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

Tax Year 2019
Agenda

> IRS Information and Your Responsibilities
> U.S. Resident Taxes
  – 1098-T and Other Tax Forms
  – Tax Credits and Taxable Income
Important Information

> Deadline for filing tax return is April 15, 2020

> Standard deduction is $12,200 for single and $24,400 for married couples

> Only use 1040 Tax form. No 1040A or 1040EZ

> Tuition and fees deduction has been extended to 2018, 2019 & 2020. Review Form 8917 for more information.
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 February 19, 2020
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
> Complete the form accurately and sign it
> Attach required documents and mail by April 15th
> Paying the taxes due or making a payment plan arrangement with the IRS to pay over time
> Participate 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 payor 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 payor 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:
  - $1,050 unearned income (e.g. interest, dividends)
  - $12,200 of earned income (e.g. wages, compensation)

> You are **not** a dependent, Single Filing Status, and you earned
  - $12,200 **any** type of income ($24,000 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 $12,200

> 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!
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

<table>
<thead>
<tr>
<th>Example of a Deduction:</th>
<th>Example of a Credit:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wages</strong></td>
<td>3,000</td>
</tr>
<tr>
<td>Gambling Winnings!</td>
<td>1,000</td>
</tr>
<tr>
<td>Gross Income</td>
<td>4,000</td>
</tr>
<tr>
<td><strong>(Less Deduction)</strong></td>
<td>250</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>3,750</td>
</tr>
<tr>
<td>Tax Percentage</td>
<td>10%</td>
</tr>
<tr>
<td>Tax</td>
<td>375</td>
</tr>
<tr>
<td><strong>Tax Owed</strong></td>
<td>375</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
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<td><strong>Wages</strong></td>
<td>3,000</td>
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<td>4,000</td>
</tr>
<tr>
<td>Tax Percentage</td>
<td>10%</td>
</tr>
<tr>
<td>Tax</td>
<td>400</td>
</tr>
<tr>
<td><strong>(Less Credit)</strong></td>
<td>250</td>
</tr>
<tr>
<td><strong>Tax Owed</strong></td>
<td>150</td>
</tr>
</tbody>
</table>

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

> For students enrolled in graduate or any fee based programs

> For any type of post-secondary education, including classes taken to improve or acquire job skills

> For an unlimited number of years

> Equal to 20% of the first $10,000 of qualified expenses (maximum $2,000) paid in 2019
When you CAN claim a Tax Credit

> If you pay qualified education expenses

> For Lifetime Learning: your MGI is under $68,000 for single or under $136,000 for married filing jointly

> 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 2019 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
Departmental Scholarships, Fellowships and Grants

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 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
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: $ 12,738.00
Box 5: - $ 0.00
Difference: $ 12,738.00

Filers can only claim one of the credits:
American Opportunity is $2,500
Lifetime Learning is $2,000

UNIVERSITY OF WASHINGTON
Educational Tax Credits Report
IRS Form 1098-T and UW Information Statement – Tax Year 2019

If you have any questions regarding this report, please contact Student Fiscal Services via email at taxquest@uwashington.edu or call 206-543-3639, 9-5 Pacific Time Monday through Friday. See reverse page for additional information.

University of Washington
Student Fiscal Services
Box 355871, Seattle WA 98195

SOC SEC NUMBER:
Student Number:

INFORMATION SUBMITTED TO THE IRS
The following information is being sent to the IRS. Box numbers correspond to IRS form 1098-T, also called the "Tuition Statement". Any box number not listed should be considered to have a zero dollar amount.

Box 1: Payments for qualified tuition & related expenses... $12,738.00
Box 5: Scholarships or grants........................................ 0.00
Box 7: Expenses include an amount for 2020..................... No
Box 8: Student is at least half-time............................... Yes
Box 9: Student is a graduate student............................ No

DETAI OF CHARGES AND FINANCIAL ASSISTANCE RECEIVED
The following itemized information is NOT being sent to the IRS.

QUALIFIED TUITION and RELATED EXPENSES PAID IN 2019

<table>
<thead>
<tr>
<th>Charged</th>
<th>Transaction</th>
<th>Expense</th>
<th>Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>8/28/19</td>
<td>AUTUMN 2019 TUITION</td>
<td>12,638.00</td>
<td>12,638.00</td>
</tr>
<tr>
<td></td>
<td>REGULAR COURSE FEES</td>
<td>30.00</td>
<td>30.00</td>
</tr>
<tr>
<td></td>
<td>REGULAR COURSE FEES</td>
<td>70.00</td>
<td>70.00</td>
</tr>
<tr>
<td>TOTAL:</td>
<td></td>
<td>12,738.00</td>
<td>12,738.00</td>
</tr>
</tbody>
</table>
Box 1: $3,738.00  
Box 5: -$5,351.00  
Difference: -$1,613.00

Extra scholarship funds to report as income: $1,613.00
1098T Form – Stipend

Box 1: $19,086.00  
Box 5: -$29,581.00  
Difference: -$10,495.00

Extra scholarship funds to report as income: $10,495.00

*Stipend Paid via Payroll:*  
No taxes withheld from the payroll office – report on the 1098T form as scholarship. May increases tax liability
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 $3,500
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 - $55,952
- Two Qualifying Children - $52,493
- Only One Qualifying Child - $46,884
- No Qualifying Child & over age 25 - $21,370
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
Form 1040

To report excess scholarship as income use:

LINE 1: “amount & SCH”
To report tax credits from form 8863 use:
LINE 18 C
Electronic Filing

Free File: Do Your Federal Taxes for Free

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 or Free File Fillable Forms.

Choose a Free File Online option based on your income:

Income $69,000 and Below
Free File Online Products
- File your taxes with Free File, easy to use software
- Free state return options are available
- Use the Free File Online Lookup Tool to find free federal and free state return options

Free File Software Topics
- How to Use Free File Instruction (PDF)
- What You Need to Get Started
- How to Validate Your Return
- About the Free File Program

Income above $69,000
Free File Fillable Forms
- Must know how to do your taxes yourself
- Does math offers only basic guidance
- You must have your 2018 tax return
- State tax prep is not available

More Resources
- Know Your Protections Under the IRS Free File Program
- Get Replacement Social Security Benefit Statement Form 554-1099 Online
- Free Tax Return Preparation for Qualifying Taxpayers
On-Campus Tax Help

Free tax help--- file your tax return by United Way of King County VITA site & the Foster School of Business

Samuel E. Kelly Ethnic Cultural Center

January 13 – April 18

Monday & Wednesday: 4 – 8 pm

Friday: 12 – 4 pm

www.freetaxexperts.org
Local Resources

Seattle Public Library, Central Branch
Mon to Thurs: 12 – 7 p.m.
Sat: 11 a.m. – 5 p.m.
Sun: 1 p.m. – 5 p.m.

Seattle Public Library, University Branch
Thurs: 12 p.m. – 4 p.m.
Sat: 12 p.m. – 4 p.m.

Lake City Neighborhood Service Center
Mon, Tues, & Thurs: 5 p.m. – 9 p.m.
Sun: 10 a.m. – 4 p.m.

Free Tax Help at Seattle Public Libraries.
For more times and locations, please visit:

www.spl.org
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
Contacts

John Clynch
Federal Tax Clinic, Law
clyncher@u.washington.edu
206-685-6805

Li Chang Wong
Student Fiscal Services
taxquest@uw.edu
206-221-2609