Federal Tax Guide for U.S. Residents: Graduate Students

Tax Year 2020
Agenda

- IRS Info & Resources
- Gross Income & Income Thresholds
- Deductions & Credits
- Lifetime Learning Credit
- Qualified & Non-Qualified Education Expenses
- Departmental Scholarships, Fellowships and Grants for U.S. Resident students
- Prepaying your Taxes to the IRS
- Form 1098T
- Deductible Student loan interest
- Information Tax Forms & Resources
Important Information

> Tax due date is 04-15-2021

  **Note:** The tax due date has been extended to **May, 17, 2021**

> Standard deduction is $12,400 for single and $24,800 for married joint return

> CARES Act payment is not reported in Box 5 on the 1098T form. This money is non-taxable

> Only use 1040 tax form to file. Form1040A or 1040EZ discontinued.
What is the IRS?

> The Internal Revenue Service
> The tax collection agency of the United States
> Administers the Internal Revenue Code enacted by Congress

> **Mission Statement:**

  – Provide top quality service
  – Help taxpayers understand and meet tax responsibilities
  – Apply the tax law with integrity and fairness
IRS Resources

Great source for:
- Information about tax return preparation
- Tax forms and instructions
- IRS Publications

Help by phone:
- Hotline available to answer questions
- Helps with tax return preparation
- Most documents are easy to print

www.irs.gov
IRS Publication 970

Individual Tax Help
1-800-829-1040

IRS Seattle Office
915 Second Ave (Downtown Seattle)
32nd Floor, Federal Building

Call 206-946-3400 for more info.

Hours:
Monday - Friday
8:30 am to 4:30 pm by appointment

5 | Revised January 28, 2021
At Your Service

Taxpayer Advocate Service
www.irs.gov/advocate
(206) 946-3707

> Serves taxpayers in Washington State

> Helps if you have tried unsuccessfully to resolve a problem with the IRS

> Offers special help to taxpayers experiencing a significant hardship due to their tax problems
At Your Service

UW Federal Tax Clinic

(206) 685-6805

> Staffed by second-year, third-year, and post-graduate law students and volunteer attorneys

> Helps taxpayers who do not already have tax representation in a current dispute and cannot afford representation

> Assists taxpayers with IRS audits and other federal tax controversies

> Services provided only to those whose income falls at or below a certain level (e.g., $31,900 for a single person in 2020)

> The LITC does not prepare tax returns
Your Rights & Responsibilities

As a U.S. taxpayer you have the right to:

> Know that your rights are protected
> Privacy and confidentiality
> Professional and courteous service
> Representation
> Pay only the correct amount of tax
> Help with unresolved tax problems
> Appeals and judicial review
> Relief from certain penalties and interest
Your Rights & Responsibilities

As a U.S. taxpayer you are responsible for:

> Filing your federal income taxes every year
> Filing your taxes on time
> Completing the form accurately and signing it
> Attaching required documents and mailing it by April 15th
> Paying the taxes due or making a payment plan arrangement with the IRS to pay over time
> Participating in an audit if necessary

If you can’t pay, failure to file your return only makes the situation worse!
Who Has to File Taxes?

You must file a federal tax return if you:

> Worked in the United States or received United States source income, and

> The amount of gross income meets a certain threshold amount

If you have a Social Security Number (SSN), file using your SSN

If you do not have a Social Security Number, get an Individual Taxpayer Identification Number (ITIN) from the IRS and file using your ITIN
What is United States Source Income

**Residents** of the United States get taxed on **ALL** worldwide income regardless of its source

**Non-Residents** get taxed **ONLY** on United States source income

Source depends on type of income:

> Wages are sourced where they are earned

> Scholarships and grants are sourced where the payer of the funds resides
What is NOT Included in Gross Income?

Scholarships, Fellowships, and Grants are not included in gross income if:

> You are a degree candidate
> Your money is for tuition, books, and supplies

AND

> The amounts you received were not payments to you for performance of services (for example, a wage for a part-time job)
What is Included in Gross Income?

Amounts received for living expenses are taxable.

Amounts received as payment for services are taxable.

Most stipends for services performed as an ASE (Academic Student Employee), regardless of the purpose for which these stipends are awarded, are fully taxable.
What is Included in Gross Income?

Other common forms of gross income

> Interest and dividend income from savings and investments
> Gambling winnings
> Summer job abroad (if you are a U.S. resident)
> Discharge of debt (there are exceptions)
> Unemployment

Beware! Just because the payer does not withhold taxes does not mean the income is not taxable
What is the Threshold Amount?

You must file a federal tax return if:

> You are a dependent of someone else, and you earned:
  - $1,100 unearned income (e.g. interest, dividends)
  - $12,400 of earned income (e.g. wages, compensation)

> You are **not** a dependent, Single Filing Status, and you earned
  - $12,400 **any** type of income ($24,800 if Married Filing Joint)
  - $400 of self-employed income

Whether you are a dependent relies on several factors:

- Who is claiming you (parent, other relative, non-relative)
- Age and whether in school
- Support provided by you or the person claiming you as a dependent
- Best to consult directions to 1040
Standard Deduction of $12,400

- An amount you will subtract from your gross income before you calculate your taxes.
- Taxpayers can do itemized deductions if they have more expenses, like mortgage interest or property tax.
- If you cannot do the itemized deduction, the IRS gives you a standard deduction amount.

✓ You can use the standard deduction whether you are a dependent or not!
Tax Credit or Deduction

A **tax credit** reduces the amount of income tax you may have to pay.

A **deduction** reduces the amount of income subject to tax.
**Tax Credit or Deduction**

### Example of a Deduction:

- **Wages**: 3,000
- **Gambling Winnings!**: 1,000
- **Gross Income**: 4,000

(**Less Deduction**: 250)

- **Taxable Income**: 3,750
- **Tax Percentage**: 10%
- **Tax**: 375
- **Tax Owed**: 375

### Example of a Credit:

- **Wages**: 3,000
- **Gambling Winnings!**: 1,000
- **Gross Income**: 4,000

- **Taxable Income**: 4,000
- **Tax Percentage**: 10%
- **Tax**: 400

(**Less Credit**: 250)

- **Tax Owed**: 150

**Note that the $250 Credit is far more valuable to this student!**
Lifetime Learning Tax Credit

* For students enroll in a graduate program or fee base program
* For any type of post-secondary education, including classes taken to improve or acquire job skills
* For an unlimited number of years
* Credit is calculated by 20% of the first $10,000 you paid for the qualified education expenses.
* Maximum $2,000 in tax year 2020
When you CAN claim a Tax Credit

> If you pay qualified education expenses

> MAGI (Modified Adjusted Gross Income) is under $69,000 for single or under $138,000 for married filing jointly.

> The Lifetime Learning Credit is incrementally decreased if your MAGI is between $59,000 – $69,000 for single filers and $118,000 – $138,000 for joint filers.

> To claim a credit, use **tax form 1040**

> To calculate the tax credit, use **form 8863**
You CANNOT claim the Earned Income or Lifetime Learning Tax Credit

- If your filing status is married filing separately
- You are listed as a dependent in the exemptions section on another person’s tax return
- For the Lifetime Learning: your income is over $68,000 for single and over $136,000 for married filing jointly
- You or your spouse was a non-resident alien for any part of 2020 and the non-resident did not elect to be treated as a resident for tax purposes
Qualified Education Expenses – Lifetime Learning

> Per IRS regulations, qualified education expenses are:

1) Tuition and fees required for enrollment
2) Course related books
3) Supplies
4) Equipment needed for a course of study

**Only if paid for an eligible student that is required for enrollment or attendance at an eligible institution**
Qualified Education Expenses

Do NOT include:

> Insurance
> Medical Expenses (including student health fees)
> Transportation (U-pass)
> Room & Board
> Athletic Fees
A scholarship or fellowship is tax free when:

- the money is paying for **qualified education expenses**
  
  **AND**

- the student is working towards a degree
Prizes, Awards and Stipends to U.S. Citizens & Resident Students

1. The money will affect a student’s financial aid status and can affect a student’s tax credit
   - When departments award money onto the student tuition account, the UW does not withhold tax

2. When departments award money in the student account system, the Financial Aid Office will receive all payment information to determine the needs of students when they apply for financial aid

3. Prizes, awards, and stipends are taxable income
Paying Taxes on Stipend Payments

> Stipend payment from your department is a taxable form of income.
> Stipend payments from the department do not withhold federal taxes.
> For taxable income with taxes not withheld, you should prepay taxes to the IRS quarterly to reduce the tax amount due when you file your yearly tax return.
How to Prepay Your Taxes

> Visit: irs.gov/payments
> Go to make a payment section:

*Bank Account (Direct Pay)*  
*Debit Card or Credit Card*

Other Ways You Can Pay
- [Electronic Federal Tax Payment System](https://irs.gov/payments) (best option for businesses or large payments; enrollment required)
- [Electronic Funds Withdrawal](https://irs.gov/payments) (during e-filing)
- [Same-day wire](https://irs.gov/payments) (bank fees may apply)
- [Check or money order](https://irs.gov/payments)
- [Cash](https://irs.gov/payments)

> Pay by your SS# with the amount
> You need to select the year and this is a prepay taxes
> Print a payment receipt after you pay
1098T Form (prepared by UW)

For the Lifetime Learning Credit:

> UW generates a 1098T form to all UW and PCE students. Online printing available from website:

http://finance.uw.edu/sfs/tax

> Summarizes all tuition and fee charges in **Box 1**

> Summarizes scholarship, fellowship and financial aid in **Box 5**

> Helps students determine if they qualify for tax credit or if the scholarship and grant aid money is taxable

> Non Resident Alien Students do not qualify and will not receive the 1098T form
1098T Form (prepared by UW)

UW reports tuition payments plus scholarships and financial aid grants payment to the IRS

Information on the form:

> **Box 1** – total of qualified tuition and fees expenses

> **Box 5** – total of scholarship or financial aid grants

When comparing box 1 to box 5:

> If box 1 total is greater than box 5 total, student may qualify for a tax credit

> If box 5 total is greater than the box 1 total, student will have to report the difference in the amount as income
1098T Form – Tax Credits

Box 1: $11,041.00
Box 5: - $6,374.00
Difference: $6,364.00

Filers can only claim one of the credits:
American Opportunity is $2,500
Lifetime Learning is $2,000
Box 1: $ 3,738.00
Box 5: - $ 7,537.00
Difference: - $ 3,799.00

Extra scholarship funds to report as income: $ 3,799.00
1098T Form – Stipend

Box 1: $ 24,778.00
Box 5: - $43,558.00
Difference: -18,780.00

Additional scholarship payments should be filed as additional income: $18,780.00

*Stipend Paid via Payroll:*

No taxes are withheld from the payroll office – stipends are reported on the 1098T form as scholarship. This may increase tax liability.
Deductible Student Loan Interest

> Your student loan interest may be deductible up to $2,500 per year

> Some restrictions apply:

> You are not claimed as a dependent by someone else

> Your AGI does not exceed $85,000 ($170,000 for married filing jointly)

> Deduction is reduced when income exceeds $70,000 ($140,000 for married filing jointly)

> You are legally liable for the loan
Earned Income Credit

“Refundable” Credit

> You may receive a refund even if you did not pay taxes!

How to qualify

> Must have Earned Income
> Must be a U.S. Resident
> Must either have one or more qualifying children or be 25 years of age
> Meet the income threshold. Cannot have investment income of more than $3,650
Earned Income Credit

Earned income includes:

> Wages from employment

> Scholarship or fellowship reported on a W-2

Amount of credit varies depending upon your filing status, income and number of kids

Income ceilings for Married filing Joint

> More than Two Qualifying Children - $56,884

> Two Qualifying Children - $53,350

> Only One Qualifying Child - $47,600

> No Qualifying Child & over age 25 - $21,700
Additional Dependent Issues

Issues can arise with divorced parents with dependent children

Generally, the parent who has custody of the child can claim the Dependent Deduction

“Custodial parent” may give up that right by signing a Form 8332

Revised January 28, 2021
To report excess scholarship as income use:

LINE 1: “amount & SCH”
To report tax credits from form 8863 use:

**LINE 29**
Electronic Filing

File Your Federal Taxes Online for Free

Free File is now open!
Welcome to Free File, where you can prepare and file your federal individual income tax return for free using tax-preparation-and-filing software. Let Free File do the hard work for you with brand-name software.

If you didn’t get the full Economic Impact Payment, you may be eligible to claim the Recovery Rebate Credit using Free File. If you didn’t get any payments or got less than the full amounts, you may qualify for the credit, even if you don’t normally file taxes. See Recovery Rebate Credit for more information.

IRS Free File lets you prepare and file your federal income tax online for free. File at an IRS partner site with the IRS Free File Program or use Free File Fillable Forms. It’s safe, easy and no cost to you.

Pick an option based on your income

Income $72,000 and below:
- Free federal tax filing on an IRS partner site
- State tax filing (free with some offers)
- Guided preparation — simply answer questions
- Online service does all the math
- More about IRS Free File

Income above $72,000:
- Free electronic forms you fill out and file yourself
- No state tax filing
- You should know how to prepare paper forms
- Basic calculations with limited guidance

Free File Fillable Forms: Opens February 12, 2021
- More about Free File Fillable Forms

What Is IRS Free File?
The IRS Free File Program is a public-private partnership between the IRS and many tax preparation and filing software industry leaders who provide their brand-name products for free. It provides two ways for taxpayers to prepare and file their federal income tax online for free:
- Traditional IRS Free File provides free online tax preparation and filing options on IRS partner sites. Our partners are online tax preparation companies that develop and deliver this service at no cost to qualifying taxpayers. Please note, only taxpayers who filed previously for 2020 on IRS Free File are eligible for an IRS Free File offer.
On-Campus Tax Help

United Tax Way Free Online Tax Help

January 20 – April 18, 2021

Follow the link below:

https://www.uwkc.org/need-help/tax-help/
Opting out the Paper 1098-T

For a no-hassle, paperless, environmentally friendly 1098T, sign up to “Opt Out” of receiving the paper 1098T form.

Student Fiscal Services will send you an email as soon as the 1098T is on your MyUW page!

For more information go to: http://finance.uw.edu/sfs/tax
To contact student fiscal service by phone or email, you need to provide your student ID number.

Student account questions?
Send email to: taxquest@uw.edu

Student Fiscal Services
206-543-4694

UW student tax website:
f2.washington.edu/fm/sfs/tax
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