



## Miscellaneous Credits



### Introduction

This lesson provides the information you need to be able to prepare a return with certain nonrefundable credits.

### Objectives

At the end of this lesson, using your resource materials, you will be able to:

- Determine if a taxpayer qualifies for the retirement savings contributions credit and accurately complete Form 8880, Credit for Qualified Retirement Savings Contributions
- Calculate the credit for the elderly or the disabled by completing Form 1040, Schedule R, Credit for the Elderly or the Disabled

Use the information from the intake and interview sheet, along with the documents provided by the taxpayer to determine eligibility for these credits.

#### What do I need?

- Form 13614-C
- Publication 4012
- Publication 17
- Form 1040
- Schedule R
- Form 8880

#### **Optional:**

- Form 1040 Instructions
- Form W-2 Instructions

### What is a nonrefundable credit?

In an earlier lesson, you learned the difference between a nonrefundable credit and a refundable credit. A nonrefundable credit can only reduce the tax liability to zero. All the credits discussed in this lesson are nonrefundable credits.

Generally, nonrefundable credits are applied against federal tax in the order they are listed on Form 1040, Schedule 3, Nonrefundable Credits.



**Tax Software Hint:** The software will calculate these credits, but the correct information must be entered. The volunteer tax preparer must make the correct determinations by using the intake and interview sheet and resource materials.



For information about the residential energy credits, see the Legislative Extenders lesson.

### What is the retirement savings contributions credit?

The retirement savings contributions credit is a nonrefundable credit eligible taxpayers may claim if they made a qualifying contribution to a retirement plan.

If the contribution is tax deductible (such as a traditional IRA), the taxpayer receives the benefit of the tax deduction and a tax credit. This is considered a *double benefit* and is rarely allowed. Contributions to non-tax-deductible accounts (such as Roth IRAs) can qualify the taxpayer for the credit as well. The credit is calculated on Form 8880, Credit for Qualified Retirement Savings Contributions.

## Who is eligible for the retirement savings contributions credit?

Go to the Volunteer Resource Guide, Tab G, Nonrefundable Credits, and review the Retirement Savings Contribution Credit – Screening Sheet for the qualifications.

## What are eligible contributions for the purpose of the retirement savings contributions credit?

To be eligible for the credit, taxpayers' contributions must be elective or voluntary. For purposes of this credit, an employee contribution will be voluntary as long as it is not required as a condition of employment. Eligible contributions include:

- Traditional or Roth IRA contributions (other than rollover contributions)
- Elective deferrals to a 401(k) or 403(b) plan (including designated Roth contributions), a governmental 457 plan, SEP, or SIMPLE plan
- Voluntary employee contributions to a qualified retirement plan as defined in section 4974(c) (including the federal Thrift Savings Plan), or
- Contributions to a 501(c)(18)(D) plan



**CAUTION** Contributions designated under Internal Revenue Code Section 414(h)(2) (government pick-up plans) are treated as employer contributions, not voluntary contributions made by the employee. They do not qualify for the credit and should not be included on Form 8880, line 2. This information is stated in the Form 8880 Instructions.

## How do I know if the taxpayer made an eligible contribution?

In most cases, eligible contributions will be listed on the taxpayer's Form W-2, Box 12 and preceded by one of the following codes: D, E, F, G, H, S, AA, or BB. These are the codes most frequently seen. For a complete list of Box 12 codes, refer to the Form W-2 Instructions.

Contributions to traditional or Roth IRAs may appear on Form 5498, IRA Contribution Information. However, most taxpayers will not receive this form before they file their tax return. When reviewing the Expenses section on page 2 of the intake and interview sheet, be sure to ask if the taxpayer made a contribution to an IRA or other retirement account.

A designated beneficiary of an Achieving a Better Life Experience (ABLE) account may claim the saver's credit for contributions he or she makes to his or her ABLE account for tax years 2018-2025.



**Tax Software Hint:** If Form W-2 is entered into the software correctly and completely, the program will carry the appropriate information to Form 8880. Review the Volunteer Resource Guide, Tab D, Income, Form W-2 Instructions, for the software entries.



**TIP** Some employers allow employees to contribute after-tax money to a Roth plan. These after-tax contributions are listed on Form W-2, Box 12 with code AA for a Roth 401(k) or BB for a Roth 403(b).



**Tax Software Hint:** If the taxpayer contributed to a Roth IRA, enter the amounts on the Retirement Savings Contributions Credits screen. The software will carry the appropriate contributions to Form 8880. Review the Volunteer Resource Guide, Tab G, Nonrefundable Credits, for the software entries.

## What may reduce an eligible contribution for purposes of the credit?

Eligible contributions are reduced by the following distributions received during the testing period:

- Traditional or Roth IRAs (including myIRAs), or ABLE accounts

- 401(k), 403(b), governmental 457, 501(c)(18)(D), SEP, or SIMPLE plans
- Qualified retirement plans as defined in section 4974(c) (including the federal Thrift Savings Plan)

The testing period includes:

- The tax year
- The two preceding tax years, and
- The period between the end of the tax year and the due date of the return, including extensions

Ask the taxpayer if they received any distributions in the testing period. Do not reduce eligible contributions by distributions received from military retirement plans. Also, do not include distributions that were not taxable because they were rolled over or transferred to another qualified plan. See Publication 4012, Tab G, Nonrefundable Credits, for additional exceptions that do not need to be included in total distributions.



**Tax Software Hint:** The software automatically reduces contributions by any taxable distributions from current tax year Forms 1099-R. Any other distributions that reduce the amount of contributions must be manually input on the appropriate line of the Retirement Savings Contributions Credits screen. Check the box on the Form 1099-R input screen if the distribution should not carry to Form 8880.

### What is the maximum contribution amount for married taxpayers?

For married taxpayers filing a joint return, both spouses may be eligible for a credit on a maximum annual contribution of \$2,000 each. If either spouse has received a distribution during the testing period, *both* spouses must reduce their eligible contribution by that amount.

#### example

Jose and Lucy are married and will file a joint return. Their adjusted gross income was below the retirement savings contributions limit. They each contributed \$3,000 to a 401(k) plan. They did not receive any distributions during the three-year period and cannot claim any other credits. Jose and Lucy are eligible for a credit based on the maximum eligible annual contribution amount of \$2,000 each.

#### example

Joe and Mary have been married for five years and always file a joint return. In the previous tax year, Mary changed jobs and cashed in a small 401(k) from her former employer.

In the current tax year, both Joe and Mary made eligible contributions to their IRAs and otherwise qualify for the retirement savings credit. They both must reduce the amount of their eligible contributions by the amount of the distribution that Mary received last year. This calculation is completed on Form 8880.

### How do I determine the amount of the credit?

Form 8880 is used to figure the credit. The credit can be as low as 10% or as high as 50% of a maximum annual contribution of \$2,000 per person depending on filing status and adjusted gross income.



**Tax Software Hint:** Review the Volunteer Resource Guide, Tab G, Nonrefundable Credits, Retirement Savings Contributions Credit, for the software entries and a table with the AGI brackets and related credit percentages.



## EXERCISES

**Question 1:** All of these taxpayers contributed to their employers' 401(k) plan. Who qualifies for the retirement savings credit based on adjusted gross income?

- A. Ed, who is single and has an AGI of \$49,000
- B. Sybil, who is married, files jointly, and has an AGI of \$52,500
- C. Megan, who is head of household and has an AGI of \$65,400
- D. Carl, who is a qualifying widower with a dependent child, and has a modified AGI of \$59,250

## Taxpayer Interview and Tax Law Application

Our volunteer is working with Ryan. She has already determined that Ryan's filing status is Single, no one can claim him as a dependent, his AGI is \$25,000, and he is 28 years old. Using the Volunteer Resource Guide, Retirement Savings Contributions Credit – Screening Sheet, follow along with our volunteer as she determines Ryan's eligibility for the credit.

### SAMPLE INTERVIEW

#### VOLUNTEER SAYS...

*Ryan, I see from your Form W-2 that you contributed \$1,500 to your employer's 401(k) plan. Did you make contributions to any other qualified plans, such as an IRA?*

*That's a great benefit. Were you a full-time student during the tax year?*

*Well, it looks like you qualify for the credit. I will complete Form 8880 to see how much the credit will be.*

*Did you receive any distributions from your retirement plan at any time this tax year or the last two years, or do you plan to take any distributions before the tax filing deadline?*

*No, your loan isn't considered a distribution, so you'll get to use the full \$1,500 contribution in the calculation of your credit. The credit will be a percentage of your contribution. It will reduce your amount of total tax, so you'll end up with a bigger refund.*

#### RYAN RESPONDS...

No, I put all my savings into the 401(k) because my employer matches it.

No, I've been out of school for several years.

Great!

Well, last year I took out a loan against my 401(k) to use as a down payment on a car. I've already paid it back through payroll deductions.

Does that count?

I'll take every penny!

## How do I handle the credit for the elderly or the disabled?

The credit for the elderly or the disabled is calculated on Schedule R.

### Who qualifies for the credit for the elderly or the disabled?

Individuals who qualify for the elderly or the disabled credit are:

- Age 65 or older or
- Under age 65, retired on permanent and total disability, receiving taxable disability income, and under the mandatory retirement age their company has set



A taxpayer with a permanent and total disability is unable to engage in “substantial, gainful activity,” or in other words, paid employment. Taxpayers who can do such work are not considered disabled. Working in a sheltered workshop setting, however, is not considered substantial, gainful activity.

*Mandatory retirement age* is the age set by a taxpayer’s employer at which the taxpayer would have been required to retire, had the taxpayer not become disabled.

Generally, disability income comes from an employer’s disability insurance, health plan, or pension plan. The payments replace wages for the time the taxpayer missed work because of the disability. The plan must provide for disability retirement for the payments to be considered disability income.

In addition to being a qualified individual, the taxpayer’s total income must be within certain limits. The income limits can be found in the Volunteer Resource Guide, Tab G, Nonrefundable Credits.

Few taxpayers qualify for this credit because the credit calculation includes the taxpayers’ nontaxable Social Security, veterans’ benefits, or other excludable pension, annuity, or disability benefits. Most taxpayers’ Social Security benefits alone exceed the limit.

#### example

John is unmarried and filing a single return. He is 67 years old and received \$12,000 in nontaxable Social Security benefits in the tax year. His AGI is \$9,000. Even though John is a qualified individual, he is not eligible to claim the credit since his nontaxable Social Security benefits exceed \$5,000.

### How do I determine the amount of the credit?

Schedule R is used to calculate the credit, and has three parts:

- Part I, Filing Status and Age
- Part II, Statement of Permanent and Total Disability which ensures that taxpayers who are under 65 have obtained a completed physician’s statement that proves they are permanently and totally disabled
- Part III, Figure Your Credit

If the taxpayer is 65 or over, or under 65 and retired on permanent and total disability, complete Schedule R to determine the amount of the credit, if any.



All Social Security and Tier 1 railroad retirement benefits must be entered on the Social Security benefits screen, even if no Social Security is taxable, so the tax software can correctly calculate this credit.



**Tax Software Hint:** Go to the Volunteer Resource Guide, Tab G, Nonrefundable Credits, for details about qualifying income limits for this credit. If a taxpayer appears to qualify, follow the directions in the Volunteer Resource Guide to complete a Schedule R. The taxpayer will not get the benefit of the credit unless the Schedule R is completed.



## EXERCISES (continued)

**Question 2:** Taxpayers may be able to take the credit for the elderly or disabled if they are:

- Under age 65 at the end of the tax year
- Retired on permanent and total disability
- Under the mandatory retirement age on January 1, of the tax year, and
- Receiving taxable disability income

True  False

## Taxpayer Interview and Tax Law Application

### Determining Albert's Eligibility

Albert arrives at the tax center with his tax return nearly complete, but he wants to know if he can claim the credit for the elderly or the disabled. Follow along in the conversation.

#### SAMPLE INTERVIEW

VOLUNTEER SAYS...

*Are you either a U.S. citizen or a resident alien?*

*Are you over 65?*

*Are you retired on permanent and total disability?*

*Sounds like you may qualify. What is your adjusted gross income?*

*How much did you receive in Social Security?*

*Did you receive any other pension benefits that might not be taxable?*

*And your filing status is Single, so it looks like you might be able to claim the credit. If you would like for me to do your return, I will go back through it step-by-step to make sure.*

ALBERT RESPONDS...

Yes, I'm a U.S. citizen.

No, I'm only 54, not even old enough for retirement. But I had to stop working last year because of my disability.

Yes. In fact, I started receiving disability retirement benefits last August.

\$15,430.

I got \$4,430 in Social Security benefits.

No, I just get my Social Security and disability checks from the place I retired.

### What is the mortgage interest credit?

This topic is out of scope for the VITA/TCE programs and is included for informational purposes only. Taxpayers who hold mortgage credit certificates (MCCs) under a qualified state or local government program may claim a nonrefundable credit for mortgage interest paid. The taxpayer must have a document titled, "Mortgage Credit Certificate (MCC)." The amount of the credit is listed on the certificate. Refer taxpayers who choose to claim this credit to a professional tax preparer.

### How are the total nonrefundable credits reported?

Nonrefundable credits are listed on Form 1040, Schedule 3 and the total is entered on the applicable line of Form 1040.



**Tax Software Hint:** Based on your entries for all the credits, the software calculates the total of the taxpayer's credits and enters the amount on Form 1040. Remember, the nonrefundable credits cannot exceed the taxpayer's federal income tax.

## Summary

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### Retirement Savings Contributions Credit

Taxpayers who contributed to certain retirement plans or IRAs may be eligible for a nonrefundable qualified retirement savings contributions credit.

Be sure to ask the taxpayer if IRA contributions were made. Carefully review the taxpayer's Form(s) W-2 for pretax retirement plan contributions and accurately input the amounts into the tax software. The software calculates the retirement savings credit based on the information entered.

The amount of the credit is determined by the taxpayer's filing status, adjusted gross income, and the taxpayer's qualified retirement contributions.

Form 8880 is used to calculate the credit.



**CAUTION** Taxpayers' IRA contributions are often overlooked. Ask taxpayers if they made traditional or Roth IRA contributions that may qualify for the retirement savings contributions credit.

### Credit for the Elderly or the Disabled

Taxpayers age 65 or older, or under age 65 who retired on permanent and total disability, may be able to claim a special nonrefundable credit if they are U.S. citizens or resident aliens. Few qualify for this credit because most taxpayers' Social Security benefits exceed the income limits.

The Volunteer Resource Guide provides a flowchart for determining basic eligibility and a quick reference table of income and Social Security limits. Schedule R, Credit for the Elderly or the Disabled, is used to calculate the credit.

### What situations are out of scope for the VITA/TCE programs?

The following is out of scope for this lesson. While this list may not be all inclusive, it is provided for your awareness only.

- Mortgage interest credit



#### TAX LAW APPLICATION

To gain a better understanding of the tax law, complete the practice return(s) for your course of study using the Practice Lab on L&LT.



## EXERCISE ANSWERS

**Answer 1:** *B. Sybil qualifies for the credit because her adjusted gross income is under the threshold limit for Married Filing Jointly.*

**Answer 2:** *True. A taxpayer who is under age 65 at the end of the tax year, retired on permanent and total disability, had not reached mandatory retirement age by January 1 of the tax year, and who receives taxable disability income, may be able to take the credit for elderly or disabled.*

*All these items must first be met before a taxpayer who is under age 65 can be considered for the credit for the elderly or disabled.*

