

VITA and Ladder Up Scope of Service



The following situations are Out-of-Scope for Ladder Up's Tax Assistance Program. If a taxpayer falls into any of these situations, they should be referred to a tax professional for assistance. Note that these lists may not be all-inclusive but serve as a guide.

Filing Status

- Injured vs. **Innocent Spouse**: A spouse who may be relieved of joint liability (Innocent Spouse Relief) is Out-of-Scope. For more information on Injured Spouse Relief, which is in scope, see ***ProSeries Tax Manual –Injured Spouse, Form 8379, page Error! Bookmark not defined.***
- Community property tax laws for Married Filing Separately taxpayers
- Taxpayers who are not certain if they are in a common-law marriage (rules are complex and differ from state to state).

Tax Residency

- Dual status aliens (someone who is a resident for tax purposes and a nonresident for part of the year – typically the first year in the US)
- Unmarried nonresident aliens who do not meet the green card or substantial presence test (Form 1040NR) see Volunteer Manual – Special Topics: Substantial Presence Test
- Taxpayers with F, J, M, or Q visas
- Part-year Illinois residents (we can only prepare Federal returns in this situation). Ladder Up clients must be FULL-YEAR ILLINOIS RESIDENTS for us to complete both the Federal and Illinois return.

Bankruptcy

- Client was in bankruptcy at any time during the year and also had a cancellation of debt during the tax year, the client is Out-of-Scope. (Note that any cancellation of debt other than personal credit card debt is also Out-of-Scope)

Sources of Income

- Taxpayers with income from the following sources reported on Form 1040:
 - Other gains/losses (line 14)
 - Farm income (line 18)
- Accrual method for reporting income
- Taxpayers who buy or sell bonds between interest payment dates
- Adjustments needed for amounts listed on Form 1099-OID, or if the taxpayer should have received Form 1099-OID but did not
- Form 1099-INT, box labeled "Specified private activity bond interest" if AMT applies
- Form 1099-DIV, boxes labeled Unrecap. Sec. 1250 gain, Section 1202 gain, Cash liquidation distributions, and Noncash liquidation distributions
- State or local income tax refunds received during the current tax year for a year other than the previous tax year
- Alimony/divorce agreements executed before 1985

- Ministers and members of the clergy because of unique tax issues (such as parsonage/housing allowance, etc.)
- Income from Puerto Rico
- Combat pay (Code Q on Form W-2)

Business Income

- Hobby income or not-for-profit activity
- Expenses over \$25,000
- Return and allowances
- Cost of goods sold
- Other income
- Expenses for employees or contract labor
- Business use of home
- Casualty losses
- Vehicle expenses reported as actual expenses
- Depreciation
- Rental or lease expenses—vehicle leases of more than 30 days
- Accounting methods other than the cash method
- Net losses
- A "No" response that indicates the taxpayer does not meet any of the tests of material participation, or is uncertain about materially participating in a business
- Taxpayers who receive any credit card or similar payments that included amounts that are not includible in income
- A "Yes" response indicating there is a requirement to file Form(s) 1099
- Income from the manufacture, distribution, or trafficking of controlled substances (such as marijuana)

Capital Gain or Loss Income

- Taxpayers who have sold any assets other than stock, mutual funds, or a personal residence
- Determination of basis issues:
 - Basis of stock acquired other than by purchase or inheritance, such as a gift or employee stock option plan
 - Basis of inherited property determined by method other than the fair market value (FMV) of the property on the date of the decedent's death
 - Basis of property acquired from a decedent who died in 2010
 - Basis of property received as a gift
- Like-kind exchanges and worthless securities
- Form 1099-B, boxes on Bartering: Profit or (loss) realized on closed contracts; Unrealized profit or (loss) on open contracts – prior year; Unrealized profit or (loss) on open contracts – current year; or Aggregate profit (loss) on contracts
- Reduced exclusion computations/determinations in the sale of a home
- Married homeowners who do not meet all requirements to claim the maximum exclusion on sale of home
- Decreases to basis, including:

- Deductible casualty losses and gains a taxpayer postponed from the sale of a previous home before May 7, 1997
- Depreciation during the time the home was used for business purposes or as rental property
- Taxpayers with "nonqualified use" issues
- Sale of a home used for business purposes or as rental property
- Form 4797 - Other gains or (losses)

Retirement Income

- The taxpayer needs to file Form 8606, Nondeductible IRAs
- Taxpayers who made nondeductible contributions to a traditional IRA
- Taxpayers who are subject to additional tax due to excess IRA contributions
- Roth IRA distributions that are taxable or partially taxable, and distributions with Form 1099-R, code J or T
- IRA rollovers that do not meet the tax-free requirement
- Part of a distribution that is a return of after-tax contributions (may require Form 8606)
- Taxpayers who use General Rule to figure the taxable portion of pensions and/or annuities for past years
- Form 1099-R, distribution code A (lump-sum distribution qualifying for special tax treatments)
- Contributions to SIMPLE and SEP IRAs
- Distribution codes 5, 6, 8, 9, A, E, J, K, N, P, R, T, U and W are all Out-of-Scope

Form K-1

Form K-1 is in scope for only the following limited income types:

- Interest income
- Dividend income
- Qualified Dividends income
- Net short-term capital gains and losses (Schedule D, line 5)
- Net long-term capital gains and losses (Schedule D, line 12)
- Tax-exempt interest income
- Royalty income (Schedule E)

Any other type of income and any type of expenses, tax credits or similar items puts form K-1 out of scope.

Other Income

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

Deductions

- Disaster related casualty losses
- Investment interest
- Form 1098-C, Contributions of Motor Vehicles, Boats and Airplanes
- Taxpayers affected by limits on charitable deductions

- Taxpayers that file Form 8283 to report noncash contributions of more than \$500
- If the taxpayer is donating property that was previously depreciated
- If the taxpayer is donating capital gain property

Credits

- Residential energy-efficient property credit
- Alternative fuel vehicle refueling credit
- Alternative motor vehicle credit
- Taxpayers who need assistance in determining if employment taxes are owed for household employees
- Foreign Tax Credit: If the foreign tax paid is more than \$300 (\$600 for Married Filing Jointly) or they do not meet the other conditions to claim the credit, taxpayers must file Form 1116. See Pub 17 for more information.
- Plug-In Electric Vehicle Credit for qualified:
 - Plug-in electric drive motor vehicles
 - Plug-in electric vehicles
 - Plug-in electric drive conversion kits
- Education Credit: Taxpayers who must repay (recapture) part or all of an education credit claimed in a prior year
- Miscellaneous Credits: Mortgage interest credit

Adjustments to Income

- Other adjustments to income on Form 1040, such as:
 - Self-employed SEP, SIMPLE, and qualified plans
 - Domestic production activities deduction
- Form 8606, Nondeductible IRAs

Other Taxes

- Household employment taxes
- IRA required minimum distributions not withdrawn when required
- Excess contributions to an IRA that are not removed by the due date of the return including extensions
- Parts II through VIII of Form 5329 (only Part I is in scope)
- Distribution from an ABLE account, regardless of limits

Payments

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
- Form 8885, Health Coverage Tax Credit

Refund and Amount of Taxes Owed

Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trust (only allowable to check the box to have the IRS figure interest and penalties)