

## Tax quiz

- 1) Yes or No: Does every student have to file taxes?
- 2) What tax form would you file with the IRS in April?
  - a) 540
  - b) 1040
  - c) 1040EZ
  - d) 1040NR
- 3) True or False: Federal income taxes are voluntary.
- 4) Which of the following can reduce your tax bill?
  - a) Opening bank accounts overseas
  - b) Contributing to a Roth IRA
  - c) Paying cash for medical bills
  - d) Giving money to your brother, sister, niece or nephew
- 5) True or False: The IRS will email you if they have a question.
- 6) True or False: The IRS will call you if you owe more tax.
- 7) True or False: A student cannot complete their tax return without the help of their parents.
- 8) True or False: Can a parent not claim an exemption for their dependent student and thereby allow the student to take the exemption deduction instead?
- 9) I worked over the summer, but didn't get a W-2 yet from my employer. What should I do?
  - a) Call the employer and ask for your W-2
  - b) Call the IRS and tell them that you didn't get the form
  - c) Use your paycheck stubs to figure out what would have been on the W-2 and file your return without the W-2.
  - d) Wait until you do get the W-2 and then file your tax return.
- 10) I worked over the summer and got a 1099-MISC form from my employer. Now what?
  - a) Call the employer and tell them they sent the wrong form.
  - b) Report the income on IRS Schedules C and SE.
  - c) Call the IRS tip hotline to report fraud.
  - d) Deduct your student health insurance premiums on your taxes.
- 11) I received a 1099-INT form from my bank. What should I do about it?
  - a) Fill the amount in on IRS Schedule B.
  - b) Include the amount on IRS Form 1040EZ.
  - c) Fill in a new 1099-INT with your parents' names and send it to the IRS and your parents.
  - d) Ignore it as you are not subject to the Alternative Minimum Tax (AMT).
- 12) I received a 1099-DIV form in the mail. What should I do about it?
  - a) Fill the amount in on IRS Schedule B.
  - b) Include the amount in on IRS Form 1040EZ.
  - c) Fill in a new 1099-DIV with your parents' names and send it to the IRS and your parents.
  - d) Ignore it as you are not subject to the Alternative Minimum Tax (AMT).
- 13) True or False: The Federal income tax is a pay-as-you-go system.
- 14) I received a Form 1098-T. What do I do with it?
  - a) Forward it on to your parents so they can reduce their taxes.
  - b) Fill in IRS Form 8863 to reduce your own taxes.
  - c) Put it aside as it is not a legal tax document.
  - d) Call the University and ask them what it is all about.

- 15) I received US EE Savings Bonds over the years from relatives for my birthday. Is there any tax liability to cashing them in now?
- Not at all. The bonds were a tax-free gift.
  - Yes, but since I made so little money last year, the tax I'll pay very small.
  - Yes, but I'll be better off waiting until the year I turn 19.
  - Yes, but I'll be better off waiting until the year I turn 24.
- 16) I received an IRS Form 1099-Q. What do I do with it?
- Forward it on to your parents so they can reduce their taxes.
  - Fill in IRS Form 8863 to reduce your own taxes.
  - Put it aside as it is not a legal tax document.
  - Call the University and ask them what it is all about.
- 17) Where should I go if I have tax questions?
- Call the IRS.
  - Go to a commercial tax preparation person or firm.
  - Ask fellow students.
  - Search online for answers.
  - Purchase commercial tax preparation software.
  - Ask your parents.
- 18) True or False: You and your parents can fill out the FAFSA form before you file your taxes.
- 19) True or False: If I file IRS Form 1040EZ, I must file CA form 540-2EZ.
- 20) True or False: I'm living on campus. Can I claim the California Renter's Credit?
- 21) My parents are divorced or were never married. How does that affect my taxes?
- It doesn't as I'm on my own.
  - I need his/her or their tax return in order to complete my own.
  - It depends on the precise circumstances.
- 22) I worked this summer in New York City and my home is in Texas. With which states and municipalities will I need to file my taxes?
- California
  - New York State
  - Texas
  - New York City
  - None
- 23) I worked this summer in Cincinnati and my home is in Colorado. With which states and municipalities will I need to file my taxes?
- California
  - Ohio
  - Colorado
  - Cincinnati
  - None
- 24) What is a marginal tax bracket?
- The percentage of your income that you pay in taxes
  - The lowest income tax bracket
  - The percentage of the last dollar you earn that taken in taxes
  - The tax rate of a state bordering Canada or Mexico
- 25) What is unitary taxation?
- A tax on the production of manufactured goods
  - A one-stop website for filing all federal, state, regional, etc. taxes
  - The way states tax income earned in multiple states
  - An extra tax imposed on millionaires

## Tax Quiz Answers

- 1) Not every student has to file taxes. The 2013 IRS Publication 17, Table 1-2, page 6, gives the filing requirements for most students: You must file a return if **any** of the following apply.
  - You received more than \$1,000 in unearned income (mostly interest and dividends),
  - Your earned income (wages and self-employment earnings) was more than \$6100,
  - Your gross income was more than the larger of: \$1,000 or your earned income (up to \$5,750) plus \$350.There are exceptions for some students:
  - Parents of students who only received interest and dividends can usually choose to include them on their own return instead of having the student file a separate return. This generally costs more total tax, but saves paperwork.
  - Students who cannot be claimed as a dependent on a parent's or someone else's return have a \$10,000 gross income threshold (Table 1-1).
  - Students who earn \$400 or more in self-employment earnings must file a return (Table 1-3).
  - Nonresident alien (foreign) students constitute another exception and their filing requirements are detailed in 2013 IRS Publication 519.
- 2) It depends. While a) 540 is not the answer (that's a California form), the other three may apply. The 1040EZ form may be used by US citizens and resident aliens (Green Card holders) if their income consists only of wages plus no more than \$1,500 in interest. (2013 Instructions 1040EZ, page 4-5). Anyone who is not a nonresident alien can choose to use the full 1040 form instead of 1040EZ or 1040A. As the 2013 1040EZ instructions point out (page 5) you may save some tax using the 1040. Nonresident aliens will use either 1040NR-EZ or 1040NR.
- 3) False. There are some people who claim that the language of the tax code legislation says it is voluntary, but everyone who has skipped filing income tax returns because of this claim have been highly penalized financially and, in some instances, put in jail ([www.irs.gov/pub/irs-utl/friv\\_tax.pdf](http://www.irs.gov/pub/irs-utl/friv_tax.pdf)). Don't be one of them!
- 4) The answer is either None of the Above or, taking a long term view, b) Opening and contributing to a Roth IRA. With some limitations detailed in 2013 IRS Publication 519 for nonresident aliens, overseas income must be reported and included on your tax return. While large unreimbursed medical expenses can be used as an itemized deduction, paying cash is not a requirement. Donations to many charities can also be used as an itemized deduction, but your relatives do not count as a charity despite the homily "Charity begins at home."

There are a couple of types of Individual Retirement Accounts pertinent to most students. (IRS Publication 590 has the full details.) Contributions to a Traditional IRA are tax deductible in the year you make them (they can be backdated to 2013 if made on or before April 15, 2014.) Contributions to a Roth IRA are not tax deductible. However, assuming you follow a few simple rules, when you do eventually take money out of your Roth IRA account, it is not taxed. Money taken out of a traditional IRA is taxed. If, as it quite likely, a student's tax rate is smaller than that person's rate later on in life, you end up with more money at the back end with the Roth option. For the mathematically minded, if the IRA money,  $M$ , that you deposit now grows by a factor  $F$  between now and the time you withdraw it, then you pocket  $(1-R)*F*M$  at the back end, whether the tax fraction  $R$  is applied at the beginning or the end. If  $R$  is smaller now than later,  $1-R$  is bigger now than later, so paying the tax now, i.e. using a Roth IRA, works to your advantage. For many college students,  $R$  is in fact zero!

- 5) False. You will **never** get an email from the IRS regarding your personal income taxes.
- 6) False. One of the most prolific tax scams reported by the IRS is people pretending to be IRS agents telling people that they owe the IRS money and must pay immediately with a credit or debit card ([www.irs.gov/uac/Tax-Scams-Consumer-Alerts](http://www.irs.gov/uac/Tax-Scams-Consumer-Alerts)). The IRS always handles adjustments to tax bills and refunds on paper.
- 7) Sometimes true. If a student has more than \$10,000 in interest and dividends, they must fill out form 8615 "Tax for Certain Children Who Have Unearned Income" which needs the parent's income tax return in order to complete. If they have more than \$2,000 in interest and dividends, the use of form 8615 may be required, depending upon the complexity of the student's income sources, and, in any event, usually leads to a lower tax than if the parent(s) elect to simply claim the student's income as their own via IRS form 8814.
- 8) False. IRS Publication 501 states "If you are entitled to claim an exemption for a dependent (such as your child), that dependent cannot claim a personal exemption on his or her own tax return." Note that this is different than allowing a student to take an educational credit instead of their parents. The American Opportunity Credit and the Lifetime Learning Credit can be taken by the student so long as the parents forgo the dependent exemption and don't claim the education credit themselves. Interestingly, the alternative Tuition and Fees deduction cannot.

- 9) The IRS web page [www.irs.gov/uac/Newsroom/Form-W2-Missing-IRS-Can-Help](http://www.irs.gov/uac/Newsroom/Form-W2-Missing-IRS-Can-Help) gives a step-by-step procedure to follow. Sensibly, you first call the employer and ask for a copy, being sure to tell them the correct address to send it to. (They can email or fax it, too.) If you cannot get a W-2 in time for the April 15<sup>th</sup> deadline, call the IRS and give them as much information as you can, including the amounts you earned and how much was taken out in taxes. Then go ahead and fill in IRS form 4852 “Substitute for Form W-2, Wage and Tax Statement” and attach it to your tax return. Send it in on or before April 15<sup>th</sup> along with payment of any tax due. You can request an automatic extension to filing the paperwork using IRS form 4868, but be sure to include a check for any amount of tax you expect to owe as the extension is only for filing paperwork, not for paying taxes.
- 10) If you worked at your own time and choice of job, meaning you were self-employed, a 1099-MISC is appropriate and you should report that income on Schedule C and use Schedule SE to see what additional Social Security tax you may owe on that income. It is not uncommon for some people to send 1099-MISC when they should have sent a W-2 instead. This may be a misunderstanding of the tax laws or an attempt to avoid paying unemployment, disability and other employer fees. You may refer to IRS web page obtained by search Google with the phrase “Form 1099-MISC & Independent Contractors site:irs.gov” for instructions and suggestions. It may be to your advantage not to dispute the classification to avoid ruffling the feathers of a potential future letter of reference and to take advantage of some of the extra tax perks self-employed individuals enjoy such as deducting half of their medical insurance premiums.
- 11) Unless you have over \$1,500 of interest, you need not fill out a separate Schedule B to report that income. Just total all the interest and report it directly on your 1040EZ, 1040A, 1040, 1040NR-EZ or 1040NR. However, be sure to read the instructions that came with the 1099-INT to see exactly where to report that income on your tax return. It is quite unlikely that you would be receiving some else’s interest income, even your own parent’s, which is the one situation where you would need to file a new 1099-INT. Under no circumstance should you simply ignore a 1099-INT. Even if you didn’t receive a 1099-INT, but received some small amount of interest from a bank or other financial institution, you are legally obligated to report that interest as well. In this last case, even though the IRS will have no record of that payment to match against your return, I suggest you include it as a cheap way of suggesting to the IRS that you are an honest taxpayer. It could pay dividends down the road should something be messed up on some future tax return.
- 12) The same answer as question 10) with the addition that the amount listed as “qualified dividends” in Box 1b may save you some tax. Be sure to read the instructions that came with the 1099-DIV to see exactly where to report that income on your tax return.
- 13) True. Usually a portion of each of your paychecks is withheld for taxes. In some cases, such as self-employment, in-home childcare, or sizable interest or dividends, it is up to you to make quarterly Estimated Tax payments or face interest and penalties come April 15<sup>th</sup>. As a side note, individual states also have similar requirements, though California is quite aggressive and their system might be better characterized as “pay-before-you-go”.
- 14) In most cases, your parent(s) or legal guardian will receive the 1098-T Tuition Statement directly from Stanford and use it to obtain a tax credit of up to \$2,500 a year while you are an undergraduate attending school full time, or at least half time. If your parents’ income is too high (<http://www.irs.gov/instructions/i8863> lists the relevant thresholds), you may be able to claim that credit on your own tax return. In this latter case, the credit is, unfortunately, non-refundable, meaning that it might eliminate the tax you owe, but not provide any additional refund. If this happens to be your case, you should consider selling assets, such as cashing in US EE Savings Bonds, to increase your income high enough that you can avail yourself of the full tax credit.
- 15) As usual, the answer depends on your personal situation. a) is incorrect. Any increase in value (accumulated interest) of the bonds after you receive them is included in income when you cash them in. If only a small amount of interest was reported by the bank when you cashed bonds in and you have relatively little additional income, i.e. small enough that you don’t have to fill in IRS form 8615, then you will owe little or no tax on that interest. Otherwise, unless you are working to earn at least half your tuition, room, board, and other personal expenses, most of that EE interest income will be taxed at your parent(s) tax rate until the year you turn 24.
- 16) Form 1099-Q Payments From Qualified Education Programs is issued when funds are taken from a tax-advantaged college savings plan such as a 529 plan. If you receive the form, go ahead and send a copy to your parent(s). Such payments do not trigger any tax for you unless they total more than the educational expenses that you or your family have paid. The 1099-Q simply serves as a reminder that expenses paid with 529 funds cannot be used to figure any educational tax credit on IRS form 8863. IRS Publication 970 has further details.

- 17) All of the answers may be appropriate. Just be aware that you have reasonable recourse should advice you paid a professional tax preparation firm or individual prove faulty. Balancing that is the expense of consulting or employing a tax professional. The middle ground for most students is low cost or free commercial tax software such as those listed at the IRS FreeFile site <http://www.irs.gov/uac/Free-File:-Do-Your-Federal-Taxes-for-Free> . With respect to state income tax returns, the options are a bit murkier. Such returns are actually quite simple for full time state residents and can be filed for free online with the state. When income comes from multiple states, the paid commercial options may provide peace of mind, although the calculations for what to pay to which state are still fairly straightforward.
- 18) True. The FAFSA Federal Student Aid form can be filled out as early as January 1<sup>st</sup> with estimates of income and assets. Once you and your parent(s) file taxes, you can go in and update the numbers to match. It is to your advantage to fill in and submit the FAFSA early as there is only a limited amount of financial aid to go around and the early bird gets the worm in such cases.
- 19) False. Any non-alien taxpayer can use the regular CA 540 tax form instead and, indeed, may have to. For example, the 2013 540-2EZ instructions say you cannot use the 540-2EZ form if you are single and your total income is less than or equal to \$13,056. The California website [www.ftb.ca.gov/forms/search/index.aspx](http://www.ftb.ca.gov/forms/search/index.aspx) is the go to place for forms, instructions and complete tax booklets. Of course, if you have no taxable CA income, you don't need to file a CA tax return.
- 20) False. Because the university is organized as a tax-exempt educational institution, the amount you pay to live on campus is not eligible for the CA Renter's Credit.
- 21) The answer is c), it depends on the precise circumstances. IRS Publication 929 Tax Rules for Children and Dependents goes over the possibilities in detail.
- 22) Most likely b) and d), New York State and City tax returns, though that depends, of course, on how much you earned. Texas has no income tax, so you wouldn't be filing there. In the event you also receive taxable income from Stanford, you would need to fill out CA 540NR to see if you would also have to file with California.
- 23) Most likely b), c) and d). Ohio has three layers of income tax: state, municipal and school district. Earning income in Cincinnati puts you in the line of fire for them. Being a Colorado resident, you would also file a CO 104 resident income tax return. The <http://www.colorado.gov/revenue> website has links to their various CO tax forms and publications.
- 24) The answer is c) the percentage of the last dollar that you earned that is taken in taxes. The US federal tax system is a progressive tax system meaning that higher incomes are taxed at a higher rate.
- 25) The answer is c) the way states tax income earned in multiple states. This system was devised because wealthy people many years ago used to spread their income across multiple states and thereby pay at low income tax rates. Unitary taxation requires the taxpayer to first calculate the tax they would pay to a state based on their worldwide income, not just their in-state income, and then reduce that tentative tax by the fraction of income they did earn in that state. For states with progressive income tax systems, this pushed the wealthy people back into a high tax bracket. Of course, it makes no difference for states that have a single tax rate or no income tax at all.