Tax Primer

For parents completing the SSS Parents’ Financial Statement | PFS
Introduction

Use this primer to get an understanding of which few tax forms will be most helpful to you as you complete your Parents’ Financial Statement (PFS).

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

Tax forms covered in this tax primer:

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

For each of these tax forms, the primer answers three 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?

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- **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 tax 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 Form W-2 used for?
The W-2 is an annual statement of your earnings provided by your employer for the calendar year. It also shows how much of your pay was withheld for taxes, Social Security, and Medicare. It also indicates how much of your income you put into certain types of pre-tax retirement plans.

What does the Form W-2 look like?

Which lines on Form W-2 matter most for completing the PFS?
If you are a W-2 earner or pay yourself a salary from your business, this salary will appear in Box 1. 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 receives more than one for the year.

Look at Box 12. If 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 W-2s, report the total amount.

You do not have to report any other information from the W-2 on the PFS; however, it is possible that one or more schools you’re applying to might ask you to supply other information from the W-2. You’ll likely be required to submit or upload a copy of each W-2 you receive as part of your financial aid application.
Form 1040

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

What does the Form 1040 look like?
The 1040 is the base form plus additional schedules based on your types of income. Let’s look at the 1040 base form:

1040 Page 1
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 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 you pay.

When listing your dependents on the PFS, make sure it is consistent with those listed on your 1040 Dependents section. 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 1 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 1. 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 1 Lines 4B, 4D, and 5B: Distributions from IRA, Pensions, and Social Security

1040 Lines 4A, 4C, and 5A each show the total income you received from IRA, Pensions, and Social Security. Lines 4B, 4D, and 5B show the portion of that total that was taxable. Report taxable amount of IRA on PFS line 7O, taxable amount of Pension on PFS line 7P. 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 16

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 16. If you also have Self-Employment taxes reported on 1040 Schedule 2 Line 4, 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 16 of Page 2 minus any Schedule 2 Line 4 Self-Employment tax.

1040 Page 2 Line 17a

Earned income credits shown are considered non-taxable income and should be reported on PFS Line 8I.
**Form 1040 Schedule 1**

**What is the 1040 Schedule 1 used for?**

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

**What does the Schedule 1 look Like?**

![Form 1040 Schedule 1](image-url)
Which lines on the Form 1040 Schedule 1 matter most for completing the PFS?

- **1040 Line 3: 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 3. Be sure to send or upload each Schedule C you file, if you have income or a loss listed on your 1040 Line 3.

- **1040 Line 5: 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 5. If any income reported on Line 5 is from rental property, trusts, or royalties, report it on Line 7Q of your PFS.

  If any income reported on Line 5 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 that you file if you have income or loss listed on your 1040 Line 5.

- **1040 Schedule 1: Adjustments to Income**
  Report the total shown on 1040 Line 22 on PFS line 7F. If you have adjustments in 1040 Lines 14, 15, or 19, report them in the proper lines on the PFS. If you have other adjustments in addition to these, be sure to type a note in PFS Item 7J to specify what the adjustments were for (e.g., "alimony paid" or "Educator expenses").

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**Important**

If you filed a 1040 Schedule 1 and have reported income from rental real estate, partnerships, S corporations-Line 5 or Farm income-Line 6. Please use our Tax Primer for Self Employed Parents for further instructions on how complete section 15-18 of the PFS.
### Other Schedules

#### SCHEDULE A

**Itemized Deductions**

<table>
<thead>
<tr>
<th>Name(s) on Form 1040 or 1040-SR</th>
<th>Your social security number</th>
</tr>
</thead>
</table>

**Medical and Dental Expenses**

1. Medical and dental expenses (see instructions) ........................................ 1

2. Enter amount from Form 1040 or 1040-SR, line 8b ........................................ 2

3. Multiply line 2 by 7.5% (0.075) ................................. 3

4. Subtract line 3 from line 1. If line 3 is more than line 1, enter -0- ........................ 4

**Total Itemized Deductions**

17. Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040 or 1040-SR, line 9 ................................. 17

For Paperwork Reduction Act Notice, see the instructions for Forms 1040 and 1040-SR.

Cat. No. 17146C  SCHEDULE A (Form 1040 or 1040-SR) 20

#### SCHEDULE 2

**Additional Taxes**

<table>
<thead>
<tr>
<th>Name(s) on Form 1040 or 1040-SR</th>
<th>Your social security number</th>
</tr>
</thead>
</table>

**Part I  Tax**

1. Alternative minimum tax. Attach Form 6251 ................................. 1

2. Excess advance premium tax credit repayment. Attach Form 8962 ................................. 2

3. Add lines 1 and 2. Enter here and include on Form 1040 or 1040-SR, line 12b ................................. 3

**Part II  Other Taxes**

4. Self-employment tax. Attach Schedule SE ................................. 4

5. Unreported social security and Medicare tax from Form:  
   a. 4137  ........................................ 5
   b. 8919  ........................................ 5

6. Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required ........................................ 6

7a. Household employment taxes. Attach Schedule H ................................. 7a

7b. Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required ................................. 7b

8. Taxes from:  
   a. Form 8959  ........................................ 8
   b. Form 8960  ........................................ 8
   c. Instructions; enter code(s)  ........................................ 8

9. Section 965 net tax liability installment from Form 965-A ................................. 9

10. Add lines 4 through 8. These are your total other taxes. Enter here and on Form 1040 or 1040-SR, line 15 ................................. 10

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71478U  Schedule 2 (Form 1040 or 1040-SR) 20
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. 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 2 Line 4**

Report the total amount of self-employment taxes you paid for your business(es). These should also be reported 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 the amount reported on the Schedule 2 Line 4.
What is the Schedule C used 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 your net profit or loss for the business. The net profit or loss is then entered on your Form 1040 Schedule 1 Line 3. 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?
Which lines on the Schedule C matter most for completing the PFS?

If you have a Schedule C, then you have a Sole Proprietorship. On PFS Line 6H, answer “Yes” and the number of sole proprietorships you own. You will be required to complete a Section 15 for Business/Farm information for each sole proprietorship.

On PFS Line 15C, select “Sole Proprietorship” and answer 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

Complete a separate PFS section on income for every sole proprietorship you own.
Schedule C: Business Expenses and Net Profit/Loss

- **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 each sole proprietorship you own.
Form 1099-MISC

What is the Form 1099-MISC used 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, consultant, or the like. 1099s can also show other types of income such as royalties, commissions, or rents received. 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 (reports income from dividends, distributions, and capital gains from investments accounts such as stocks, bonds, and mutual funds)
- 1099-INT (tracks interest income you earned from investments such as savings accounts).

What does the Form 1099-MISC look like?

![Form 1099-MISC Image]
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.