



# Tax Primer

for Parents Completing the Parents' Financial Statement

### Introduction

Use this primer to get an understanding of which tax forms will be most helpful to you as you complete your PFS.

This primer doesn't provide an overview of every possible tax form you might receive or need to file with IRS. Instead, it only focuses on the main forms families will need to have on hand to complete the PFS accurately and correctly.

The tax forms covered in this tax primer are:

- ► Form W-2
- Form 1040
- Form 1040 Schedule 1
- Schedule C
- ► Form 1099-MISC

For each of these tax forms, the primer answers 3 questions:

- 1. What is the form used for?
- 2. What does the form look like?
- 3. Which lines on the form matter the most for completing the PFS?

#### Important –

Be sure to send all your tax forms as required by each school you are applying to for financial aid. Do not limit what you submit to schools to the documents covered in this primer. If a school requires your tax forms and schedules, be sure to send or upload the full set of taxes that you submit to the IRS when filing your tax return.

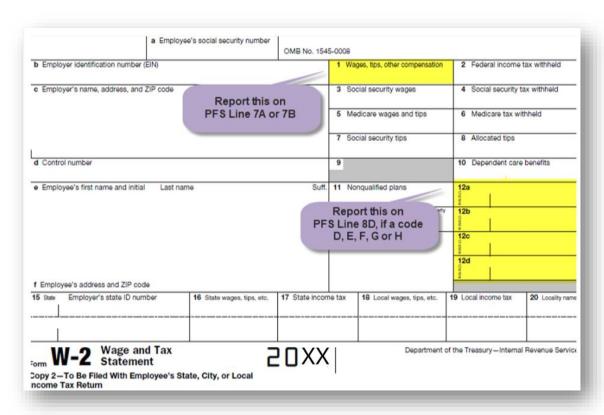
Doing so ensures that you complete each school's document requirements correctly, avoiding possible delays in the process.

# Form W-2

#### What is the Form W2 for?

The W-2 is an annual statement of your earnings for the calendar year, provided by your employer. It also displays how much was withheld from your pay for taxes, Social Security, and Medicare. This is where you can also see how much of your income was put into certain types of pre-tax retirement plans.

#### What does the Form W2 look like?



#### Which lines on Form W-2 matter most for completing the PFS?

Report the salary in Box 1 of your W-2 on line 7A of the PFS for the parent listed as "Parent A." Use 7B for the parent listed as "Parent B." Be sure to report the totals from all W-2s if either parent has more than one for the year.

Look at Box 12. If any amounts appear in this section with a code D-H, be sure to report that amount as "Payments to tax-deferred retirement plans" in PFS line 8D of the Nontaxable Income Worksheet. If you have multiple W2s, be sure to report the total amount.

You do not have to report any other information from the W2 on the PFS. It is possible that one or more schools you're applying to might ask you to supply other information from the W2. You'll most likely be required to submit or upload a copy of each W2 you receive as part of your financial aid application.

# Form 1040

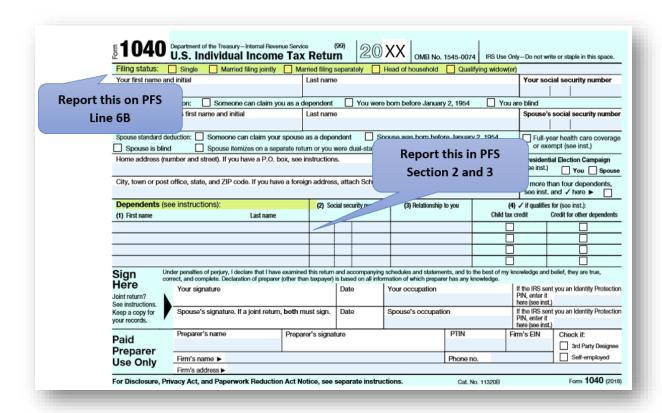
#### What is Form 1040 for?

The 1040 is used to report your sources of income, as well as any adjustments, deductions, and credits against your income that will determine how much and what types of federal taxes you should have paid for the tax year. If you've paid too much in taxes, it will show how much of a refund from the federal government you are entitled to receive. If you've paid too little in taxes, it will show how much more you need to pay.

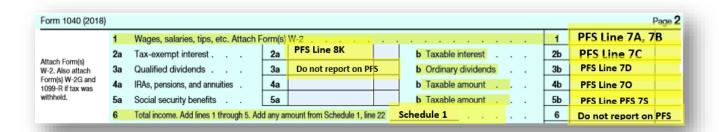
#### What does the Form 1040 look like?

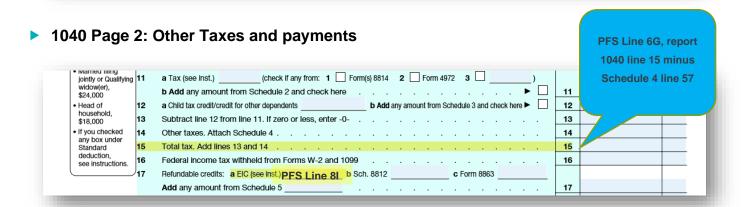
The 1040 is the base form and may include additional schedules based on your income. Let's look at the 1040 base form:

#### ▶ 1040 Page 1



#### ▶ 1040 Page 2





#### Which lines on Form 1040 matter most for completing the PFS?

Nearly every line of the 1040's Income section has a corresponding line on the PFS where the income information should be reported. Most are straightforward one-to-one matches. However, a few lines warrant a little more guidance:

#### ▶ 1040 Page 1: Household Information

Be sure your tax filing status on PFS Line 6B matches what is checked off at the top of your 1040 form. An incorrect choice on the PFS can cause a miscalculation of the credit you receive for federal income taxes paid.

When listing your dependents on the PFS, make sure it is consistent with those listed on your 1040 Line 6C. If you support children or others in your household that you cannot claim as a dependent, be sure to list them and explain their relationship to you in the PFS "Other Considerations" section.

#### ▶ 1040 Page 2 Line 1: Salary/Wages

Salary and wages reported here are a total of salaries earned by the parents in the household. The PFS asks you to report each parent's salary separately, so you won't see a single line item on the PFS for the total salaries. Be sure, though, that the total of the salaries you enter in line 7A and 7B for each parent is the same as the total shown on Line 1 of your 1040 Page 2. Business owners must be careful not to report profit taken from the business as salary or wages. If you own a business and paid yourself or your spouse a salary from the business, and reported it with a W-2, only enter the amount of salary from the W-2 in Lines 7A or 7B.

#### ▶ 1040 Page 2 Lines 4a and 5a: Distributions from IRA, Pensions, and Social Security

1040 Lines 4a and 5a each show the total income you received from IRA, Pensions, and Social Security. Lines 4b and 5b show the portion of those totals that were taxable. Report taxable amount of IRA and Pension on PFS line 7O. Report Line 5b taxable amount of Social Security on PFS Line 7S.

To report the nontaxable portion correctly, take the difference and report it in the appropriate PFS line item in the Nontaxable Income section (PFS Section 8).

- Report your nontaxable IRA and Pension income in PFS Line 8M.
- Report your nontaxable Social Security benefits in PFS Line 8B.

#### ▶ 1040 Page 2 Line 15

This shows what you owe for the different types of federal taxes on your income. PFS Line 6G asks you to report your federal taxes paid. Be sure to report the amount shown on 1040 Line 15. If you also have Self-Employment taxes reported on 1040 Schedule 4 Line 57, do not include those in PFS Line 6G, since you will report those separately for each business. If you paid self-employment taxes, for PFS Line 6G, report the total tax on Line 15 of Page 2 minus any Schedule 4 Line 57 Self-Employment tax.

#### 1040 Page 2 Line 17a

Earned income credits shown here are considered non-taxable income and should be reported on PFS Line 8I.

# Form 1040 Schedule 1

#### What is it for?

Schedule 1 is used to report additional income received such as capital gain, unemployment compensation, proprietorship business, corporation/partnerships, and rental income. Schedule 1 also list deductions from self-employment tax.

#### What does Schedule 1 look like?

SCHEDULE 1 (Form 1040)		Additional Income and Adjustme	OMB No. 1545-0074			
Department of the Tre Internal Revenue Sen	easury vice	► Attach to Form 1040. ► Go to www.irs.gov/Form1040 for instructions and		20 XX Attachment Sequence No. <b>01</b>		
Name(s) shown on I	orm 104	40			Your	social security number
Additional	1–9b	1-9b				
Income	10	Taxable refunds, credits, or offsets of state and local inco	ome ta	axes	10	
income	11	Alimony received	11	PFS Line 7E		
	12	Business income or (loss). Attach Schedule C or C-EZ			12	PFS Line 15-18
	13	Capital gain or (loss). Attach Schedule D if required. If not re			13	PFS Line 7M
	14	Other gains or (losses). Attach Form 4797			14	I I S LINE / W
	15a	Reserved			15b	
	16a	Reserved			16b	
	17	Rental real estate, royalties, partnerships, S corporations, trus	ts, etc	. Attach Schedule E	17	PFS Line 7Q or 15
	18	Farm income or (loss). Attach Schedule F			18	PFS Line 15-18
	19	Unemployment compensation	19	PFS Line 7R		
	20a	Reserved	20b			
	21	Other income. List type and amount ▶	21	PFS Line 7T		
	22	Combine the amounts in the far right column. If you don't				
		income, enter here and include on Form 1040, line 6. Oth	erwis	e, go to line 23	22	
Adjustments	23	Educator expenses	23			
to Income	24	Certain business expenses of reservists, performing artists,				
		and fee-basis government officials. Attach Form 2106	24			
	25	Health savings account deduction. Attach Form 8889 .	25			
	26	Moving expenses for members of the Armed Forces.				
		Attach Form 3903	26			
	27	Deductible part of self-employment tax. Attach Schedule SE	27	PFS Line 7I		
	28	Self-employed SEP, SIMPLE, and qualified plans	28	PFS Line 7H		
	29	Self-employed health insurance deduction	29			
	30	Penalty on early withdrawal of savings	30			
	31a	Alimony paid <b>b</b> Recipient's SSN ▶	31a			
	32	IRA deduction	32	PFS Line 7G		
	33	Student loan interest deduction	33			
	34	Reserved	34			
	35	Reserved	35			
	36	Add lines 23 through 35			36	PFS Line 7F

#### Which lines on Form 1040 Schedule 1 matter most for completing the PFS?

#### ▶ 1040 Line 12: Business income or (loss)

This refers specifically to income or loss you had from a Sole Proprietorship, for which you also completed a Schedule C. On Line 15-18 of the PFS, the total of the net profit or loss from each Schedule C business you own should equal the amount shown on your 1040 Line 12. Be sure to send or upload each Schedule C you file, if you have income or a loss listed on your 1040 Line 12.

#### ▶ 1040 Line 17: Rental Real Estate, royalties, partnerships, S corporations, trusts, etc.

This line can be complicated, depending on what type of income is included here, since many different types of income can be reported on your 1040 Line 17. If any income reported on Line 17 is from rental property, trusts, or royalties, report it on Line 7Q of your PFS.

If any income reported on Line 17 is from S corporations or Partnerships that you share ownership in, report it on Line 15-18 of your PFS, in the section that asks you to detail the income and expenses of the business.

Be sure to send or upload each Schedule E you file, if you have income or loss listed on your 1040 Line 17.

#### ▶ 1040 Schedule 1 Adjustments to Income

Be sure to report the total shown on 1040 Line 36 on PFS line 7F. If you have adjustments in 1040 Lines 27, 28, or 32, report them in the proper lines on the PFS. If you have adjustments other than those three, be sure to leave a note in PFS Item 7J to specify what the adjustments were for (e.g., "alimony paid" or "Educator expenses").

#### Important –

If you filed a 1040 Schedule 1 and have reported income from rental real estate, partnerships, S-corporations-Line 17 or Farm Income-Line 18. Please use our Tax Primer for Self Employed Parents for further instructions on how complete section 19 of the PFS.

#### **Other Schedules**

SCHEDULE (Form 1040) Department of the Internal Revenue So	Freasu		OMB No. 1545-0074  20XX  Attachment Sequence No. 07		
Name(s) shown or	Form	1040		Yo	our social security number
Medical		Caution: Do not include expenses reimbursed or paid by others.			
and	1	Medical and dental expenses (see instructions)	ine 14A		
Dental	2	Enter amount from Form 1040, line 7 2			
Expenses	3	Multiply line 2 by 7.5% (0.075)			
•		Subtract line 3 from line 1. If line 3 is more than line 1, enter -0		4	

Total	17	Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on		
Itemized		Form 1040, line 8	17	PFS Line 6F
Deductions	18	If you elect to itemize deductions even though they are less than your standard deduction, check here		
For Paperwork	Schedule A (Form 1040) 2018			

SCHEDULE 4 (Form 1040)  Department of the Treasury Internal Revenue Service  Name(s) shown on Form 10		Other Taxes  Attach to Form 1040.  Go to www.irs.gov/Form1040 for instructions and the latest information.	You	OMB No. 1545-0074  20 XX  Attachment Sequence No. 04  ur social security number
Other	57	Self-employment tax. Attach Schedule SE	57	PFS Line 17J
Taxes	58	Unreported social security and Medicare tax from: Form a 4137 b 8919	58	
runco	59	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required	59	
	60a	Household employment taxes. Attach Schedule H	60a	
	b	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required	60b	
	61	Health care: individual responsibility (see instructions)	61	
	62	Taxes from: a  Form 8959 b Form 8960 c Instructions; enter code(s)	62	
	63	Section 965 net tax liability installment from Form 965-A		
	64	Add the amounts in the far right column. These are your total other taxes. Enter here and on Form 1040, line 14	64	

#### Which Lines Matter for the PFS?

#### Schedule A

If you filed a Schedule A, you itemized deductions and should say "Yes" to PFS Line 6E and report the amount on PFS Line 6F. If you did not itemize your deductions, say "No" to PFS 6E. No other questions on the PFS ask about any amounts in this section of the 1040.

If your itemized deductions include medical and/or dental expenses, look at your Schedule A, Line 1. You can report the total medical and dental expenses shown there in PFS Line 14A. Don't itemize? You can still report your medical and dental expenses on PFS Line 14A even if you did not itemize them on a Schedule A.

#### ▶ 1040 Schedule 4 Line 57

Report the total amount of self-employment taxes you paid for your business(es). These should also be report on Line 17J on the PFS. Note that the PFS will ask you how much self-employment tax you paid for each business separately. The total of all of those self-employment tax amounts should be equal to what's reported here on the Schedule 4 Line 57.

# Schedule C

#### What is the Schedule C for?

The Schedule C is used for reporting specific details about each business you own for which you are the sole proprietor. It shows the name, location, and type of business. It details the total, gross income you received for the business. It itemizes the allowable expenses of the business that can be written off against the business's income to ultimately show what your net profit or loss was on the business. The net profit or loss is then entered on your Form 1040 Schedule 1 on Line 12. When you submit your 1040 to the IRS, you are required to attach/include a Schedule C for each sole proprietorship you own.

#### What does the Schedule C look like?

	m 1040) nent of the Treasury	Go to	Sole Pr) www.irs.gov/ScheduleC fo		uctions and the latest information.		Attachment X X
ternal	Revenue Service (99) ► Attac	ch to F	form 1040, 1040NR, or 1041	; part	nerships generally must file Form	1065.	Sequence No. 09
ame c	of proprietor					Social s	ecurity number (SSN)
	Principal business or profession	on, inc	uding product or service (se	e instr	uctions)	B Enter	code from instructions
							<b>&gt;</b>
	Business name. If no separate	busin	ess name, leave blank.			D Emplo	yer ID number (EIN) (see instr.)
	Business address (including s		************				
	City, town or post office, state						
	Accounting method: (1)				Other (specify) ►		
					2018? If "No," see instructions for lir		
					(-) 40000 (		
					n(s) 1099? (see instructions)		
Dor	Income	e requi	red Forms 1099?				
				h 14			
1	Form W-2 and the "Statutory of				this income was reported to you on	11	
2	Returns and allowances			ROCKOC		2	
3	Subtract line 2 from line 1 .					3	
4	Cost of goods sold (from line	42\				4	
5						$\rightarrow$	
6					refund (see instructions)	6	
7	Gross income. Add lines 5 at					7	
Part	Expenses. Enter expe						
8	Advertising	8	ľ	18	Office expense (see instructions)	18	
9	Car and truck expenses (see			19	Pension and profit-sharing plans .	19	
	instructions)	9		20	Rent or lease (see instructions):		
10	Commissions and fees .	10		а	Vehicles, machinery, and equipment	20a	
11	Contract labor (see instructions)	11		ь	Other business property	20b	
12	Depletion	12		21	Repairs and maintenance	21	
13	Depreciation and section 179 expense deduction (not			22	Supplies (not included in Part III) .	22	
	included in Part III) (see			23	Taxes and licenses	23	
	instructions)	13		24	Travel and meals:		
14	Employee benefit programs			а	Travel	24a	
	(other than on line 19)	14		ь	Deductible meals (see		
15	Insurance (other than health)	15			instructions)	24b	
	Interest (see instructions):			25	Utilities	25	
	Mortgage (paid to banks, etc.)	16a		26	Wages (less employment c		
а		16b		27a	Other expenses (from Reserved *		
b	Other						
а	Legal and professional services  Total expenses before expen	17		ь			

#### Which lines on the Schedule C matter most for completing the PFS?

If you have a Schedule C, you have a Sole Proprietorship. On PFS Line 6H, answer "Yes." You will be required to complete Section 15 for Business/Farm information.

On PFS Line 15C, select "Sole Proprietorship" and complete the questions about each business based on the income and expense information provided on the Schedule C. See below for guidance:

#### ▶ Schedule C: Business Information and Income

SCHEDULE C (Form 1040)		Profit or Loss From Business (Sole Proprietorship)	OMB No. 1545-0074
	ment of the Treasury	► Go to www.irs.gov/ScheduleC for instructions and the latest information.	Attachment
Interna	Revenue Service (99)	► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.	Sequence No. 09
Name	of proprietor	Social sec	curity number (SSN)
A	Principal business	or profession, including product or service (see instructions)  PFS Line 15K  B Enter of	ode from instructions
С	Business name. If	no separate business name, leave blank.  PFS Line 15A  D Employe	er ID number (EIN) (see instr.)
E	Business address	(including suite or room no.) PFS Line 15G thru 15J	
	City, town or post	office, state, and ZIP code	
F	Accounting metho	d: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ►	
G	Did you "materially	participate" in the operation of this business during 2017? If "No," see instructions for limit on loss	ses . Yes No
н	If you started or ac	equired this business during 2017, check here	. ▶ □
Ī	Did you make any	payments in 2017 that would require you to file Form(s) 1099? (see instructions)	Yes No
J	If "Yes," did you or	r will you file required Forms 1099?	Yes No
Par	Income		
1		sales. See instructions for line 1 and check the box if this income was reported to you on "Statutory employee" box on that form was checked	PFS Line 16A
2	Returns and allowa	ances	
3	Subtract line 2 from	m line 1	
4	Cost of goods sold	d (from line 42)	PFS Line 16B
5	Gross profit. Sub	stract line 4 from line 3	PFS Line 16C
6	Other income, incl	uding federal and state gasoline or fuel tax credit or refund (see instructions)	PFS Line 16D
7	Gross income. A	dd lines 5 and 6	- 10

Complete a separate PFS section on income for every sole proprietorship you own.

#### Schedule C: Business Expenses and Net Profit/Loss

Part	Expenses. Enter expe	nses	for business use o	of you	ır hon	ne <b>only</b> on line 30.			
8	Advertising	8			18	Office expense (see instructions)	18		
9	Car and truck expenses (see				19	Pension and profit-sharing plans .	19		
	instructions)	9			20	Rent or lease (see instructions):		PFS Line 17D	
10	Commissions and fees .	10			а	Vehicles, machinery, and equipment	20a	1102017	
11	Contract labor (see instructions)	11			b	Other business property	20b		
12	Depletion	12			21	Repairs and maintenance	21		
13	Depreciation and section 179				22	Supplies (not included in Part III) .	22		
	expense deduction (not included in Part III) (see		PFS Line 17F		23	Taxes and licenses	23		
	instructions)	13			24	Travel, meals, and entertainment:			
14	Employee benefit programs		PFS Line 17C		a	Travel	24a		
	(other than on line 19).	14	PF3 Line I/C		b	Deductible meals and			
15	Insurance (other than health)	15				entertainment (see instructions) .	24b		
16	Interest:				25	Utilities	25		
a	Mortgage (paid to banks, etc.)	16a			26	Wages (less employment credits).	26	PFS Line 17A, B	
b	Other	16b			27a	Other expenses (from line 48)	27a		
17	Legal and professional services	17			b	Reserved for future use	27b		
28	Total expenses before expen	8 through 27a ▶	28	PFS Line 17I					
29	Tentative profit or (loss). Subtr	act lin	e 28 from line 7				29		
30	Expenses for business use o	f your	home. Do not report	t these	e expe	enses elsewhere. Attach Form 8829			
	unless using the simplified me	thod (	see instructions).						
	Simplified method filers only	: ente	r the total square foots	age of:	(a) yo	ur home:			
	and (b) the part of your home	used f	or business:			. Use the Simplified			
	Method Worksheet in the instr	uction	s to figure the amount	to en	ter on	line 30	30		
31	Net profit or (loss). Subtract	line 30	from line 29.						
	. If a profit, enter on both Forn	n 1040	), line 12 (or Form 104)	ONR, I	ine 13	and on Schedule SE, line 2.		PFS Line 17L	
	(If you checked the box on line	1, see	instructions). Estates a	nd tru	sts, en	ter on Form 1041, line 3.	31		
	• If a loss, you must go to lin	e 32.				)			
32	If you have a loss, check the b	ox tha	at describes your inves	tment	in this	activity (see instructions).			
	<ul> <li>If you checked 32a, enter the</li> </ul>	ne los	s on both Form 1040,	line 1	12, (or	Form 1040NR, line 13) and	_		
	on Schedule SE, line 2. (If yo	u ched	ked the box on line 1,	see th	ne line	31 instructions). Estates and	32a	All investment is at	
	trusts, enter on Form 1041, lin	ie 3.					32b	<ul> <li>Some investment is at risk.</li> </ul>	s not
_	<ul> <li>If you checked 32b, you mu</li> </ul>	st atta	ach Form 6198. Your I	oss m	ay be	limited.		at fisk.	

#### Look at Line 13

If you are writing off any depreciation or "section 179 expense," you will see an entry here. PFS Line 17F asks you to report this amount. If you claim depreciation, you will likely also file a Form 4562. If you have a 4562, be sure to send or upload that with your tax forms. Doing so allows the school to clarify how much of the amount on Line 13 is actual depreciation and not "section 179 expense." This is to your advantage, typically.

#### Look at Line 26

If you paid wages to employees for your business (as reported on W2's that you filed for them), the PFS will ask you to separate out any wages you paid for yourself or your spouse from wages you paid to others. If Schedule C Line 26 includes wages for yourself and/or your spouse, report the amount you paid to yourself and/or your spouse on PFS Line 17A. Only report this amount if you provided a W2 as documentation of those earnings. Do NOT report your net profit as your salary.

If Schedule C Line 26 includes wages paid for anyone other than yourself or your spouse, report the amount that went to other employees on PFS Line 17B.

By definition, a sole proprietorship doesn't share the profit or loss of the business with any other person or entity. Report the amount on Schedule C Line 31 on PFS Line 17L to reflect your share of the total business profit or loss (in other words, the amount that belongs to you).

Complete a separate PFS section on expenses and net profit for every sole proprietorship you own.

# Form 1099-MISC

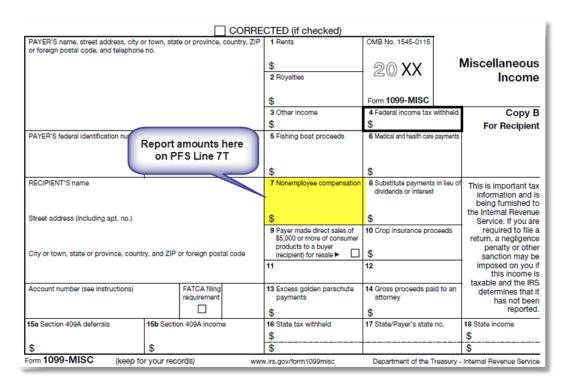
#### What is Form 1099-MISC for?

The Form 1099-MISC is provided to you by a person or firm for whom you performed work or service by hiring yourself out as a freelancer, contractor, or the like. 1099s can also show other types of income such as royalties, commissions or rents. Basically, it shows income you earned that wasn't provided to you as someone else's employee or from your investments.

Other types of 1099s you might receive:

- 1099-DIV (which reports income from dividends, distributions, and capital gains from investments accounts such as stocks, bonds, and mutual funds)
- 1099-INT (which tracks interest income you earned from investments such as savings accounts).

#### What does the Form 1099-MISC look like?



#### Which lines on Form 1099-MISC matter most for completing the PFS?

Income reported on your 1099s should already be included in certain lines of your 1040. On the PFS, any income reported on a 1099-MISC (other than rents and royalties) should be reported on PFS Line 7T.

If you and/or your spouse received multiple 1099s, be sure to add the amounts and report the total income on PFS line 7T.

#### **Important Notes**

- Do not report any amounts reported on a 1099-MISC as salary or wages, even if you earned it by working for someone as a contractor, freelancer, etc. When reporting your salary or wages on the PFS, ONLY include income for which you received a W-2.
- Many schools will require you to submit a W2 as part of your financial aid application. If you didn't receive a W-2 (meaning you didn't earn a salary as someone else's employee), but you did receive a 1099-MISC as a contractor or freelancer, submit your 1099-MISC in place of the W-2 the school requires.