' and indicates it belongs to the 'Taxpayer'. It features a dropdown menu for 'Other Income Description' with 'Other Income' selected. Below this is a text field for 'Description of other income' containing 'MN FRONTLINE WORKER PAY'. The 'Amount of other income' field is set to '\$487.45'. There is an unchecked checkbox for 'Earned Income'. A yellow information banner at the bottom states: 'Income reported here will carry to Line 8 of Schedule 1. Examples can include income reported on Form 1099-MISC, Boxes 3 and 8 as well as qualifying hobby related income to name a few.' At the bottom of the form are two buttons: 'CANCEL' on the left and 'CONTINUE' on the right.

2. Enter as a Minnesota Subtraction from taxable income

- Minnesota subtraction in the State Section >> Minnesota Return >> Subtractions from Income
- Scroll down to the bottom of the subtractions page
- Choose "Yes" to answer the Minnesota Frontline Worker Pay Program question and the subtraction will automatically be added to the return.

Reviewers: Look at Minnesota Schedule M1M, line 29 to confirm the entry.

Subtractions From Income

We have automatically carried over certain subtractions from income to your Minnesota return; however, Minnesota does not tax certain items of income that are taxed by the Federal Government. Enter the amounts to be subtracted to the extent they were included as income on your Federal tax return.

K-12 Education Expense Subtraction	BEGIN
Deduction for Age 65 or Older/Disabled (Sch M1R)	EDIT
Education Savings account Contribution Subtraction	BEGIN
First-Time Homebuyer Savings Account Subtraction	BEGIN
Active Duty Military Pay	BEGIN
Depreciation Subtraction	BEGIN

Enter certain Interest and/or Dividends on US Obligations
\$

Enter the amount earned on an Indian Reservation
\$

 **scroll down!** 

Global intangible low-taxed income included in gross income under section 951A.
\$

If you are a resident of another state, enter your federal active service military pay, to the extent the income is federally taxable. Do not include military pensions.
\$

Volunteer mileage reimbursement subtraction.
\$

Itemized Deductions - Amount of mortgage interest reported on the Federal Schedule A that is from equity loan interest.
\$

Did you receive Payment from the MN Frontline Worker Pay Program? Note: the subtraction will automatically be calculated.
 Yes
 No

Federal Adjustments not adopted by MN (Form M1NC) BEGIN

3. Enter as a subtraction from MN household income on Schedule M1ED for the K-12 Credit

- Subtractions from household income in the State Section >> Minnesota Return (click pencil to edit) >> Credits >> K-12 Education Credit
- Enter -487 (include the negative sign) in the box labeled "Payment from the Minnesota Frontline Worker Pay Program as a negative amount"
- *Remember, this entry is not needed if the taxpayer does not claim the K-12 education credit.*

Reviewers: Look at Schedule M1ED, line 5b to confirm the entry. Confirm it is listed as a negative number and not an addition to income.

The screenshot shows the 'Minnesota Return' interface for the 'K12 Education Credit Schedule M1ED'. At the top, there are 'BACK' and 'CONTINUE' buttons. A light blue informational banner states: 'You may qualify to receive a credit if you paid qualifying education-related expenses in 2022 for your qualifying children in grades K-12.' Below this, the question 'Are you eligible for the K-12 Education Credit?' is asked, with 'Yes' and 'No' radio buttons; 'No' is selected. Three input fields follow: 'Enter the total welfare received (including benefits from MFIP and MSA)' with a '\$' symbol and an empty field; 'Enter the payment received from the Frontline Worker Pay Program as a negative amount.' with '\$ -487.45'; and 'Enter PC hardware and educational software expenses up to the \$200 per family maximum. (If these are the only expenses you are claiming, you are still required to enter at least one student)' with a '\$' symbol and an empty field. Another light blue banner explains: 'If you entered an amount above for the PC Hardware and Education Software Expenses, you must complete at least one student information section below. If you have additional expenses, enter them in the student information section. You can add up to six (6) students'. At the bottom, there is a 'Student Information' section with a 'BEGIN' button, and 'BACK' and 'CONTINUE' buttons.

4. Enter as a subtraction from MN household income on Form M1PR for the renters and homeowners credit

- Subtract from household income in the State Section >> Property Tax Refund >> Enter your total Household Income
- Scroll down to the Other Subtractions box and enter 487
- Enter "MN FRONTLINE WORKER PAY" as the description
- *Remember, this entry is not needed during the original preparation if the taxpayer is not filing a renters or homeowners credit.*
 - *If you are providing a purple Homeowner + Renter Info handout so the customer can submit their property tax information later, you can help ensure the Frontline Worker Pay is entered correctly by adding a note to the form.*

Reviewers: Look at schedule M1PR, line 10 to confirm the entry.

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\$

Enter any Minnesota Supplemental Aid (MSA), Supplemental Security Income (SSI), and Group Residential Housing (GRH) assistance received
\$

Homeowners - Income of Persons other than spouse or renter
\$

Additional Retirement Account Subtraction
\$

Co-Occupant Worksheet

If you are a Part Year Resident and you need to adjust the amount of nontaxable SSA Benefits being included in household, enter your adjustment below.

Adjustment to amount of nontaxable SSA benefits automatically calculated (The amount entered will automatically subtract from the calculated amount)
\$

COVID-related IRA distributions from prior years
\$

Other Subtractions
\$ 487.45

Description of Other Subtractions

2023 TAX TIP 2: DATA CONSENTS

P+P tax data consents

On the grey P+P tax intake sheet, customers respond to three consents to use their personal information. A “yes” response is not required for us to prepare a return. However, we cannot e-file a return or keep a copy of the customer’s return on record if they do not agree.

If a customer marks “no”, share that e-filing is not possible without these consents. Confirm that no personally identifying information is shared through the marketing, fundraising, or other activity, and that providing the consents helps P+P maintain services by receiving helping us report to funders about the work we do. Give the customer the option to change their response. Update the answers if needed.

IRS data consent

The data consent on page four of the IRS intake sheet allows global carryforward (any free tax prep site can pull forward basic return data for the customer when they file next year).

This consent does not need to be signed. Customers may sign to opt-in or leave it blank to opt-out, and it does not impact their return filing in any way this year.

TaxSlayer Data Entry

Consent information is tracked in the E-File section of TaxSlayer. Mark each P+P consent and the IRS consent as “Accept” or “Decline” based on the customer’s responses on the intake sheets. As the PIN number, enter the customer’s zip code.

Financial Services consents

On the green boost your money sheet, a customer sign to agree to the consent to use and share their information for products or services. For example, a customer must sign the consent to enter the Save + Win contest or get connected with a financial planner.

PERMISSION TO USE YOUR INFORMATION

Review the Prepare + Prosper (P+P) Permission to Use Your Information handout.

If you choose “no” for any of the consents below, P+P cannot e-file your tax return, and you will receive paper copies to sign and mail.

- P+P may keep an electronic copy of my tax return for 3 years. Yes No
- P+P may use anonymous data containing tax return dollar amounts for marketing, fundraising, or other non-fundraising activity. Yes No
- P+P may disclose my tax return information to TaxSlayer (our tax preparation software) to e-file my tax return, and TaxSlayer may disclose my tax return information to P+P for follow-up. Yes No

Taxpayer signature _____ Date _____

Spouse signature _____ Date _____

Department of the Treasury - Internal Revenue Service

Form **15080**
(October 2022)

Consent to Disclose Tax Return Information to VITA/TCE Tax Preparation Sites

Federal Disclosure:
Federal law requires this consent form be provided to you. Unless authorized by law, we cannot disclose your tax return information to third parties for purposes other than the preparation and filing of your tax return without your consent. If you consent to the disclosure of your tax return information, Federal law may not protect your tax return information from further use or distribution.

You are not required to complete this form to engage our tax return preparation services. If we obtain your signature on this form by conditioning our tax return preparation services on your consent, your consent will not be valid. If you agree to the disclosure of your tax return information, your consent is valid for the amount of time that you specify. If you do not specify the duration of your consent, your consent is valid for one year from the date of signature.

Terms:
Global Carry Forward of data allows TaxSlayer LLC, the provider of the VITA/TCE tax software, to make your tax return information available to ANY volunteer site participating in the IRS’s VITA/TCE program that you select to prepare a tax return in the next filing season. This means you will be able to visit any volunteer site using TaxSlayer next year and have your tax return populate with your current year data, regardless of where you filed your tax return this year. This consent is valid through November 30, 2024.

Taxpayer Consent

Disclose additional information to the taxpayer.

Return Details | Fee Summary | State ID License | **Taxpayer Consent** | Custom Questions | Custom Credits | Submission Page

Basic Information | Federal Section | Health Insurance | State Section | Summary/Print | E-file | 2022 Amended Return | Your Office | Help & Support | Save & Exit Return

P+P Consent to Disclose

Prepare + Prosper may keep an electronic copy of my tax return for 3 years. Information will be used to carry forward data for future tax preparation and program specific communication between P+P and me.

3 years- Purpose: To carry forward data for future tax preparation and program specific communication between Prepare + Prosper and me.

Accept I/We, the Taxpayer have read the above information. By typing in my/our taxpayer PIN(s) and checking this input, I/We hereby **GRANT** consent to “P+P Consent to Disclose” as stated above.

Decline I/We, the Taxpayer have read the above information. By checking this input, I/We hereby **deny** consent to “P+P Consent to Disclose” as stated above.

Taxpayer Primary PIN *

Primary PIN Date *

I am not interested in any of the programs or services outlined here.

Consent to share information: By signing below, I give Prepare + Prosper consent to share the above contact information with the organization(s) I am requesting referrals for. Your consent is valid for one year from today.

Signature: _____ Date: _____

2023 TAX TIP 3: MINNESOTA K-12 CREDIT AND SUBTRACTION

Overview of Minnesota K-12 student tax benefits

Minnesota supports families with students in grades Kindergarten through 12th grade by providing a tax credit or subtraction based on expenses that were paid to help a child improve or expand their knowledge and skills in the core subjects taught in public schools. Students who attend public, private, or home school may qualify.

The credit will always be more beneficial than the subtraction if the family qualifies. Use the summary table below to review who qualifies for each tax benefit.

	K-12 CREDIT	K-12 SUBTRACTION
INCOME	Household income at or below \$37,500 with up to 2 qualifying children. For each additional child add \$2,000.	No income limit
QUALIFYING CHILD	<ul style="list-style-type: none"> • Same as EIC • Lived with the taxpayer in the U.S. for over half the year 	<ul style="list-style-type: none"> • Taxpayer’s child, adopted child, stepchild, grandchild or foster child • Lived with the taxpayer in the U.S. for over half the year
FILING STATUS	Cannot be Married Filing Separately	Any filing status
MAXIMUM TAX BENEFIT	\$1,000 refundable credit per child. The credit is based on 75% of the expenses paid.	<ul style="list-style-type: none"> • \$1,625 subtraction per child in grades K-6 • \$2,500 subtraction per child in grades 7-12

Qualifying Expenses

Use the P+P volunteer tax manual (page 160) and the blue M1 instruction booklet to identify which expenses qualify and which do not. A few reminders:

- No receipts means no credit. The receipts do not need to be at the tax site, but the customer must have access to them, because this is a highly audited credit.
- Some common expenses *do not qualify*. For example, backpacks, school lunches, sports fees/equipment, school uniforms, and home internet access do not qualify.
- Computer hardware or software expenses have a family maximum of \$200 for the credit and an additional \$200 for the subtraction.

TaxSlayer Data Entry

Entering the credit or the subtraction in TaxSlayer requires additional data entry based on information you get from the taxpayer. **TaxSlayer does not automatically determine the best benefit.** You must determine eligibility and enter the expenses in the correct location – as a credit or as a subtraction (or both).

For the credit: Follow the instructions on page 161 and 162 of the P+P volunteer tax manual. Expenses must be categorized and allocated to a specific student.

When claiming the credit, you must enter any household income listed on the P+P intake sheet to correctly calculate the credit.

For the subtraction: Follow the instructions on page 147 of the P+P volunteer tax manual. TaxSlayer does not limit expenses automatically. Determine the maximum subtraction for the family, and do not enter expenses above that amount.

Take Notes!

Taxpayers may bring receipts or may share amounts verbally. Make sure you take notes about the total qualifying expenses on the intake sheets! It's important for tax preparers to write down what they learn so the reviewer can use this information to double-check the data entry.

Credit outreach

Ask about school expenses and promote the Minnesota K-12 Education Credit to everyone with school aged kids. Some taxpayers may not know about the credit or may forget to save their receipts. You can provide a receipt saver envelope from the Minnesota Department of Revenue as a reminder to save expense documentation for next year. All sites have receipt envelopes and K-12 flyers showing a basic list of what expenses qualify.



Real life examples! *With the names and details changed slightly for privacy!*

Milo had never heard of the K-12 credit. This year he learned that he could claim it for piano lessons that his son has been taking. He claimed a \$450 K-12 Credit this year and will amend two prior year returns to claim the credit.

Shawna made \$48,000 and saved receipts for school expenses, tutoring, and a math camp that her twin 5th graders attended. The preparer diligently noted all the information on the intake sheets and entered student information and expenses in TaxSlayer in the K-12 Credit section. No credit was calculated because Shawna's income is too high to claim the credit. The reviewer had to delete the credit entries and enter the amounts for the K-12 Subtraction instead.

Ericka's two kids were in 10th and 11th grade and went to private school. The preparer correctly identified that the tuition does not qualify for the credit but does qualify for the subtraction. Ericka paid \$9,000 per child, and the preparer entered the full \$18,000 in the K-12 Subtraction section. The reviewer had to adjust the amount, and Ericka's refund was significantly lowered with the maximum subtraction of \$5,000 for two children in grades 7-12.

2023 TAX TIP 4: PRIOR YEAR HIGHLIGHTS

There are some very important prior year tax issues that you will encounter when preparing 2020 or 2021 tax returns. More information is available in the Prior-Year Returns section of the P+P volunteer tax manual and publications for prior tax years. This tax tip covers highlights of:

- Recovery Rebate Credits: tax year 2020 and 2021
- Advance Child Tax Credit: tax year 2021
- Earned Income Look Back option: tax year 2020 and 2021 (for calculating the Earned Income Credit and Additional Child Tax Credit)

Economic Impact Payments and Recovery Rebate Credit

In 2020 and 2021, many taxpayers automatically received Economic Impact Payments for each person on their tax return. These payments are commonly called COVID-19 stimulus payments. The Recovery Rebate Credit allows taxpayers who did not receive their full stimulus payment to claim the funds.

Stimulus payments came in three rounds. The list below states the time frame and amount taxpayers should have received:

- Round 1 sent in 2020 was \$1,200 per taxpayer and \$500 per CTC qualifying dependent
- Round 2 sent in early-2021 was \$600 per taxpayer and CTC qualifying dependent
- Round 3 sent in mid- to late-2021 was \$1,400 per taxpayer and any dependent

Enter the stimulus payment amounts here: *Federal Section >> COVID-19 Relief >> Recovery Rebate Credit*. Write notes about the amount on the intake paperwork if the taxpayer does not provide a document. TaxSlayer automatically calculates any additional credit. A taxpayer will not need to repay any stimulus payment that were already received.

2020 Tax Returns: Determine the amount the taxpayer received for Round 1 and Round 2.

2021 Tax Returns: Determine the amount the taxpayer received for Round 3.

Advance Child Tax Credit

In 2021, the Child Tax Credit had a one-year expansion allowing older children to qualify and providing a larger, fully refundable credit. Each eligible child under age 6 qualified the taxpayer for a \$3,600 credit and each eligible child age 6 to 17 qualified the taxpayer for a \$3,000 credit. Most taxpayers with children received a portion of the credit as monthly Advance Child Tax Credit payments. The advance credit was usually equal to half of the total credit amount.



2021 example: A taxpayer claims three kids ages 8, 10, and 14 and received \$4,500 in advance payments. Payments came as monthly deposits of \$750 July to December. The taxpayer will claim an additional \$4,500 on the tax return. The total credit is \$9,000 (\$3,000 per child), and half was paid in advance and half is claimed when filing taxes.

When preparing a 2021 tax return, you must enter the advance credit amount in TaxSlayer. If the taxpayer does not bring a document showing the advance payments, write notes on the intake paperwork about how much they received. Entry is in the *Federal Section >> COVID-19 Relief >> Advance Child Tax Credit*.

Earned Income Look Back

Both the Earned Income Credit (EIC) and the Additional Child Tax Credit (ACTC) are calculated using "earned income". In tax years 2020 and 2021, taxpayers had the option to use 2019 earned income to figure the credits if their 2019 earned income was higher.

Using 2019 earned income to calculate EIC and ACTC may increase a refund for families who:

- Lost a job and had lower earned income in 2020 or 2021 in comparison to 2019
- Received unemployment benefits (not considered earned income) in 2020 or 2021

Do not consider using 2019 earned income to figure these credits if:

- A taxpayer will not qualify for the EIC or the ACTC
 - Example: a single filer who uses an ITIN or filers with income over the EIC limits based on family size
- 2019 earned income is lower than earned income in the year being filed
 - Remember: unemployment income is not considered earned income

The easiest way to find 2019 earned income is to look at the taxpayer's 2019 tax return. You can find it on Form 8812 or on Worksheet A or B for the EIC. Enter the amount in TaxSlayer here: *Basic Information >> Personal Information >> checkbox for 2019 Earned Income Election*. After you enter the amount in TaxSlayer, the software will compare credit calculations using both earned income figures and automatically choose the most beneficial option.

The screenshot shows the TaxSlayer interface. On the left is a navigation menu with 'Practice Lab' at the top, a 'Form Finder' search box, and a list of sections: 'Basic Information' (selected), 'Filing Status', 'Personal Information', 'Dependents/Qualifying Person', 'IRS Identity Protection PIN', 'Federal Section', 'Health Insurance', 'State Section', 'Summary/Print', 'E-file', and '2021 Amended Return'. The main area displays a list of checkboxes for various conditions. The checkbox for 'Taxpayer wishes to elect to use their 2019 earned income to figure their 2021 earned income credit and/or child tax credit.' is checked. Below this, there is a 'Designation *' field containing 'COVID19'. Further down, there are three input fields for '2019 Earned income for Disaster Victims' (with a value of \$16245.00), 'Taxpayer's 2019 Nontaxable Combat Pay' (with a value of \$), and 'Spouse's 2019 Nontaxable Combat Pay' (with a value of \$). At the bottom, there is an unchecked checkbox for 'Taxpayer has received, sold, sent, exchanged, or otherwise acquired financial interest in virtual currency during the current tax year.'

2023 TAX TIP 5: CLAIMING DEPENDENTS + HEAD OF HOUSEHOLD

Determining dependency and filing status are some of the most important decisions you make when preparing a tax return. Unfortunately, the rules get complicated! This tip covers reminders, but don't use it exclusively when working with a taxpayer! Rely on the more detailed information in the P+P volunteer tax manual and the interview charts in Publication 4012

Qualifying Child vs Qualifying Relative

As a basic qualification for claiming a dependent, the taxpayer cannot meet the tests to be claimed as a dependent by another taxpayer. Taxpayers may qualify to claim a dependent using two different sets of rules.

Qualifying Child Tests

The person the taxpayer wishes to claim must meet the six tests listed below.

1. **Relationship:** must be the taxpayer's child, sibling, or descendent of either
2. **Age** must be:
 - a. Under 19 and younger than the taxpayer, **OR**
 - b. A full-time student, under 24, and younger than the taxpayer, **OR**
 - c. Any age if permanently and totally disabled
3. **Residency:** must have lived with the taxpayer for more than half of the year
4. **Support:** person must not have provided more than half of their own support during the tax year
5. **Joint Return:** person cannot file a joint tax return (see exception above)
6. **Qualifying Child of More Than One Person:** if the rules to be a qualifying child of more than one taxpayer are met, must be claimed by the entitled person

Qualifying Relative Tests

The person the taxpayer wishes to claim must meet these two basic qualifications and the four tests listed below.

- Cannot file a joint tax return (unless only filing to claim a refund of income tax withheld or estimated tax paid).
 - Must be a US citizen, US resident alien, US national, or a resident of Canada or Mexico.
1. **Not a Qualifying Child:** the person cannot meet the six qualifying child tests
 2. **Relationship** to the taxpayer must be:
 - a. A child or a descendant of a child; sibling or child of a sibling; parent or ancestor or sibling of a parent; **OR**
 - b. A person who lived with the taxpayer all year as a member of their household
 3. **Gross Income:** person's gross income must be less than \$4,400 (this does not include nontaxable amounts)
 4. **Support:** the taxpayer must provide more than half of the person's support

Head of Household Filing Status

To claim the HOH filing status a taxpayer must pay for more than half the cost of keeping up a home for a Qualifying Person who lived with them for more than half the year. If the Qualifying Person is a parent, the parent does not need to live with the taxpayer.

The taxpayer also must be **unmarried** or **married but "considered unmarried"** for HOH purposes. To be "considered unmarried" the taxpayer must be filing a separate return from their spouse, and the spouse must not have lived with the taxpayer during the last six months of the tax year.

Keeping up the home for HOH

Pub 4012 has a worksheet on Page B-13 that helps define keeping up a home and can help you calculate if the taxpayer paid for more than half the expenses.

- Include: rent, mortgage payments, property tax payments, food costs, utilities payments, and other household expenses.
- Do not include: clothing, education, medical treatment, or vacations expenses

Taxpayers who receive public benefits like Minnesota Family Investment Payments (MFIP) or Supplemental Security Income (SSI) count these funds as money they pay toward keeping up the home.

Qualifying Person for HOH

The definition of who is a qualifying person is different for people who are actually unmarried and people who are married but "considered unmarried" for the purposes of HOH.

Qualifying person for unmarried taxpayers

- Qualifying Child who lived with the taxpayer more than half the year
- Parent who is a Qualifying Relative who lived with or separate from the taxpayer
- Qualifying Relative who lived with the taxpayer more than half the year and was a child or a descendant of a child; sibling or child of a sibling; parent or ancestor/sibling of a parent

Qualifying person for taxpayers who are "considered unmarried"

- A child who lived with the taxpayer more than half the year and can be claimed as a dependent

The definition of a Qualifying Person for taxpayers who are "considered unmarried" is very limited. The taxpayer may still claim a parent or grandchild as a dependent, but the person will not qualify them for HOH.

Special HOH Considerations

- **Custodial Parents** who meet all the other criteria will qualify to claim HOH even in years when a noncustodial parent claims a child for other tax benefits. Because of the residency requirement for HOH, a noncustodial parent cannot qualify.
- **TaxSlayer filing status changes** cause the state tax return to be deleted! So carefully review the HOH filing status

Using the IRS Intake Sheet

The IRS intake sheet and an interview with the taxpayer are your most valuable tools in determining filing status and dependency. The points below help define what tax rules you are testing with each question.

Part II – Marital Status and Household Information													
1. As of December 31, 2022, what was your marital status?		<input type="checkbox"/> Never Married <input type="checkbox"/> Married <input type="checkbox"/> Divorced <input type="checkbox"/> Legally Separated <input type="checkbox"/> Widowed		(This includes registered domestic partnerships, civil unions, or other formal relationships under state law) a. If Yes, Did you get married in 2022? <input type="checkbox"/> Yes <input type="checkbox"/> No b. Did you live with your spouse during any part of the last six months of 2022? <input type="checkbox"/> Yes <input type="checkbox"/> No Date of final decree _____ Date of separate maintenance decree _____ Year of spouse's death _____									
2. List the names below of:		• everyone who lived with you last year (other than your spouse) • anyone you supported but did not live with you last year											
												If additional space is needed check here <input type="checkbox"/> and list on page 3	
To be completed by a Certified Volunteer Preparer													
Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yy)	Relationship to you (for example: son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of US, Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/22 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	Is this person a qualifying child/relative of any other person? (yes/no)	Did this person provide more than 50% of his/her own support? (yes,no,n/a)	Did this person have less than \$4,400 of income? (yes,no,n/a)	Did the taxpayer(s) provide more than 50% of support for this person? (yes/no/n/a)	Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? (yes/no)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)					
	3	4	5	6	7	8	9	10	11	12	13	14	

- Any marital status could be eligible to claim HOH as long as the taxpayer meets the other qualifications
- Living with a spouse any time Jul-Dec of the tax year disqualifies married taxpayers from claiming HOH
- Age test to be a Qualifying Child
- Relationship tests to be a Qualifying Child or a Qualifying Relative AND determination of qualifying person for HOH
- Residency test to be a Qualifying Child and the relationship test to be a Qualifying Relative AND determination over half the year residency for HOH
- Basic qualifications to be a Qualifying Relative
- Joint return test to be a Qualifying Child or basic qualifications to be a Qualifying Relative
- Age test to be a Qualifying Child, and may be a clue to correcting #5 since being out of the home for school is a temporary absence
- Age test to be a Qualifying Child (be sure to check Qualifying Child tests before Qualifying Relative tests for adult dependents with a disability)
- Qualifying child of more than one person test to be a Qualifying Child, and may be a clue to discuss special tax rules for divorced and separated parents
- Support test to be a Qualifying Child
- Gross income test to be a Qualifying Relative
- Support test to be a Qualifying Relative
- Home upkeep qualification for HOH

2023 P+P TAX TIP: HOMESTEAD CREDIT FOR HOMEOWNERS

In March, Minnesota counties distribute final property tax statements to homeowners. These statements are used to prepare the Homestead Credit Refund for Homeowners on Form M1PR.

2023 Property Tax Statement

The 2022 refund for homeowners is based on the final 2023 property tax statement. Don't use a valuation notice, proposed statement, or 2022 statement.

Most counties make statements available online as well as sending them by mail. Each county website is a bit different, but generally you can look up a statement using the address or the property ID number. The links to county property tax look-up websites are saved on all P+P laptops in the "Computer Links" document.

Important things to look for on a statement

- Delinquent property taxes: Statements have a checkbox to indicate if any taxes are past due. If a homeowner has delinquent property taxes, they do not qualify for the refund until those taxes are paid.
- Special property tax refund: Homeowners who had an increase in their property taxes and lived in the same home 1/2/22 and 1/2/23 may qualify for a "Special Refund" in addition to the regular refund.

Data entry

TaxSlayer separates the data entry for the property tax statement into several screens. If you get "State Validation Errors" for Form M1PR, return to the Property Tax Statement entries to check your work. Review the tricky data entry by looking at the sample property tax statement and TaxSlayer entry screens in the P+P volunteer tax manual on pages 177-178.

Special Situations

Mobile home owners: Property tax statements for mobile home owners usually come later in the year. These homeowners usually have a CRP for lot rental *and* a property tax statement. They should not file as a renter with only the lot rental.

Co-occupant income: Homeowners who live with another person must include the income of the other person when figuring the homestead credit (with exceptions for dependents, parents, and some others). Use the co-occupant worksheet in TaxSlayer. If the co-occupant income isn't available during the tax appointment provide the taxpayer with a Homeowner + Renter Info handout and print a copy of the worksheet from page 31 of the M1PR Instruction booklet.

Additional Resources

- P+P Tax Manual - pages 167-170 and 175-179
- MN Department of Revenue M1PR Instruction Booklet – bookmarked in the "Computer Links" document on all P+P computers and available on the MNDOR website
- P+P Homeowner + Renter Info handout – available on site and on P+P's website for customers who do not have all the information to file Form M1PR

2023 P+P TAX TIP: BALANCE DUE RETURNS

Generally, there's nothing wrong with owing taxes! It means that someone didn't pay enough taxes throughout the year and instead needs to pay by Tax Day. It's important for you to understand the reasons someone may owe taxes and their options for paying.

Reasons for a balance due

The exact reason for owing is different for every taxpayer, but here are some common reasons:

Not enough tax paid during the year

- Many people pay taxes in advance by withholding tax from each paycheck. If the withholding is set too low based on their total income, there won't be enough tax paid during the year. This is common when taxpayers have multiple jobs. Taxpayers can increase their withholding by talking with their employer.
- Self-employed taxpayers may be surprised by SE tax that is calculated based on their earnings (in addition to the income tax calculated). Taxpayers can start making estimated tax payments to avoid owing at tax time in the future.

A change in income

- Higher income or a different kind of income can cause a balance due because of higher tax rates, self-employment tax, or lower tax credit amounts.
- Lower income or a different kind of income can have an impact on tax credit calculations, like the Earned Income Tax Credit or Working Family Credit.

A change in dependents

- Dependents may qualify taxpayers for many different tax benefits. Removing a dependent who now files independently or is claimed by someone else can have a big tax impact!

A change in eligibility for tax credits

- Several tax credits expanded greatly for Tax Year 2021 only, so taxpayers may have qualified last year but not this year with no change in circumstance – use the credit comparison charts in the reviewer box to help explain these changes to taxpayers.
- A change in income that ends eligibility for the EITC (or lowers credit amount), like higher income, lower income, more unearned income (like unemployment).
- Child no longer qualifies the taxpayer for the Child Tax Credit
- Taxpayer or a child is no longer a student and doesn't qualify for education credits.

Payment options

P+P has a **Paying a Balance Due handout** to use with taxpayers during the checkout process or when explaining options for payment. The handout aids you with covering details about a balance due and supports the taxpayer after their appointment.

Direct debit withdrawal dates can be scheduled as late as Tax Day. Discuss this option with taxpayers, and if direct debit is a good fit, help them fill out and sign the balance due section on the P+P intake sheet. Make sure the taxpayer chooses the withdrawal date! An unexpected payment being withdrawn may cause overdraft charges or other financial hardship.

Paying late is an option! Interest and penalties will be added to late payments. This is true even if the taxpayer files an extension form, which offers more time to file, but not extra time to pay. Encourage taxpayers who face a financial hardship due to the amount owed to contact a Low-Income Taxpayer Clinic to discuss their collection options.

2023 P+P TAX TIP: MEDICAID WAIVER PAYMENTS

Medicaid Waiver payments are not common; however, this type of income can have a big impact on a taxpayer's return. The payments can be tricky to identify, unless the taxpayer lets you know that their income falls into this category.

Overview of Qualified Medicaid Waiver payments

Taxpayers with qualified Medicaid Waiver payments have several options when filing their taxes.

- Treat the payments as ordinary income.
- Exclude payments from gross income and *exclude* payments from earned income.
- Exclude payments from gross income but *include* payments as earned income.

For taxpayers to be eligible to make these choices, the payments must have been made by a certified Medicaid provider to the taxpayer for non-medical support services provided to an individual living in the taxpayer's home. Often the person is a dependent with a disability.

Most Medicaid Waiver payments are reported on Form W-2, and a taxpayer will often have a letter or statement from the payer explaining the payments may qualify for the exclusion. The taxpayer must make the same choice for the full amount of qualified payments (e.g., they cannot choose to exclude half the income and include the other half).

Benefit from <i>including</i> in earned income	Benefit from <i>excluding</i> from earned income
People with low to no earned income outside of their Medicaid Waiver payments will benefit from including the payments in earned income calculations. This is likely to increase Earned Income Credit and help qualify the taxpayer for the Additional Child Tax Credit.	People with a fair amount of earned income outside of their Medicaid Waiver payments will more often benefit most from leaving the income out of the earned income calculations. Earned Income Credit will probably decrease when including it.

TaxSlayer data entry

There are several special data entry steps for Medicaid Waiver payments.

- Enter the amount the taxpayer qualifies to exclude from gross income in the Medicaid Waiver Payment box on the W2 screen under box 13.
- Check the box above the excluded income entry to include the amount in earned income, and then save and note the federal and state refund amounts. Return to the W2 screen and uncheck the box to remove the income from earned income, save, and compare the taxpayer's refund.
- Medicaid Waiver payments must be included in household income for some Minnesota credits regardless of how they are treated otherwise.
 - **M1PR:** TaxSlayer automatically transfers excluded Medicaid Waiver payments from the W2 entries to the M1PR for renters and homeowners.
 - **M1ED:** TaxSlayer does not automatically transfer excluded Medicaid Waiver payments to the K-12 credit section. If a taxpayer will claim the K-12 credit, ask your manager to get special assistance from a fulltime P+P staff member.

Do you want to include Medicaid Waiver payments in the calculation of earned income?

Medicaid Waiver Payment

P+P TAX TIP: FILING EXTENSIONS

Importance of Tax Day

Tax Day on April 18 is an important deadline for taxpayers with a balance due, because filing late with a balance due means penalties and interest will be added to the amount owed and a penalty for filing late will be assessed.

For people who have a refund coming, Tax Day is less critical. There's no penalty for claiming a refund a little late, however they do expire after a three-year grace period. Refunds for 2019 income tax returns expire on April 18, 2023.

August 15, 2023 is the filing deadline for 2022 Minnesota property tax refunds. These have a one-year grace period for late refund claims. This summer is the final date to claim a 2021 property tax refund.

Extensions: The basics

People who can't file their 2022 tax return by Tax Day can file Form 4868 to request an extension of time to file, which gives them until October 16, 2023 to send their return. Minnesota does not require an additional submission.

Even when filing an extension, taxpayers are still expected to pay their balance due by April 18. If they are unable to do so, they will have interest and penalties added to the tax due, but filing an extension means they won't have a penalty for filing late.

Important takeaway: Form 4868 automatically grants an *extension to file* the return, *not an extension to pay* taxes owed.

Extensions for P+P customers

You should advise filing an extension if the customer will have a balance due or *might* have a balance due and they won't be able to file by Tax Day.

At our sites, we will provide the customer with a paper extension form to mail in. Provide the customer with some basic guidance on how to fill it out, send it in, and make a payment using the instructions on the next page.

It is possible to electronically file an extension form through TaxSlayer, however, as a general rule, we will not do so.

Tips for filling out for Form 4868

DETACH HERE

<p>Form 4868</p> <p>Department of the Treasury Internal Revenue Service</p>	<p>Application for Automatic Extension of Time To File U.S. Individual Income Tax Return</p> <p>For calendar year 2022, or other tax year beginning _____, 2022, and ending _____, 20_____.</p>	<p>OMB No. 1545-0074</p> <p style="font-size: 2em; font-weight: bold;">2022</p>
<p>Part I Identification</p> <p>1 Your name(s) (see instructions)</p> <p>Address (see instructions)</p> <p>City, town, or post office State ZIP code</p> <p>2 Your social security number 3 Spouse's social security number</p>	<p>Part II Individual Income Tax</p> <p>4 Estimate of total tax liability for 2022 . . . \$</p> <p>5 Total 2022 payments</p> <p>6 Balance due. Subtract line 5 from line 4. See instructions</p> <p>7 Amount you're paying (see instructions) .</p> <p>8 Check here if you're "out of the country" and a U.S. citizen or resident. See instructions <input type="checkbox"/></p> <p>9 Check here if you file Form 1040-NR and didn't receive wages as an employee subject to U.S. income tax withholding <input type="checkbox"/></p>	
<p>For Privacy Act and Paperwork Reduction Act Notice, see instructions later.</p>		<p>Cat. No. 13141W Form 4868 (2022)</p>

Provide basic contact information and Social Security number or ITIN. Include spouse information if filing jointly.

If mailing **only Form 4868** from MN:
Department of the Treasury
Internal Revenue Service Center
Kansas City, MO 64999-0045

If mailing **with a payment** from MN:
Internal Revenue Service
PO Box 931300
Louisville, KY 40293-1300

Line 4*: An estimate of tax that will be calculated on the tax return

Line 5: Amount of tax already paid in withholding (or with estimated payments)

Line 6: The difference between the estimated tax liability and the amount already paid

Line 7: Amount that will be paid with the extension (this amount can be \$0)

Lines 8 and 9: If situations apply, use Form 4868 instructions

***More on Calculating Line 4**

If a tax return is prepared but cannot be sent yet, the Total Tax on line 24 of Form 1040 is one way to estimate tax liability. A prior year tax return is also a good way to make an estimate. Taxpayers who do not expect to owe but wish to file an extension enter \$0.

P+P TAX TIP: FORM M1PR REMINDERS

Property tax refunds can be little tricky even though it's a "simple" two-page form. Keep an eye out for these topics, and look up more information in the P+P volunteer tax manual if you see one of these issues.

M1PR Only Returns – page 180-181

Many filers will complete only a renter's or homeowner's return and they don't need to file income taxes. When there is no income tax return to file, you set the return statuses in a specific way in TaxSlayer to ensure that only the Form M1PR is e-filed.

Return Details

Determine how the taxpayer wants to pay their taxes due or receive their refund.

Return Details
Fee Summary
State ID License
Taxpayer Consent
Custom Questions
Custom Credits
Submission Page

ERO *

Practice Lab

Federal return

How would the client like to send their tax return?

Federal refund - \$0 *

E-file: Mail Payment

Only transmit the state return(s)

State return

How would the client like to send their tax return?

MN state refund - \$0 *

Paper Return

EFIN *

Check the "Only transmit the state return(s)" checkbox.

Set the MN state refund status to "Paper Return".

Set the MNM1PR state return status based on the customer's choice.

MNM1PR state refund - \$1,217 *

E-file: Direct Deposit

Set the federal status to "E-file: Mail Payment" or leave it blank.

If a customer is filing a M1PR only return because they have already **filed an income tax return somewhere else**, review the information on page 181 in the tax manual. We will prepare the return at the tax site.

If a customer **filed their income taxes with P+P earlier in the year**, provide them with the P+P Homeowner + Renter Info handout – that's all they need to fill out! Staff will prepare this return at a later date and mail the taxpayer a copy.

Prior Year M1PR refunds – page 183

Refund claims for renters and homeowners are due August 15th and have a one year grace period to claim the refund. The 2021 refunds can be claimed until August 15, 2023. Refunds for all other prior year refunds are already expired.

Social Security Administration Payments – page 71

Customers may receive RSDI or SSI from the Social Security Administration. It's even possible for someone to receive both! The tax manual has a chart that can help you determine what kind of payment a taxpayer receives.

- RSDI stands for Retirement, Survivor, and Disability Insurance.
- SSI stands for Supplemental Security Income.

RSDI and SSI are reported in different places on the tax return and reporting them correctly is critical to an accurate M1PR refund.

GRH Housing Support vs Section 8 – page 172

Watch for amounts on Line B of a CRP, and plan to ask the customer additional questions if you see it (see prompts in the tax manual). Line B should track Housing Support, which is a specific program from Minnesota's Department of Human Services and requires some special calculations for Form M1PR. Line B should not include Section 8 housing or any other rental assistance.

Overlapping dates on CRPs – page 171

Sometimes renters are paying rent for two different units at the same time. The Form M1PR does not allow a renter to claim credit for more than 12 months of rent paid. You need to determine what unit the renter lived in during the overlapping time and then prorate the rent reported on the CRP forms accordingly.

Rent Paid Affidavit for a missing CRP – page 172

If a landlord refuses to issue or correct a CRP, renters may use a Rent Paid Affidavit (RPA) to claim their M1PR refund. An RPA is issued by the Minnesota Department of Revenue, and taxpayers must mail in their Form M1PR along with documentation of the rent they paid.

Property Tax Statements – pages 177-178

You can often look up a homeowner's property tax statement on the county's website. Where to find the statements and the format of online statements are a little different than the originals, but these alternative copies will have all the details you need to prepare Form M1PR.

2023 P+P TAX TIP: MEDICAID WAIVER PAYMENTS

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Most Medicaid Waiver payments are reported on Form W-2, and a taxpayer will often have a letter or statement from the payer explaining the payments may qualify for the exclusion. The taxpayer must make the same choice for the full amount of qualified payments (e.g., they cannot choose to exclude half the income and include the other half).

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Do you want to include Medicaid Waiver payments in the calculation of earned income?

Medicaid Waiver Payment

Staff instructions for K-12 entry

Qualified Medicaid Waiver Payments are almost always nontaxable, but they do need to be included in household income for the M1PR and M1ED. TaxSlayer automatically transfers the nontaxable amount to the Form M1PR when it's entered in the W2 section. *It doesn't do this for the M1ED for the K-12 credit!* So, there's some data entry gymnastics ***IF*** someone is claiming the K-12 credit and has Medicaid Waiver Payments. Here's a breakdown of the data entry.

- **Medicaid waiver payments with M1PR only** – nothing special outside of correctly entering the excluded income in the W2 section. TaxSlayer moves the nontaxable income to the M1PR automatically.
- **Medicaid waiver payments with M1PR and M1ED** – we have to do extra work! Enter the amount in the MN section for Additional Nontaxable Income menu at the bottom of the Minnesota Return screen. Save and exit the Minnesota Return section and go to the M1PR section. Go to the Total Household Income menu and scroll down to the section for other subtractions. Enter “duplicate Medicaid Waiver entry” as the subtraction description and then enter the amount. This subtracts out the amount from the duplicate entry that will show up on line 5 of Form M1PR.
- **Medicaid waiver payments with M1ED only** – fairly simple! Enter the amount in the MN section for Additional Nontaxable Income menu at the bottom of the Minnesota Return screen. Since there is no M1PR, there won't be duplicated amounts anywhere.