

PASFAA 2021 Virtual Conference Income Adjustment Professional Judgments

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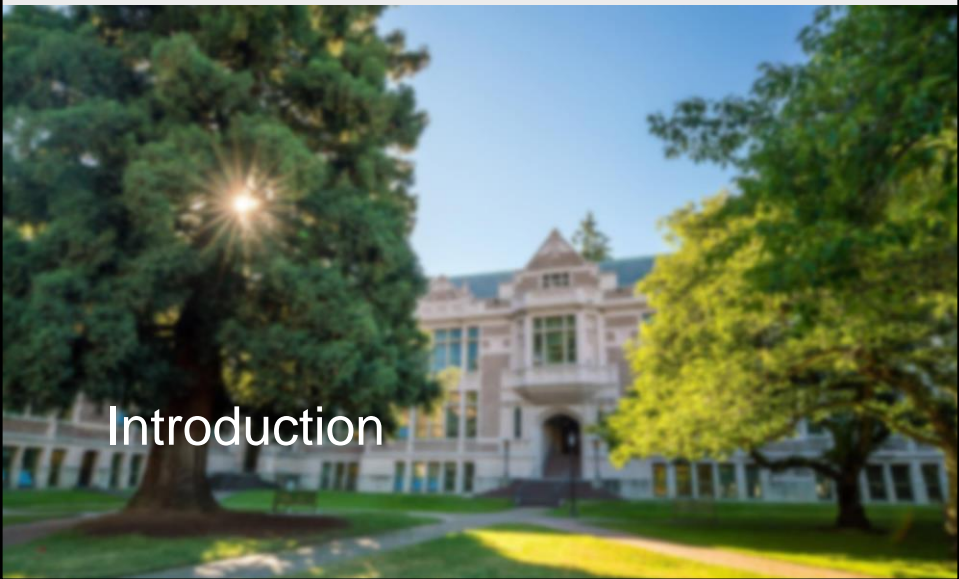
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 - IRS publications, forms, and form instructions for tax year 2020
 - The most recent versions of Department of Education publications
 - *The 2022-2023 pdf FAFSA*
 - *The Application and Verification Guide, 2021-2022*
 - *EFC Formula Guide, ISIR Guide, and SAR Comment Codes and Text, etc. for 2022-2023*
 - *Federal Registers, Electronic Announcements, and Dear Colleague Letters*
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Introduction

Changes to the 2020 Tax Code

- No requirement to repay excess advance premium tax credits (Schedule 2, line 2)
- The first \$10,200 of unemployment compensation is tax exempt for recipients whose modified AGI is less than \$150K
- Taxpayers may withdraw up to \$100,000 from their IRAs or employment-based pension plans to cover COVID related expenses
 - This withdrawal is exempt from withholding and penalties
 - The taxable income from this withdrawal can be reported in equal parts on the 2020, 2021, and 2022 tax return
 - Taxpayers have three years to redeposit the funds from the withdrawal, turning the withdrawal into a long rollover and zero interest loan
 - Taxpayers must amend their returns to get any tax paid refunded

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No Requirement to Repay Excess Advance Premium Tax Credits

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Schedule 2 – 2020 Only

SCHEDULE 2 (Form 1040)		Additional Taxes		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2020 Attachment Sequence No. 02	
Name(s) shown on Form 1040, 1040-SR, or 1040-NR				Your social security number	
Parent One				678-67-8678	
Part I Tax					
1	Alternative minimum tax. Attach Form 6251	1		0	
2	Excess advance premium tax credit repayment. Attach Form 8962	2		0	
3	Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17	3		0	

- The requirement to repay excess advance premium tax credits was repealed for 2020 only
 - If you receive a tax return with a value on Schedule 2, line 2, then you have the tax return **as filed**, not as **adjusted by the IRS**
 - The correct answer to the Income Tax for 2020 question is still **Form 1040, line 22 minus Schedule 2, line 2**

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Schedule 2, Line 2

WASHINGTON — The American Rescue Plan Act of 2021 suspends the requirement that taxpayers increase their tax liability by all or a portion of their excess advance payments of the Premium Tax Credit (excess APTC) for tax year 2020. A taxpayer's excess APTC is the amount by which the taxpayer's advance payments of the Premium Tax Credit (APTC) exceed his or her Premium Tax Credit (PTC).

The Internal Revenue Service announced today that taxpayers with excess APTC for 2020 are not required to file Form 8962, Premium Tax Credit, or report an excess advance Premium Tax Credit repayment on their 2020 Form 1040 or Form 1040-SR, Schedule 2, Line 2, when they file.

85. Enter your parents' income tax for 2020. Income tax amount is the total of IRS Form 1040—line 22 minus Schedule 2—line 2. If negative, enter a zero here.

- **(Form 1040, line 22 – Schedule 2, line 2) will not change** if the only change the IRS makes to the tax return is to Schedule 2, line 2
 - In this example, line 22 – line 2 = \$18,557 – \$2,500 = \$16,057

220)					Page 2
16	Tax (see instructions). Check if any from Form(s): <input type="checkbox"/> 8814 <input type="checkbox"/> 4972 <input type="checkbox"/>	16		18,057	
17	Amount from Schedule 2, line 3	17		2,500	
18	Add lines 16 and 17	18		20,557	
19	Child tax credit or credit for other dependents	19		500	
20	Amount from Schedule 3, line 7	20		1,500	
21	Add lines 19 and 20	21		2,000	
22	Subtract line 21 from line 18. If zero or less, enter -0-	22		18,557	

IRS Change

Without EAPTCR
\$18,057
\$0
\$18,057
\$500
\$1,500
\$2,000
\$16,057

<https://www.irs.gov/newsroom/irs-suspends-requirement-to-repay-excess-advance-payments-of-the-2020-premium-tax-credit-those-claiming-net-premium-tax-credit-must-file-form-8962>

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The Unemployment Compensation Exclusions (UCE)

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Untaxed Unemployment Payments

- The American Rescue Plan Act, on March 12, 2021, **retroactively** exempted up to \$10,200 of unemployment compensation received by “taxpayers” in 2020 with adjusted gross incomes (AGIs) less than \$150,000*

Filers who file their return after IRS implementation

- The income tax return should be accurate when filed and will include a new a new IRS Form showing the untaxed portion

Filers who filed their return before IRS implementation

- The IRS *should* update the taxpayer’s return with the new **unemployment compensation exemption** and send a CP21 letter

*There is no phaseout of this tax exemption. If the AGI is \$150,000 or more, all unemployment income is taxable. The \$150,000 threshold applies to all filing statuses. On joint returns, both taxpayers may claim the exemption.

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Tax-exempt Unemployment

- Schedule 1, line 7 – all unemployment received
- Schedule 1, line 8, new code UCE – **Unemployment Compensation Exclusion** – as a negative number

SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2020 Attachment Sequence No. 01	
Name(s) shown on Form 1040, 1040-SR, or 1040-NR Parent One			Your social security number 678-67-8678		
Part I Additional Income					
1	Taxable refunds, credits, or offsets of state and local income taxes	1		0	
2a	Alimony received	2a			
b	Date of original divorce or separation agreement (see instructions) ▶				
3	Business income or (loss). Attach Schedule C	3		0	
4	Other gains or (losses). Attach Form 4797	4			
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5			
6	Farm income or (loss). Attach Schedule F	6		0	
7	Unemployment compensation	7		30,760	
8	Other income. List type and amount ▶ UCE	8		-19,450	
9	Combine lines 1 through 8. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	9		11,310	

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Example – Missing UCE

- Your student's parents filed a joint tax return in 2020
- Each is a wage earner who was unemployed for several months in 2020
- They filed their tax return in February, before the American Rescue Plan Act (ARPA) was passed
 - The unemployment compensation exclusion had not been enacted before they filed
 - The IRS adjusted their return and sent them a CP21 letter letting them know about the change
- Following the advice of Federal Student Aid, they have reached out to you for an EFC adjustment due to their unemployment compensation exclusion

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Manual Adjustments

- If the adjusted gross income is less than \$150,000 **AND** there is unemployment compensation w/o a UCE deduction

Joint Returns

- Ask the taxpayers for their 1099-Gs (one or both will have one)
 - Reduce the AGI for each taxpayer as shown here
 - Calculate the new tax

Individual Tax Returns

- Reduce the AGI (and taxable income) by
 - \$10,200 or the unemployment income, whichever is smaller
- Calculate the new tax

	Total Unemployment Compensation	Smaller of \$10,200 or Their Total Unemployment
Parent One	\$21,510	\$10,200
Parent Two	\$9,250	\$9,250
TOTAL	\$30,760	UCE = \$19,450

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Adjusting the AGI

Form 1040

Schedule 1

Student is eligible for the Simplified Formula! Assets can be excluded from the calculation

Adjusted AGI

UCE

Form 1040 (2020)

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	35,512
2a	Tax-exempt interest	2a	0
3a	Qualified plan or IRA distributions	3a	0
4a	Pension or annuity payments	4a	0
5a	Capital gain or loss	5a	0
6a	Other income from Schedule 1, line 9	6a	0
7	Other income from Schedule 1, line 9	7	30,760
8	Other income from Schedule 1, line 9	8	66,272
9	Other income from Schedule 1, line 9	9	66,272
10	Adjustments to income:	10	0
10a	From Schedule 1, line 22	10a	0
10b	Charitable contributions if you take the standard deduction. See instructions	10b	0
10c	Add lines 10a and 10b. These are your total adjustments to income	10c	0
11	Subtract line 10c from line 9. This is your adjusted gross income	11	66,272
12	Standard deduction or itemized deductions (from Schedule 1)	12	24,800
13	Qualified business income deduction. Attach Form 8995 or 8995-E	13	0
14	Add lines 12 and 13	14	24,800
15	Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-	15	41,472
16	Unemployment compensation	16	30,760
17	Other income. List type and amount	17	(\$19,450)
18	Combine lines 1 through 17. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	18	30,760

Form 1040 (2020)

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Taxable Income to Income Tax

If line 15 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
Your tax is—					
22,000					
22,000	22,050	2,446	2,248	2,446	2,361
22,050	22,100	2,452	2,254	2,452	2,367
22,100	22,150	2,458	2,260	2,458	2,373
22,150	22,200	2,464	2,266	2,464	2,379
22,200	22,250	2,470	2,272	2,470	2,385
22,250	22,300	2,476	2,278	2,476	2,391
22,300	22,350	2,482	2,284	2,482	2,397
22,350	22,400	2,488	2,290	2,488	2,403
22,400	22,450	2,494	2,296	2,494	2,409

- The taxable income is \$22,022 (Form 1040, line 15)
- Form 1040, line 16 (the *taxable tax*) is **\$2,248**
- We need line 22

Form 1040 (2020)		Page 2
16 Tax (see instructions). Check if any from Form(s): <input type="checkbox"/> 8814 <input type="checkbox"/> 4972 <input type="checkbox"/>	16	4,582
17 Amount from Schedule 2, line 3	17	0
18 Add lines 16 and 17	18	4,582
19 Child tax credit or credit for other dependents	19	500
20 Amount from Schedule 3, line 7	20	1,500
21 Add lines 19 and 20	21	2,000
22 Subtract line 21 from line 18. If zero or less, enter -0-	22	2,582

Adjusted Tax

\$2,248
\$2,248
\$500
\$1,500
\$2,000
\$248


IRS Instructions for Form 1040, 2020, pages 66 – 78

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The CP21 Letter

- If the IRS adjusts a tax return for an early filer who is eligible for the unemployment compensation exclusions, all of these things will happen
 - The IRS will send the taxpayer and CP21 letter letting them know that the change was made

 Department of the Treasury Internal Revenue Service Stop 6525 (SP CIS) Kansas City MO 64999-0025	Notice	CP21B
	Tax Year	2020
	Notice date	September 6, 2021
	Social Security number	XXX-XX-
	To contact us	800-829-8374
	Your Caller ID	
	Page 1 of 1	

- The AGI and the Income Tax after Credits will change
 - The Account Transcript will include the new AGI and the *change* in the total tax for 2020


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This letter is not related to the case we just reviewed

Documentation – IRS Letter

- The CP21B letter will tell you the decrease in the total tax owed by the taxpayer

 Department of the Treasury Internal Revenue Service Stop 6525 (SP CIS) Kansas City MO 64999-0025	Notice CP21B Tax Year 2020 Notice date September 6, 2021 Social Security number XXX-XX- To contact us 800-829-8374 Your Caller ID Page 1 of 1						
	Changes to your 2020 Form 1040 Refund due: \$1,732.00 We changed your 2020 Form 1040 because recent tax laws, rulings, or regulations required us to correct you: • unemployment compensation • Recovery Rebate Credit As a result, you are due a refund of \$1,732.00.						
	Summary <table border="1"> <tr> <td>Decrease in tax</td> <td>\$1,254.00</td> </tr> <tr> <td>Increase in credit</td> <td>-478.00</td> </tr> <tr> <td>Refund due</td> <td>\$1,732.00</td> </tr> </table>	Decrease in tax	\$1,254.00	Increase in credit	-478.00	Refund due	\$1,732.00
	Decrease in tax	\$1,254.00					
	Increase in credit	-478.00					
Refund due	\$1,732.00						

- Reduce the FAFSA Income Tax for 2020 by the decrease in tax shown here

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The Account Transcript

** INFORMATION FROM THE RETURN OR AS ADJUSTED **	
EXEMPTIONS:	
FILING STATUS:	
ADJUSTED GROSS	
INCOME:	74,092.00
TAXABLE INCOME:	61,540.00
TAX PER RETURN:	9,794.00
SE TAXABLE INCOME	
TAXPAYER:	0.00
SE TAXABLE INCOME	
SPOUSE:	0.00
TOTAL SELF	
EMPLOYMENT TAX:	0.00

This is the **New**
Adjusted Gross Income (AGI)

This is the **Original**
Total Tax (Form 1040, line 24)

- The fastest way to get the adjusted AGI, if the CP21 letter is unavailable, is to obtain the Account Transcript or the Record of Account Transcript

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The Account Transcript

TRANSACTIONS				
CODE	EXPLANATION OF TRANSACTION	CYCLE	DATE	AMOUNT
150	Tax return filed 16211-	20210904	03-22-2021	\$9,794.00
806	W-2 or 1099 withholding		04-15-2021	-\$9,988.00
766	Tax relief credit		05-18-2020	-\$521.65
846	Refund issued		04-30-2020	\$521.65
290	Additional tax assessed 16254	20201801	05-18-2020	\$0.00
971	Notice issued		05-18-2020	\$0.00
290	Additional tax assessed 16254-999-05055-0	20205302	01-18-2021	\$0.00
766	Credit to your account		04-15-2021	-\$800.00
846	Refund split, refund 1 issued		03-09-2021	\$294.00
846	Refund split, refund 2 issued		03-09-2021	\$700.00
766	Credit to your account		04-15-2021	-\$478.00
291	Reduced or removed prior tax assessed 17254-		09-06-2021	-\$1,254.00
971	Notice issued		09-06-2021	\$0.00
846	Refund issued		08-25-2021	\$1,750.03
776	Interest credited to your account		09-06-2021	-\$18.03

This is the portion of the refund attributable to the taxpayer's total tax obligation

Evidence that the IRS sent a notice about this change to the taxpayer's return

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Coronavirus Related Distributions

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Example – CRD

- Your student's parent is divorced and used the head of household filing status (correctly) on their 2020 tax return
- In 2020, they withdrew \$75,000 from their 401k to help cover costs they incurred when they were unable to work due to their own COVID illness, having to care for a parent who became severely ill, and a child who was quarantined after an exposure at their school
- They asked you to remove the 401k distribution from income and you have decided to use professional judgment to do so

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CRD Example – Form 1040

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	19,221
2a	Tax-exempt interest	2b	Taxable interest
3a	Qualified dividends	3b	Ordinary dividends
4a	IRA distributions	4b	Taxable amount
5a	Pensions and annuities	5b	Taxable amount
6a	Social security benefits	6b	Taxable amount
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here	7	0
8	Other income from Schedule 1, line 9	8	16,329
9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9	60,550
10	Adjustments to income:	10a	0
a	From Schedule 1, line 22	10b	0
b	Charitable contributions if you take the standard deduction. See instructions	10c	0
c	Add lines 10a and 10b. These are your total adjustments to income	11	60,550
11	Subtract line 10c from line 9. This is your adjusted gross income	12	18,650
12	Standard deduction or itemized deductions (from Schedule A)	13	0
13	Qualified business income deduction. Attach Form 8995 or Form 8995-A	14	18,650
14	Add lines 12 and 13	15	41,900
15	Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-		

Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Form 1040 (2020)

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Documentation in the Tax Form!

Form 8915-E Part I – All Distributions

Form 8915-E
Department of the Treasury
Internal Revenue Service

Qualified 2020 Disaster Retirement Plan Distributions and Repayments
(Use for Coronavirus-Related and Other Qualified 2020 Disaster Distributions)
Go to www.irs.gov/Form8915E for instructions and the latest information.
Attach to 2020 Form 1040, 1040-SR, or 1040-NR.

OMB No. 1545-0074
2020
Attachment Sequence No. **915**

Part I Total Distributions From All Retirement Plans (Including IRAs).

CAUTION For coronavirus, check this box. ☒ Do not enter a disaster name, a disaster beginning date, or an earliest distribution date below. Coronavirus-related distributions can be made on or after January 1, 2020, and before December 31, 2020.

For 2020, qualified 2020 disaster distributions for a disaster other than the coronavirus can be made at any time in 2020 on or after the disaster's beginning date. See instructions.

Disaster name _____
Disaster beginning date _____

Complete lines 1 through 4 of one column before going to the next column.

	(a) Total distributions in 2020 (see instructions)	(b) Qualified 2020 disaster distributions made in 2020 (see instructions)	(c) Allocation of column (b) (see instructions)
1 Distributions from retirement plans (other than IRAs) Date earliest distribution made _____	75,000	75,000	
2 Distributions from traditional, SEP, and SIMPLE IRAs Date earliest distribution made _____	0		
3 Distributions from Roth IRAs Date earliest distribution made _____	0		
4 Totals. Add lines 1 through 3 in columns (a) and (b). Complete column (c) if line 4, column (b), is more than \$100,000. Otherwise, leave column (c) blank.	75,000	75,000	
5 If you completed column (c), enter the excess of the amount on line 4, column (a), over \$100,000. Otherwise, enter the excess of the amount on line 4, column (a), over the amount on line 4, column (b). Report these distributions under the normal rules in accordance with the instructions for your tax return.			5

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CRD Example – Form 8915-E

Parts II, III, or IV – Specific Distributions

Part II Qualified 2020 Disaster Distributions From Retirement Plans (Other Than IRAs)

6 If you completed line 1, column (c), enter that amount. Otherwise, enter the amount from line 1, column (b) 6 75,000

7 Enter the applicable cost of distributions, if any. See instructions. 7 2

8 Subtract line 7 from line 6 8 75,000

9 If you elect NOT to spread the taxable amount over 3 years, check this box ☒ and enter the amount from line 8 (see instructions). You must check this box if you check the box on line 17. Otherwise, divide line 8 by 3.0 9 25,000

10 Enter the total amount of any repayments you made before filing your 2020 tax return. But don't include repayments made later than the due date (including extensions) for that return. Don't use this form to report repayments of qualified 2016, 2017, 2018, or 2019 disaster distributions. See instructions 10

11 Amount subject to tax in 2020. Subtract line 10 from line 9. If zero or less, enter -0-. Include this amount in the total on 2020 Form 1040, 1040-SR, or 1040-NR, line 5b 11 25,000

For Privacy Act and Paperwork Reduction Act Notice, see your tax return instructions. Form 8915-E (2020)

- Check Parts II, III, and IV to see if
 - 1 Unchecked box –the taxpayer did not elect to report the entire distribution on the 2020 tax return (line 9 in Part II)
 - The taxpayer must opt out of spreading their tax burden over the next three years
 - The taxpayer's basis in their withdrawal (line 7 in Part II)
 - 2 If they had a basis in the withdrawal a portion of the withdrawal is tax-exempt
 - The value on line 2 would be "real" untaxed income in this were a standard withdrawal

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Calculating the Tax – Methods

- Tax Table Method
 - After recalculating the AGI:
 - Calculate the taxable income on Form 1040, line 15
 - Use the tax tables to calculate the tax table tax on line 16
 - Continue through Schedules 1, 2, and 3 and Form 1040 until you get to line 22, which is the income tax for 2020
- Proportional Method
 - Determine the percentage of the original AGI represented by the post-PJ AGI
 - Multiply the original Income Tax for 2020 by this percentage and use this figure as the income tax for 2020
- Other Methods
 - Any other reasonable method is acceptable when using professional judgment

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Tax Table Method

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	19,221	
2a	Tax-exempt interest	2a	0	
3a	Qualified dividends	3a	0	
4a	IRA distributions	4a		
5a	Pensions and annuities	5a	75,000	
6a	Social security benefits	6a		
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here	7	0	
8	Other income from Schedule 1, line 9	8	16,329	\$16,329
9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9	60,550	\$35,550
10	Adjustments to income:			
a	From Schedule 1, line 22	10a	0	
b	Charitable contributions if you take the standard deduction. See instructions	10b	0	
c	Add lines 10a and 10b. These are your total adjustments to income	10c	0	
11	Subtract line 10c from line 9. This is your adjusted gross income	11	60,550	\$35,550

- \$35,550 is **58.712%** of \$60,550 ($\$35,550 \div \$60,550$)

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Tax Table Method

Form 1040 (2020)			Page 2
16	Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16	4,749
17	Amount from Schedule 2, line 3	17	0
18	Add lines 16 and 17	18	4,749
19	Child tax credit or credit for other dependents	19	500
20	Amount from Schedule 3, line 7	20	1,500
21	Add lines 19 and 20	21	2,000
22	Subtract line 21 from line 18. If zero or less, enter -0-	22	2,749

- The original income tax for 2020 was \$2,749
- The new income tax for 2020 is **\$1,614** (**58.712%** X \$2,749)

Note: when using the tax table method, apply the proportion you are using to the education credits as well, or you will be double counting a portion of the education credit

Thank You!

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