



Payments and Miscellaneous Refundable Credits



Introduction

This is one of several lessons that cover the total payments on the return, which includes payments, additional child tax credit, the refundable education credit, and earned income credit. For tax year 2021, eligible taxpayers may claim an additional amount (recovery rebate credit) if they did not receive the full amount of the third Economic Impact Payment (EIP 3) to which they were entitled. After finishing these lessons, you will be able to complete the appropriate lines and schedules of the taxpayer's return. This lesson covers income tax withholding, estimated tax payments, certain refundable credits, and other payments made by the taxpayer. Some of the credits will be entered on the appropriate lines of the return while some payments and credits may be entered on Schedule 3, Additional Credits and Payments.

Premium tax credit, 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
- Calculate the recovery rebate credit.
- Report these payments and credits correctly on the taxpayer's return

The information you obtain from the taxpayer's Intake/Interview & Quality Review Sheet will help you determine the payments and credits that should be reported. Refer to the Volunteer Resource Guide, Tab H, Other Taxes, Payments, and Refundable Credits, to identify and review the payments reported on a 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?

- Form 13614-C
- Publication 4012
- Publication 17
- Form W-2
- Form 1040
- Optional:**
- Publication 505
- Form 1040 Instructions
- Form 1040-ES
- Forms 1099
- Form 4868
- Form 8962

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 or more of several different types of Forms 1099

The total amount withheld is entered on the line for federal income tax withheld.

The unintentional omission of withheld income tax is a common error. To avoid this mistake, review your input on each form to ensure all income taxes withheld are included before proceeding to the next one.



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).



Refer to the Premium Tax Credit lesson in this publication for information on the advanced premium tax credit and the premium tax credit.



Tax Software Hint: When you enter 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 appropriate line of the return.

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.



Estimated tax is used to pay both income tax and self-employment tax, as well as other taxes and amounts reported on your tax return.

Where do I get this information?

Review the taxpayer's Intake/Interview & Quality Review 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?” Be sure to note the dates and amounts of the payments on the intake and interview sheet and enter them into the software.

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 irs.gov.



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. Taxpayers who are wage earners should use the IRS Tax Withholding Estimator to determine whether they need to update their withholding.

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 taxpayer's Intake/Interview & Quality Review 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 on the applicable line on Form 1040.



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

Taxpayer Interview and Tax Law Application

Let's see how our volunteer helped a taxpayer, Ernie, with his payments.

SAMPLE INTERVIEW

VOLUNTEER SAYS...

ERNIE RESPONDS...

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.



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

Later, when taxpayers file their return, they report the payment made with Form 4868 on the applicable line on Form 1040, Schedule 3.

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, Schedule 3.

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, Tab M, Other Returns, to review the step-by-step procedures for filing for an extension or review the Military Finishing the Return lesson for additional information.

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, Schedule 3, 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.

Economic Impact Payment and Recovery Rebate Credit

EIPs are technically an advance payment of a temporary tax credit (recovery rebate credit) that eligible taxpayers can claim on their 2021 return.

If eligible, taxpayers may claim an additional credit, for example, if a child was born or adopted in 2021. The EIP will not reduce a taxpayer's refund or increase the amount they owe when they file a tax return. It is also not taxable and therefore should not be included in income on a 2021 return.

Who is eligible?

Generally, taxpayers who are U.S. citizens or U.S. resident aliens are eligible for a \$1,400 EIP (\$2,800 for a joint return), plus \$1,400 for each qualifying dependent, if the taxpayer and spouse if filing a joint return aren't dependents of another taxpayer, have valid Social Security numbers (SSNs), and adjusted gross income amounts under the threshold amounts listed in the Volunteer Resource Guide Tab H, Other Taxes, Payments, and Refundable Credits.

Taxpayers who file jointly with their spouse and only one individual has a valid SSN, will receive up to \$1,400 for the spouse with a valid SSN and up to \$1,400 for each qualifying dependent claimed on the tax return. If neither spouse has a valid SSN, taxpayers will only receive up to \$1,400 for each qualifying dependent claimed on the tax return.

If either spouse is an active member of the U.S. Armed Forces at any time during the taxable year, only one spouse needs to have a valid SSN for the couple to receive up to \$2,800 for themselves, plus up to \$1,400 for each qualifying dependent.

A payment won't be issued for someone who died before January 1, 2021.

Who is a qualifying dependent?

Unlike the first two EIP payments, EIP 3 is not restricted to children under 17. Eligible individuals will get a payment based on all of their qualifying dependents claimed on their return, including older relatives like college students, adults with disabilities, parents and grandparents. Qualifying dependents must have an SSN valid for employment or an adoption taxpayer identification number (ATIN). A child who has an ITIN is not a qualifying child for this payment.



CAUTION An individual who may be claimed as a dependent on another taxpayer's tax return is not eligible for a payment.

What information is needed?

Taxpayers should keep any notices they receive regarding the 2021 Economic Impact Payment and any additional payments with their 2021 tax records. These notices are mailed to each recipient's address on file after the payment is made. Taxpayers who don't receive a third payment or don't receive the maximum amount this year may be eligible to claim the 2021 Recovery Rebate Credit on their 2021 tax return.

Refer to the [Questions and Answers about the Third Economic Impact Payment](#) for additional details.

Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals

Certain self-employed individuals may claim refundable credits for sick and family leave needed as a result of the coronavirus.

Form 7202, Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals, is used to allow self-employed individuals to figure these credits. Part I figures the sick leave credit for dates after December 31, 2020 and before April 1, 2021. Part II figures the family leave credit for dates after December 31, 2020 and before April 1, 2021. Part III figures the sick leave credit for dates from April 1 through September 30, 2021. Part IV figures the family leave credit for dates from April 1 through September 30, 2021. These two credits are included on Schedule 3 (Form 1040). Form 7202 is filed separately by each taxpayer with net self-employment earnings, so a joint tax return may have two Forms 7202 attached.

The “average daily self-employment income” is multiplied by the allowable lost workdays to compute the credit. The “average daily self-employment income” is an amount equal to -- (A) the net earnings from self-employment of the individual for the taxable year or prior taxable year, divided by (B) 260.



Taxpayers may elect to use their prior year self-employment income to compute the credits for sick and family leave. This amount can be found on Line 6 of Schedule SE on the taxpayer's prior year return.

Which credit is the taxpayer entitled to claim?

If a taxpayer is unable to work because:

- They're subject to a COVID-19 quarantine or isolation order.
- They're advised to self-quarantine because of COVID-19.
- They have COVID-19 symptoms and are seeking a medical diagnosis.
- They're seeking or awaiting the results of a diagnostic test for, or a medical diagnosis of, COVID-19 and the individual has been exposed to COVID-19 or is unable to work pending the results of the test or diagnosis. Applies to lost workdays from April 1 through September 30, 2021.
- They're obtaining immunization related to COVID-19 or recovering from any injury, disability, illness, or condition related to the immunization. Applies to lost workdays from April 1 through September 30, 2021.

The taxpayer is entitled to the sick leave credit up to \$511 per lost work day.

If the taxpayer is unable to work because:

- They're caring for someone who is subject to a COVID-19 quarantine or isolation order, or for someone who is advised to self-quarantine because of COVID-19.
- They're caring for a child whose school or place of care is closed due to COVID-19.
- They're caring for a child whose child care provider is unavailable due to COVID-19.
- They're accompanying an individual to obtain immunization related to COVID-19. Applies to lost workdays from April 1 through September 30, 2021.
- They're caring for an individual who is recovering from any injury, disability, illness, or condition related to the immunization. Applies to lost workdays from April 1 through September 30, 2021.

The taxpayer is entitled to sick leave credit up \$200 per lost work day.

If the taxpayer is unable to work because:

- They're caring for a child whose school or place of care is closed due to COVID-19.
- They're caring for a child whose child care provider is unavailable due to COVID-19.

The taxpayer is entitled to family leave credit up to \$200 per lost work day.

The maximum number of days that can be claimed are:

- 10 days for the sick leave credit after December 31, 2020 and before April 1, 2021, reduced by the number of sick leave days claimed in 2020.
- 10 days for the sick leave credit from April 1 through September 30, 2021.
- 50 days for the family leave credit after December 31, 2020 and before April 1, 2021, reduced by the number of family leave days claimed in 2020.
- 60 days for the family leave credit from April 1 through September 30, 2021.

Taxpayers may not count the same lost work day for both credits.

These amounts are limited if the taxpayer also took family and sick leave as an employee. Employers are required to report these amounts either on Form W-2, Box 14, or on a separate statement. See Form 7202 and instructions for information on calculations.

Self-employed individuals should maintain documentation establishing their eligibility for the credits as a self-employed individual. That documentation should be similar to the documentation that employers claiming the credits for qualified leave wages under the FFCRA sections 7001 and 7003 should maintain under **How Should an Employer Substantiate Eligibility for Tax Credits for Qualified Leave Wages?** Taxpayers should retain this documentation with their tax records. Volunteers are not required to review the taxpayers' documentation.

For either the sick leave or family leave credit, a child includes: a biological, adopted, or foster child; a stepchild; a legal ward; a child for whom the taxpayer has standing in loco parentis (someone with day-to-day responsibilities to care for or financially support a child); or an adult son or daughter (i.e., one who is 18 years of age or older) who (1) has a mental or physical disability, and (2) is incapable of self-care because of that disability.

How do I find the total payments?

Figuring the total tax payments is easy. Add the federal withholding line, estimated tax payments and amount applied from prior year return line, plus the other payments and refundable credits line (which includes any amounts from Schedule 3).



Tax Software Hint: The software totals all payments automatically.

Summary

Listing all the payments the taxpayer made during the year, and the taxpayer's refundable credits is critical to completing an accurate return. You must be able to identify the types of payments and credits that apply to each taxpayer when you are preparing their return.

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

