



Taxing Matters Q&A

Disclaimer: This Q&A is not meant to take the place of professional tax advice. You should consult a tax professional for answers to your specific tax questions.

1. Q: Can you claim the dependent care credit for child care paid even if you can't claim the child this year?

A: Under certain conditions you may qualify for the dependent child care credit even if you can't claim the child. Consult your tax professional.

2. Q: Can a parent claim the tax paid for a Parent PLUS loan on Line 33 of the 1040 form?

A: Generally, a parent who paid interest on his or her Parent PLUS loan can claim the interest paid on their taxes and will receive a 1098-E (Student Loan Interest Statement) from the lender. However, certain conditions apply and the parent should read the instructions for Line 33 of the 1040 form or consult a tax professional.

3. Q: Where on the 1040 form does the Real Estate Tax Credit get reported?

A: In order to qualify for the Real estate Tax Credit you would have to itemize your deductions.

4. Q: When using 2007 tax returns as estimated on 2009-2010 FAFSA, what is the best way to estimate tax, line 44 on the 2008 tax return?

A: If all things are equal to last year, you can estimate the FAFSA using the 2007 taxes, but it is best to complete your 2008 taxes before filing the 2009-2010 FAFSA.

5. Q: What is the Hope Tax Credit?

A: The Hope credit is a tax credit that can be claimed for qualified education expenses for an eligible student. Income limits apply and there is a maximum amount that can be credited annually. Consult the instructions for the 1040 form or a tax professional for more information.

6. Q: It is possible to have a payment plan if you owe taxes. How do you set up a payment schedule with the IRS?

A: It is possible to set up an installment plan with the IRS. You may download a form from the IRS website or call the IRS.

7. Q: When you claim education credits, what is that exactly?

A: There are two different types of education credits. The first reduces your income because you paid tuition and fees and with the second you receive a tax credit because



you paid tuition and fees. Consult your tax professional for more details about education credits.

8. Q: I have recently talked to a medical resident who is attempting to claim the capitalized interest as a deduction on his student loans. Is there an IRS tax code that allows for this? I was wondering if you knew anything about this

A: We are not familiar with any such deduction.

9. Q: I recently heard on the news that a first-time home buyer can get the \$7,500 credit up front, meaning they do not have to provide it. It is repaid at tax time much like it is now and then repaid over time as normal. Where can we find info about it?

A: We found additional information about this issue and information on at least six more house purchasing concepts at <http://www.usnews.com/blogs/the-home-front/2009/2/6/the-15000-home-buying-tax-credit-6-things-to-know.html#2086308>

10. Q: Is the \$1,000,000 lifetime gift exclusion effective for gifts from one person to one recipient, or from one person to all recipients combined?

A: The annual gift tax exclusion amount is the amount a person can gift to any number of recipients without a gift tax consequence. This amount is \$12,000 (\$24,000 for gifts from husband and wife; i.e., split gifts) for 2008. The annual exclusion amount will increase to \$13,000 (\$26,000 for split gifts) in 2009.

When determining how much annual exclusion you have available to give to a specific person, count the beneficiary's share of insurance premiums contributed by you to any Insurance/Irrevocable Trust or by other gift but don't count any gifts for education tuition or medical expenses that you paid directly to a school or medical provider, such as birthday or holiday gifts.

The annual exclusion does not carry over to future years. Therefore, you either use it this year, or you lose your chance to make this tax free gifts.

11. Q: Would offering facilities for students to do their taxes open our school up to liabilities?

A: It is believed that there should not be liability. Remember libraries often offer this service free of charge.

12. Q: Is there a cap on the amount that you claim in student loan interest?



A: Currently student loan interest is capped at \$2,500. However if your income is too high, you gradually lose the benefit.

13. Q: How can we find out if there is a VITA group in our area?

A: We suggest that you google for additional information

14. Q: Is the tax software on the IRS website free?

A: We suggest you check the IRS website. www.irs.gov There are a variety of options for electronic help – however its availability depends on your income and other factors.

15. Q: Can you explain the difference between head of household married/married/married filed separately? When can you file each type?

A: Married folks can only file as married joint or married separate. Head of household is for single persons who take care of someone else (a dependent)

16. Q: We were always led to believe that it's more advantageous to file as married filing jointly opposed to married filing separately. Are there any benefits in terms of savings/deductions?

A: It depends on the situation, generally filing married filing jointly is the better option. One example where separate could be advantageous – one spouse has all the medical bills and by filing separately can create a big itemized deduction that might be lost by filling jointly. There are some deductions and credits that are available only to those file married jointly.

17. Q: Why do we have students that are obviously married and are allowed to both file head of household? I see this all the time. I know they can get more money back but why is this allowed?

A: Married folks can only file as married joint or married separate. Head of household is for single persons who take care of someone else (a dependent).

If you find this situation in verifying the student's information, it constitutes a discrepancy and must be investigate further. Amended tax returns may be needed to be filed.