

OUT OF SCOPE

The following are the most common “Out of Scope” items. For the most comprehensive “Out of Scope” list, please see page 5 in Publication 4012.

**New out of scope items

Out of State Tax Return – VITA will only prepare Pennsylvania State tax returns. VITA will not prepare tax returns for other states. If a taxpayer moved to PA during the year and needs two tax returns prepared, VITA can do a part-year PA return for the wages earned while living in PA.

****Out of County Tax Return** – VITA will only prepare Lancaster County returns. If the client moved and lived in Lancaster and another county during 2020, VITA will only do the Lancaster portion.

CARES ACT

- **The deferred payment of 50% of Social Security tax for certain individuals
- **The inclusion of coronavirus-related distributions in income ratably over a 3-year period, and repayments of those distributions

CANCELLATION OF DEBT if...

- Other than qualified principal residence indebtedness or nonbusiness credit card debt
- For a principal residence that was used in a business or as rental property
- If Form 1099-C includes an amount for interest
- If the COD was because the taxpayer filed bankruptcy or was insolvent immediately before the debt was canceled

FILING STATUS

- Innocent spouse relief (different from Injured Spouse)

UNIQUE FILING SITUATIONS:

- If a taxpayer is not a citizen, does not have a Green Card, and they do not meet the substantial presence test (arrived in the US on or after July 3rd, 2019), **we can't do their tax return**. They need to file a 1040-NR, which is **Out of Scope**. They should be referred to a professional preparer.

INCOME – WAGES, INTEREST, ETC.

- Farm income
- Tax returns for ministers and members of the clergy
- **Unreported Social Security and Medicare Tax on wages
- Form 1099-DIV amounts reported in the boxes labeled “Unrecap. Sec. 1250 gain,” “Section 1202 gain,” “Cash liquidation distributions,” and “Noncash liquidation distributions”

INCOME – BUSINESS (most common out of scope items)

- Net losses
- Expenses over \$10,000
- Cost of goods sold (inventory)
- Business use of home
- Expenses for employees
- Vehicle expenses reported as actual expenses
- Depreciation or the election to expense business assets

INCOME – CAPITAL GAIN OR LOSS

- Taxpayers who have sold any assets other than stock, mutual funds, or a personal residence
- 1099B Adjustment Codes: N, Q, X, R, S or C
- Determination of basis issues: – Basis of any asset acquired other than by purchase or inheritance, such as a gift or employee stock option, unless the taxpayer provides the basis and holding period – Basis of inherited property determined by a method other than the FMV of the property on the date of the decedent's death, unless the taxpayer provides the basis and holding period
- Sale of a home used for business purposes or as rental property

INCOME – RETIREMENT INCOME

- 1099-R Box 7, Codes Box 7 codes 5, 6, 8, 9, A, E, J, K, N, P, R, T, U, W
- Taxpayers who made nondeductible contributions to a traditional IRA (other than Roth IRA)
- Taxpayers subject to additional tax due to excess IRA contributions
- Roth IRA distributions that are taxable or partially taxable
- IRA rollovers that do not meet the tax-free requirements

INCOME – SCHEDULES K-1 AND RENTALS

- Any Schedule K-1
- Royalty income reported on Form 1099-MISC with associated expenses
- Rental income (including AirBnB) and expenses *for non-military taxpayers*

INCOME – OTHER INCOME

- Alimony for pre-1985 divorces
- Distributions from Educational Savings Accounts in which the:
 - Funds were not used for qualified education expenses, or
 - Distribution was more than the amount of the qualified expenses

ADJUSTMENTS TO INCOME

- Expenses for Business Use of Your Home
- Self-employed health insurance deduction with premium tax credits
- Self-employed SEP, SIMPLE, and qualified plans
- Form 8606, Nondeductible IRA

ITEMIZED DEDUCTIONS

- Casualty and theft losses
- Investment interest
- noncash contributions of more than \$500
- If the taxpayer is donating capital gain property

CREDITS

- Taxpayers who must repay (recapture) part or all of an education credit claimed in a prior year
- Mortgage interest credit
- Residential Energy Efficient Property Credit (Part I)
- Energy Efficient Home Credit (residential alternative energy equipment such as: solar hot water heaters, geothermal heat pumps and wind turbines)

PREMIUM TAX CREDIT

- Form 8962 Part IV, Allocation of Policy Amounts, and Part V, Alternative Calculation for Year of Marriage

OTHER TAXES

- ** Kiddie Tax - Form 8615, Tax for Certain Children Who Have Unearned Income
- IRA minimum distributions not withdrawn when required
- Estimated tax penalty