

MONEY 101 EDUCATION – TAX SEGMENT

6.94a Tax Segment – Assignment #4

In class # 4, we covered page 2 of the Tax return.

AS A REVIEW

We learned how to read the tax tables in the 1040 instruction booklet and calculate Line 16, tax.

We reviewed that, in some cases, other factors that increase or decrease the total tax may apply.



- CHILD CREDIT - If you have a child and earn less than a specific amount, which changes annually, you may be able to claim a Child Tax Credit. The credit is \$2,000 per child. You also need to complete Schedule 8812. You are not eligible for the credit if you earn over the “income limit.” In 2023, the income limit was \$200,000 for an individual and \$400,000 for a joint married return. The Credit is entered on Line 19. This was not covered in class, but it is worthwhile to investigate.
- SELF-EMPLOYMENT TAX - If you are an entrepreneur and owe self-employment tax, you add the amount due for your total earnings on line 23,

To arrive at the TOTAL TAX due - Follow directions for lines 16 to 23 to compute LINE 24, which is the TOTAL TAX DUE.

The next step is to enter the tax withheld. Most individuals pay tax either through their W-2 withholdings, entered on Line 25a, or through Estimated Tax payments, entered on Line 26.

There are a few other adjustments, including:

- EARNED INCOME CREDIT - If you worked but earned less than a specific amount, which changes annually, depending on the amount you earned, the number of children you have, AND your marital status, you may be able to claim an Earned Income Credit. You need to complete Schedule EIC. Due to all of the factors, it is best to consult a table that shows the credit: <https://support.taxslayerpro.com/hc/en-us/articles/360009170934-Earned-Income-Credit-EITC-Income-Limits-and-Maximum-Credit-Amounts#> The credit is entered on line 27.
- ADDITIONAL CHILD TAX CREDIT – If you claim a Child Tax Credit, you may also be entitled to an Additional Tax Credit worth \$1700 per child. Review: <https://www.etc.irs.gov/other-refundable-credits-toolkit/what-you-need-to-know-about-ctc-and-actc/what-you-need-to-know#> If the additional child tax credit applies, it is entered on line 28.

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Finally, you should be able to add all the withholding taxes you paid and any applicable tax credits to arrive at Line 33, TOTAL PAYMENTS.

The difference between Line 24 (total Tax) and Line 33 (total payments) is what you owe or how much you overpaid. Follow the directions to enter the proper amount on either line 34 overpayment or line 35a tax due.

If you have an overpayment, you need to indicate whether you want it refunded or used as an estimated tax payment for the next tax year.

For those selecting a refund, if you enter your bank routing and account number, the IRS directly deposits the check. This is strongly advised as opposed to having a check mailed to you.

In some cases, if you underpaid taxes significantly, you may owe a penalty. This is where tax software is helpful; otherwise, it is too difficult to calculate. Another strategy is to assume you did not underpay and let the IRS contact you if they have a different opinion. Then, you can begin to argue.

ASSIGNMENT # 4

Now that you have helped Maria – I want you to use your new skills to complete a tax return for Olivia and Seymour.

So, get ready for a challenge ... and read on!

The goal is to prepare Olivia and Seymour Walker’s COMPLETE tax return. Here are the facts.

1. W-2 INCOME – Olivia and Seymour are salaried workers and received the attached two W-2s.
2. INTEREST – Oliva and Seymour have savings accounts, so attached are two 1099 forms from their bank.
3. BUSINESS INCOME—Olivia started her business in 2020 as a sole proprietor. She named her business a DBA, “Budget Marketing Powerful Impact.” She decided not to incorporate it because she did not want to waste money on legal fees. She consults clients on marketing issues and uses the cash accounting method.

She had two large clients, and both sent her 1099 forms,
Company A – paid her \$ 12,500.
Company B – paid her \$ 21,250

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In addition, she had five smaller clients. They should have sent her a 1099, as they paid her over \$600 during the year, but the forms never arrived. She totaled up the cash she received from those five clients during the year, which came to \$9,500.

4. BUSINESS EXPENSES - Olivia's expense included:

Advertising & Google Ad words`	\$3,400
Subcontractor – social media specialist Veronica Smiley	\$2,225
Legal help -	\$ 750
Accounting and Business Help	\$ 450
General business liability insurance	\$ 375
Subscriptions to professional journals	\$ 95
Office supplies	\$ 941
Business phone	\$ 1,250
Travel to conferences	\$ 5,600
Rent paid for use of a conference room when she had to make a client presentation	\$ 600

Olivia hired social media expert Veronica Smiley to assist with marketing. Veronica runs an unincorporated business, so before Olivia paid her, she had her fill out a W-9 form to obtain her Social Security number. At the end of the year, Olivia sent Veronica a 1099 for \$2,225.

While she occasionally had to rent a conference room to make a presentation, Olivia mostly ran her business out of her home, utilizing a room measuring 10 ft by 15 ft. She knew it was only a tiny portion of her total house, which measured 2500 sq. ft, but she was curious to see if she could take a home office deduction. Her overall expenses to run her home included:

Rent	\$ 24,000
Insurance	\$ 1,200
Utilities	\$ 2,400
Phone/Cable/Internet	\$ 1,250
Repairs	\$ 3,250

Unfortunately, Olivia knows she must pay Self-Employment taxes on her Business Profits. She dreads filling out the SE form because it seems written in Greek, but she will persevere.

On the other hand, she also heard about a Qualified Business Income Credit and hopes to get that.

Finally, to protect herself, as she knows that her business is profitable, she has sent in four estimated tax payments of \$3,000 each. She mailed them on April 15th, July 15th, September 15th, and January 15th. She knew one was late, but now she can't remember which one—the IRS drives her crazy. (If you can figure out which one was late – let her know)

However, she is anxious to complete her taxes. This year, she and Seymour are celebrating their milestone 30th birthdays, and she wants to surprise Seymour with a three-night stay at his favorite golf resort. The three-night stay will cost \$1,200, and she wonders if she will get a tax refund to cover the cost.

PLEASE SEND ME OLIVIA AND SEYMOUR ENTIRE TAX RETURN

And let me know via email,

1. Will she get a refund and be able to go on the three-night vacation?
2. Or will she owe money? And if yes, how much?
3. Which estimated tax payment was late?

You will need the following forms to complete the tax return:

- **INSTRUCTIONS for 1040**
- **Form 1040 – pages 1 and 2**
- **Schedule C**
- **Schedule SE**
- **Schedule 8829 – Business Use of Your Home**
- **Schedule 1 - Additional Income and Adjustments**
- **Schedule 2 – Additional Taxes**
- **Schedule 8995 – Qualified Business Income Credit**

AND>>>>

- **6.81-Olivia's W-2**
- **6.82-Seymour Walker's W-2**
- **6.83-Olivia's 1099-INT – interest**
- **6.84-Seymour's 1099-INT - interest**

Please ignore the tax year on Olivia or Seymour's W-2 or 1099 – and assume they are for the current year—it is too much work to redo them annually.

YOU CAN DO IT!!!