



Payments



Introduction

This is one of several lessons that cover the Payments section of the return, which includes payments, additional child tax credit, the refundable education credit, and earned income credit. After finishing these lessons, you will be able to complete the Payments section of the taxpayer's return. This lesson covers income tax withholding, estimated tax payments, certain refundable credits, and other payments made by the taxpayer.

Additional child tax credit and the refundable education credit have already been covered. Earned income credit will be covered in the next lesson.

Objectives

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

- Identify the following types of payments and credits that are applicable for most low- and moderate-income taxpayers:
 - Federal income tax withheld from Forms W-2, Wage and Tax Statement
 - Federal income tax withheld from Forms 1099
 - Estimated tax payments and amounts applied from the prior year's return
 - Amount paid with a request for an extension to file
 - Excess Social Security and tier 1 RRTA tax withheld
- Report these payments and credits correctly on the taxpayer's return

The information you obtain from the taxpayer's intake and interview sheet will help you determine the payments and credits that should be reported. Refer to the Volunteer Resource Guide, Other Taxes and Payments section, to identify and review the Payments section of the return.

How do I report federal income tax withheld?

The federal income tax system is a "pay as you go" system. That means tax is paid as income is earned or received during the year and is referred to as withholding credit.

What do I need?

- Intake and Interview Sheet
- Publication 4012, Volunteer Resource Guide
- Publication 17
- Publication 4491-W
- Form W-2
- Form 1040

Optional:

- Publication 505
- Form 1040 Instructions
- Form 1040-ES
- Forms 1099
- Form 4868
- Form 5405

Income tax is generally withheld from the following types of income:

- Salaries and wages
- Tips
- Taxable fringe benefits
- Sick pay
- Pensions and annuities
- 401(k) and IRA distributions
- Gambling winnings
- Unemployment compensation
- Certain federal payments such as Social Security benefits

If taxpayers have income tax withheld during the tax year, they will receive one of the following forms showing the amount withheld:

- Form W-2, Wage and Tax Statement
- Form W-2G, Certain Gambling Winnings
- One of several different types of Forms 1099

The total amount withheld is entered on Form 1040, Payments section, on the line for federal income tax withheld.

TIP

The total amount withheld from income is included on the return. If a paper return must be filed, attach all Forms W-2 and any Forms W-2G and Forms 1099 if tax was withheld.

example

Freda worked as a clerk and received a Form W-2 that reported federal income tax withholding of \$1,000. She also received Form 1099-INT from her bank, which reflected federal income tax withholding of \$50. The correct total withholding reported on her return would be \$1,050 (\$1,000 + \$50).



Tax Software Hint: By the time you reach the Payments section, you have already entered information from the taxpayer's Form(s) W-2 and Form(s) 1099, including the federal income tax withheld. The tax software calculates the total and displays it on the Payments section of the return.

TIP

Refer to the Affordable Care Act (ACA) lesson in this publication for information on the advanced premium tax credit, the premium tax credit, and the shared responsibility payment.

What about estimated taxes and amounts applied from the prior year's return?

What are estimated tax payments?

Many taxpayers have income from self-employment, dividends, interest, capital gains, rent, and royalties. The "pay as you go" system also applies to this income. If the tax due on this income exceeds certain limits, estimated tax must be paid quarterly by the taxpayer. If estimated tax payments are not paid when they are required, a penalty could be imposed. This also applies if taxpayers do not have enough income tax withheld from their salary or wages. See the Refund and Amount of Tax Owed lesson for more information on estimated taxes.

TIP

Estimated tax includes the taxpayer's income tax and self-employment tax, which is equivalent to the Social Security and Medicare taxes withheld from employee's pay.

Where do I get this information?

Review the taxpayer's intake and interview sheet to determine if they had income from sources such as self-employment or investments for which taxes may not have been withheld. If so, ask, "Did you pay estimated taxes to the IRS?" If the answer is "yes," ask to see the taxpayer's record of payments, such as Form 1040-ES, Estimated Tax for Individuals.

If taxpayers need more information about estimated taxes, refer them to Form 1040-ES, which includes instructions and a worksheet for computing the amount of estimated taxes they should pay. Forms can be obtained on www.irs.gov.

TIP

If a taxpayer paid substantially more or less than required in estimated tax, encourage them to recalculate it. They can adjust their estimated tax payments by following the instructions and worksheet on Form 1040-ES.

What about tax payments applied from a previous year?

Taxpayers who overpay their income taxes in one year can apply all or part of their overpayment to the next year's estimated tax by indicating the amount they want to apply.

Where do I get this information?

This information should be included in the intake and interview sheet, but confirm by asking the taxpayer:

- Did last year's return show an overpayment?
- Did you apply any part of the overpayment to this tax year?

If the answer is "yes" to both questions, ask to see last year's tax return to document the amount of tax applied to this year's tax return. Add this amount to the estimated tax payments and enter the total on the applicable line.



Tax Software Hint: For software entries to record current year estimated tax payments, go to the Volunteer Resource Guide, Preparing the Return tab.

Taxpayer Interview and Tax Law Application

Let's see how our volunteer helped a taxpayer, Ernie, with this part of the Payments section.

SAMPLE INTERVIEW

VOLUNTEER SAYS...

ERNIE RESPONDS...

Let's complete the Payments section of your return. The tax software added up all the income tax withheld from your Forms W-2 we entered earlier. I know you had a little self-employment income and I see you responded "yes" to the question on estimated tax payments on the intake and interview sheet. Is that correct?

Yes, I did.

Do you have a record of your payments, perhaps on a Form 1040-ES?

Yeah, here it is.

Good, you paid each quarter. We'll enter those payments. While we're here, did last year's return show an overpayment?

Yes, here it is: \$150.

Did you apply any of that overpayment to this year's tax return?

Yes, all of it.

Okay, we'll enter that too. Now we show the total of the withholding from your Forms W-2, your estimated tax paid and the refund amount from last year's return applied to this year.

Good!

What about amounts paid with an extension to file?

Taxpayers can get an automatic six-month extension of time to file by submitting Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return. This form extends the time to file until October 15. This is only an extension to *file*, not an extension to *pay*. If taxpayers do not pay their taxes by April 15, they will owe interest and may be charged penalties.

Later, when taxpayers file their return, they report the payment made with Form 4868 on the applicable line on Form 1040, Payments section.



If the April 15 deadline falls on a Saturday, Sunday, or legal holiday, the deadline is the next business day.

example

One of Bernice's Forms W-2 was lost in the mail. She requested a copy from her former employer, but it did not arrive by April 15. She filed for an extension, calculated the amount of taxes owed based on her final pay stub from that employer, and paid the \$243 that was due. When she finally received her Form W-2, she filed her return and reported the \$243 on the applicable line on Form 1040, Payments section.

How can taxpayers file the extension?

Taxpayers may file the extension electronically or on paper. The extension must be transmitted or mailed by the due date of the return. You can help taxpayers file for an extension using the tax software.



Tax Software Hint: Go to the Volunteer Resource Guide, Other Returns tab, to review the step-by-step procedures for filing for an extension.

What is excess Social Security and tier 1 RRTA tax withholding?

A taxpayer may have more than one employer and a combined income over the amount for the Social Security wage base. This means the taxpayer may have paid more in Social Security tax than is required. This excess amount is entered on the applicable line on Form 1040, Payment section, and is a refundable credit.



Tax Software Hint: The software will calculate this automatically based on the amount entered for each Form W-2. Therefore, be sure the information from each Form W-2 is accurately entered.

How do I find the total payments?

Figuring the total tax payments is easy. Add the lines in the Payments section, and enter the total on Form 1040, total payments line.



Tax Software Hint: The software totals all payments automatically.

Summary

Completion of the Payments section is critical to an accurate tax return. It lists all the payments the taxpayer made during the year, and the taxpayer's refundable credits. You must be able to identify the types of payments and credits that apply to individuals who qualify for volunteer return preparation assistance.

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.

- Taxpayers who choose to claim any of the following credits:
 - Form 4136, Credit for Federal Tax Paid on Fuels
 - Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains
 - Form 8839, Qualified Adoption Expenses
 - Form 8885, Health Coverage Tax Credit



TAX LAW APPLICATION USING THE WORKBOOK

To gain a better understanding of the tax law, complete the comprehensive problem or practice exercise(s) for your course of study in Publication 4491-W.

For practice using the tax preparation software, complete the scenarios using the Practice Lab on L<.

