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Chapter 7 Individual Tax Issues – Part 2

1

LEARNING OBJECTIVES

Pg 247

- ✓ Know who can claim the new senior deduction and how it is calculated
- ✓ Discuss the new deduction for car loan interest
- ✓ Calculate the car loan interest deduction
- ✓ Understand who can apply for an individual taxpayer identification number (ITIN)
- ✓ Understand when a taxpayer is eligible to claim the credit for other dependents
- ✓ Know what tax benefits and credits can be claimed using the ITIN

2

Issue 1

Pg 249

Credit for Other Dependents

3

Credit for Other Dependent

Pg 249

Other Dependents Credit (ODC)

- Provides relief for taxpayers supporting individuals who are not a qualifying child under §152(c) or do not otherwise qualify for the child tax credit
- For taxpayers who support adult children, aging parents, extended family, and non-relatives
- Maximum $500 nonrefundable credit per eligible dependent

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Qualifying Dependents for the ODC

Pg 249

- Claim the ODC for each dependent under § 152, other than a qualifying child
- Also available for a qualifying child ineligible for the child tax credit because they lack a SSN or are over age 16
- With some exceptions, a qualifying dependent is a qualifying relative

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Qualifying Dependents for the ODC

Pg 249

Qualifying Relative – Four Tests (I.R.C. § 152(d))

1. Specified relationship or member-of-household status with the taxpayer
2. Gross income does not exceed the limit
3. Taxpayer provides over one-half of support
4. Is not a qualifying child

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Specified Relationship – I.R.C. § 152(d)(2) Pg 249

The individual must bear one of the **listed relationships** to the taxpayer, **or** meet the **member-of-household test** (next slides)

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Specified Relationship – I.R.C. § 152(d)(2) Pg 249

Specified Relationships

- Child or a descendant of a child
- Brother, sister, stepbrother, or stepsister
- Father, mother, or an ancestor of either (Grands/Great-Grands)
- Stepfather or stepmother
- Son or daughter of the taxpayer's brother or sister (Niece/Nephew)
- Brother or sister of the taxpayer's father or mother (Aunt/Uncle)
- Son-, daughter-, father-, mother-, brother-, or sister-in-law

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Specified Relationship – I.R.C. § 152(d)(2) Pg 249

Member-of-Household Alternative

- For individuals who do **not** meet a listed relationship:
  - **Not married** to the taxpayer at any time during the year
  - Shares the taxpayer's **principal place of abode**
  - Is a **member of the household** for the **entire** tax year
    - **Temporary absences allowed** for illness, education, business, or vacation
    - Absence of **less than 6 months** under a custody agreement qualifies

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Example 7.1: Full-Time College Student

Pg 249

- Maria is **24** and a **full-time graduate student**
- Lives in **campus housing** all academic year; travels during breaks
- Parents pay her **housing, food, insurance, personal expenses, and education**
- Maria is the taxpayers' **child**, so she meets the **relationship requirement**
- **No residency requirement** applies
- **Result:** Maria's parents can claim the **ODC** for Maria

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Gross Income Limit

Pg 250

Dependent's gross income for the year must be **less than the § 151(d) exemption amount**

2026 limit: $5,300

Gross income is all income in **money, property, and services**, including:

- **Gross** rental receipts
- **Taxable** unemployment compensation
- **Taxable** Social Security benefits
- Certain **scholarship and fellowship grants**

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Gross Income Limit

Pg 250

What is Excluded?

- **Qualified scholarships** for degree candidates used for **tuition, fees, books, supplies, and required equipment** are generally **not** included
- **Tax-exempt income**, such as nontaxable Social Security benefits, is **not** included

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Example 7.2: Adult Child With Part-Time Income Pg 250

- Jordan Brewer's son **Kyle, age 25**, lives with Jordan **all year**
- In 2026, Kyle earned **$6,800 in wages** and was a **part-time student**
- Kyle paid his own **car insurance and personal expenses**
- Jordan paid all of Kyle's **housing, food, and medical costs**

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Example 7.2: Adult Child With Part-Time Income Pg 250

- Jordan provided **more than one-half** of Kyle's support
- But Kyle's income **exceeds the $5,300 exemption amount**
- **Result:** Jordan **cannot** claim the **ODC** for Kyle

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Support Test Pg 250

Taxpayer must provide **over one-half** of the individual's support

Support includes **food, lodging, medical and dental care, education**, and similar expenses

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Multiple Support Agreements

Pg 250

When **two or more people** together provide support, but **no one** provides over half:

- They may **agree** that one person who provides **at least 10%** claims the dependent
- Each of the **others must sign a statement** agreeing not to claim that person
- Filed on **Form 2120, Multiple Support Declaration**

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Divorced/Separated Parents

Pg 250

Divorced or separated parents have special rules to determine the support-test rules

Treas. Reg. § 1.152-4

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Example 7.3: Parent With Social Security Income

Pg 250

- Ava is **single** and supports her mother **Elena, age 82**
- Elena lives with Ava **all year**; Ava has no other dependents
- Elena receives **$9,000 in Social Security**, **non-taxable**, and has no other income
- Ava pays all of Elena's **food, housing, and medical expenses**
- Elena is **unmarried** and does **not** file a joint return

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Example 7.3: Parent With Social Security Income Pg 250

Elena's Social Security income is **not taxable**, so her gross income is **under the limit**

Ava provides **more than one-half** of Elena's support

Elena is Ava's **qualifying relative**

Result: Ava may claim the **ODC**

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Not a Qualifying Child Pg 250

A child is **not** a qualifying relative if the child is the **qualifying child** of the taxpayer or of **any other taxpayer**

A **qualifying child** who is **not eligible for the child tax credit** solely because they **lack an SSN** is treated as a **dependent** for the ODC

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Exception: When the Child is Not Anyone's Qualifying Child Pg 250

A child may still be a **qualifying relative** if the child's **parent** (or other person for whom the child is a qualifying child) is **not required to file** a return, and either:

- **Does not file** an income tax return, **or**
- Files **only to claim a refund** of withheld income tax or estimated tax paid

21

Eligibility Exceptions

Pg 251

A taxpayer is **not** eligible for the ODC if the taxpayer:

- Is the **dependent of another taxpayer**
  - A taxpayer **cannot** be a dependent if they file a **joint return**
- Is not a **U.S. citizen, national, or resident alien**
  - An **adopted child** who shares the taxpayer's **principal place of abode** and is a **member of the household** can be a dependent if the taxpayer is a **U.S. citizen or national**

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Identification Number

Pg 251

To claim the ODC, the **dependent** must have one of the following at the time of filing:

- A valid **SSN**
- An **ITIN**
- An **adoption identification number**

Taxpayer Identification: The **taxpayer**, and **spouse** if filing jointly, must also have a valid **SSN or ITIN** at the time of filing

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MAGI Phaseout

Pg 251

The credit begins to phase out when **MAGI exceeds**:

- **$200,000** for most taxpayers
- **$400,000** for married couples filing jointly
- MAGI above the threshold is **rounded up** in **$1,000 increments**
- Credit is reduced by **$50 for each $1,000** (or fraction thereof) over the threshold (but **not below zero)**

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Claiming the Credit

Pg 251

- Calculated on **Schedule 8812 (Form 1040)**, Credits for Qualifying Children and Other Dependents
- Credit carries to **line 19** of **Form 1040** or **Form 1040-SR**

The **Instructions for Schedule 8812** include two worksheets that may **limit the credit**:

- **Worksheet A** caps the credit by reducing the taxpayer's liability by certain other **nonrefundable credits**
- **Worksheet B** may be needed if the taxpayer has **certain other tax credits**

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Claiming the ODC

Pg 252

Example 7.4:

- Facts are the **same as Example 7.3** (Ava supports her mother Elena)
- In 2026, Ava's **MAGI is $156,000**
- Income tax liability is **$26,174**
- Ava has **no other credits**, so her **Credit Limit Worksheet A** amount is **$26,174**
- Entered on **line 13 of Schedule 8812**
- Ava claims the **$500 ODC** for Elena (see **Figure 7.1**)

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Cross-Reference: Due Diligence

Pg 253

Tax practitioners must meet **due diligence requirements** when preparing a return that claims:

- The **ODC**
- The **child tax credit (CTC)** and **additional child tax credit (ACTC)**
- The **earned income tax credit (EITC)**
- The **American opportunity tax credit (AOTC)**
- **Head of household** filing status

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Cross-Reference: Due Diligence

Pg 253

- Complete **Form 8867, Paid Preparer's Due Diligence Checklist**
- **Record retention** requirements apply
- *See* **pages 370 to 375** of the **2024 National Income Tax Workbook** for full discussion

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Issue 2

Pg 254

Senior Deduction

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Senior Deduction

Pg 254

For tax years **2025 through 2028**, a **$6,000 deduction** is allowed for each **qualified individual**

This is **in addition** to the current **additional standard deduction**

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Qualified Individual

Pg 254

A **qualified individual** means:

- The **taxpayer**, if **age 65** before Jan 2 of the next tax year
- On a joint return, the **spouse**, if **age 65** before Jan 2 of the next tax year
- **Joint Filers**: Maximum deduction for **qualified individuals filing jointly** is **$12,000**

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Income Limits

Pg 254

- The **$6,000 deduction** is reduced (but **not below zero**) by **6% of MAGI** above the threshold
- Threshold is **$75,000** ($150,000 MFJ)
- Deduction is **fully phased out** at:
  - **$175,000** MAGI (single)
  - **$250,000** MAGI (MFJ)

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Example 7.5: Phased Out Deduction

Pg 254

- Peter, **age 72**, is a **single** taxpayer
- In 2026, Peter's **MAGI is $92,000**
- MAGI exceeds the **$75,000 threshold** by **$17,000** ($92,000 – $75,000)
- Reduction is **6% of $17,000 = $1,020**
- Senior deduction is limited to **$4,980** ($6,000 – $1,020)

33

Eligibility Requirements

Pg 254

- The taxpayer must have a **Social Security number (SSN)**
- A **married** taxpayer is allowed the deduction only if the couple files a **joint return**
- Available to **both itemizing and non-itemizing** taxpayers
- **Figure 7.2** compares the **senior deduction** with the **additional standard deduction** for taxpayers **65 and older**

34

Eligibility Requirements

Pg 255

- A taxpayer who **dies before reaching age 65** does **not** qualify for the enhanced senior deduction
- A person is considered to **reach age 65 on the day before** their **65th birthday**

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Example 7.6: Taxpayer Dies Before Age 65

Pg 255

- Vera's husband, **Ankur**, was born **February 14, 1961**
- Ankur **died February 13, 2026**
- Ankur is considered **age 65 at death** (the day before his birthday), so he **qualifies** for the senior deduction
- If instead he had died **February 12, 2026**, he would **not** be considered age 65 and would **not** qualify

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Claiming the Deduction

Pg 255

- Claimed on **Schedule 1-A (Form 1040)**, Additional Deductions
- Reported in **Part V, Enhanced Deduction for Seniors**

Example 7.7: Claiming the Senior Deduction

- Facts are the **same as Example 7.5** (Peter, age 72, single, MAGI $92,000)
- Peter claims the senior deduction on **Schedule 1-A (Form 1040)** (see Figure 7.3, Pg 256)

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Issue 3

Pg 257

Car Loan Interest Deduction

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Car Loan Interest Deduction

Pg 257

- For tax years **2025 through 2028**, **OBBBA § 70203** creates a deduction for **car loan interest**
- Amends the **I.R.C. § 163(h)** disallowance of personal interest to allow a deduction for **qualified passenger vehicle loan interest (QPVLI)**
- **Proposed regulations** provide guidance on the QPVLI deduction (**REG-113515-25**)
- They also clarify new **information reporting requirements** for certain persons who receive **specified passenger vehicle loan interest**

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Who Can Claim the Deduction

Pg 257

- **QPVLI** is interest paid or accrued on debt incurred to **purchase an applicable passenger vehicle (APV)** for **personal use** [§ 163(h)(4)(B)(i)]
- It is an **above-the-line deduction** available to **non-itemizers** [I.R.C. § 63(b)(7)]

40

Who Can Claim the Deduction

Pg 257

Under **Prop. Treas. Reg. § 1.163-16(a)(2)(i)**, only these may deduct QPVLI:

- **Individuals**
- **Decedents' estates**
- **Nongrantor trusts**

- Only these taxpayers can be treated as having purchased an APV for personal use

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Who Can Claim the Deduction

Pg 257

Single-Member LLCs

- A **single-member LLC** that is a **disregarded entity** is treated as its owner's activities
- The LLC can incur **QPVLI**, and its **owner** is treated as the **APV's owner** and the **obligor** on the loan

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Who Can Claim the Deduction

Pg 257

Grantor Trusts

- A **grantor** (or other person treated as owning part of a trust under **I.R.C. §§ 671 through 679**) is treated as the **owner** of the trust property
- If a grantor trust **buys an APV** and incurs a **secured loan**, the **deemed owner** is treated as the **APV's owner** and **obligor**
- Eligibility is determined by **disregarding the grantor trust**
- Instead, look to the **deemed owner** to test whether the **QPVLI requirements** are met

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Practitioner Note: New Acronyms

Pg 257

- **APV** - applicable passenger vehicle
- **QPVLI** - qualified passenger vehicle loan interest
- **SPVL** - specified passenger vehicle loan

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Dollar Limit

Pg 257

- The **maximum QPVLI deduction** is **$10,000**
- Under **Prop. Treas. Reg. § 1.163-16(h)(1)**, the limit applies **per federal tax return**
- Maximum on a **joint return** is **$10,000**
- If **married filing separately**, the **$10,000 limit applies separately** to each taxpayer's return

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Example 7.8: QPVLI Dollar Limitation

Pg 257

- In 2026, Marisa paid **$15,000 of interest** on a **specified passenger vehicle loan (SPVL)**
- Her **MAGI was $85,000**
- She used the vehicle **100% for personal use**
- Marisa may deduct up to **$10,000** of the interest as **QPVLI**
- The remaining **$5,000** is **nondeductible personal interest**

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Example 7.9: Dollar Limit with Two Loans

Pg 258

- Sophie and Oliver are **married filing jointly**
- In 2026, **Sophie** incurred an **SPVL** for a new **truck**; **Oliver** incurred an **SPVL** for a new **car**
- Sophie paid **$6,000** interest; Oliver paid **$5,000** interest (**$11,000 total**)
- Combined interest is **$11,000**, but the limit is **per return**
- Sophie and Oliver can deduct **no more than $10,000** as **QPVLI** on their joint return

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MAGI Limit

Pg 258

- After the dollar limit, the QPVLI deduction is **reduced (not below zero)** by **$200 for each $1,000** (or portion thereof) that **MAGI exceeds the threshold** [§ 163(h)(4)(C)(ii)]
- Threshold is **$100,000** ($200,000 MFJ)
- For a **decedent's estate or nongrantor trust**, the threshold applies to the **estate or trust**, not its beneficiaries
- For a **disregarded entity or grantor trust**, the limit applies to the **deemed owner**

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Definition of MAGI

Pg 258

For the QPVLI limit, **MAGI** is **adjusted gross income** increased by these exclusions:

- **I.R.C. § 911** foreign earned income exclusion
- **I.R.C. § 931** income from Guam and American Samoa
- **I.R.C. § 933** income from Puerto Rico

Under **Prop. Treas. Reg. § 1.163-16(b)(7)(ii)**, **MAGI** for a **decedent's estate or nongrantor trust** means **adjusted gross income** as defined in **I.R.C. § 67(e)**

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Where MAGI is Calculated

Pg 258

MAGI is figured in **Part 1 of Schedule 1-A (Form 1040)**, Additional Deductions (see Figure 7.4)

SCHEDULE 1-A (Form 1040)
Department of the Treasury Internal Revenue Service

Additional Deductions
Attach to Form 1040, 1040-SR, or 1040-NR.
Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074
2025
Attachment Sequence No. 1A

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | Your social security number

Part I Modified Adjusted Gross Income (MAGI) Amount

1	Enter the amount from Form 1040, 1040-SR, or 1040-NR, line 11b			1
2a	Enter any income from Puerto Rico that you excluded	2a		
b	Enter the amount from Form 2555, line 45	2b		
c	Enter the amount from Form 2555, line 50	2c		
d	Enter the amount from Form 4563, line 15	2d		
e	Add lines 2a, 2b, 2c, and 2d			2e
3	Add lines 1 and 2e			3

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Example 7.10: MAGI Phaseout

Pg 259

- Asha files as **single**
- In 2026, she paid **$7,000 of QPVLI** on an **SPVL**
- Her **MAGI was $124,200**
- MAGI exceeds **$100,000** by **$24,200** ($124,200 − $100,000)
- $24,200 ÷ $1,000 = **24.2**, rounded **up to 25**
- Reduction is **$200 × 25 = $5,000**
- Maximum deduction is **$2,000** ($7,000 − $5,000)

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Qualified Passenger Vehicle Loan Interest Pg 259

QPVLI must meet the **following requirements**:

1. Interest is **paid or accrued** during the tax year on debt the taxpayer **incurred after December 31, 2024**
2. Debt is **incurred by the taxpayer**
3. Debt is incurred to **purchase an APV**
4. Debt is **secured by a first lien** on the APV
5. The APV is **purchased for personal use**

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Qualified Passenger Vehicle Loan Interest Pg 259

- **Prop. Treas. Reg. § 1.163-16(b)(15)** calls this debt a **specified passenger vehicle loan (SPVL)**
- Debt between the taxpayer and a **related party** is **not** an SPVL [under **I.R.C. § 267(b) or § 707(b)(1)**]

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Interest Paid or Accrued Pg 259

- Under **Prop. Treas. Reg. § 1.163-16(c)(2)(i)**, interest on an **SPVL accrues daily** over the loan term, like other debt instruments
- The **deductible amount** depends on the taxpayer's **overall accounting method**
- QPVLI includes **all interest payable** on the amount financed under an SPVL

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Interest Paid or Accrued

Pg 259

Under **Prop. Treas. Reg. § 1.163-16(c)(2)(ii)**, a payment on an SPVL is treated:

- **First as interest**, to the extent interest has **accrued and is unpaid** when the payment is due
- **Then as principal**, to the extent of any **excess**

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Interest Paid or Accrued

Pg 259

- A **simple interest** calculation may be used to determine accrued, unpaid interest at the time of payment
- Interest accrues **daily** based on the **outstanding principal balance** and the **APR or stated rate** in the installment sales contract

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QPVLI Exceptions

Pg 259

Under **Prop. Treas. Reg. § 1.163-16(c)(4)**, QPVLI does **not** include amounts paid or accrued on:

- A loan to finance **fleet sales**
- A loan for a **commercial vehicle** not used for personal purposes
- Any **lease financing**
- A loan to purchase a vehicle with a **salvage title**
- A loan to purchase a vehicle intended for **scrap or parts**

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QPVLI Exceptions

Pg 260

- Under **Prop. Treas. Reg. § 1.163-16(b)(6)**, **lease financing** is a transaction that is **not a purchase** of an APV
- The taxpayer has the **right to use** the APV but is **not considered the owner** under state or other applicable law

Example 7.11: Lease Financing

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Indebtedness Incurred by the Taxpayer

Pg 260

- The taxpayer must **incur the SPVL**
- Under **Prop. Treas. Reg. § 1.163-16(d)(5)(i)**, debt is an SPVL only if the taxpayer **incurred the original indebtedness**
- If **another taxpayer assumes** the loan, it is **no longer an SPVL**
- The proposed regulations include an exception for a **change in obligor because of the obligor's death**
- If the change occurs **due to death**, the debt **remains an SPVL** as to the **new obligor**

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Indebtedness Incurred by the Taxpayer

Pg 260

A change in obligor because of death would include:

- The deceased obligor's **estate** succeeding to ownership of the APV
- A **surviving joint owner** of the APV
- A **surviving beneficiary** designated by contract, transfer-on-death provision, or operation of law
- A **distribution** of the APV by the deceased obligor's **estate** to a **legatee or heir**, or by a **trust** to a **beneficiary** because of death

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Indebtedness Incurred by the Taxpayer Pg 260

A change in obligor from the **sale, exchange, or other disposition** of an APV by a decedent's **estate or trust** does **not** qualify

Example 7.12: Death of Obligor

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Indebtedness Incurred to Purchase an APV Pg 260

- An SPVL must be incurred for the **purchase of an APV**
- Under **Prop. Treas. Reg. § 1.163-16(b)(11)**, **purchase** means an acquisition that is both:
  - An **acquisition of the vehicle** for federal income tax purposes
  - An **acquisition of title** under state or other applicable law
- A purchase results in the **taxpayer listed as owner** on the APV's **title or registration**
- The **lender** is listed on the title as the **first lienholder**

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Indebtedness Incurred to Purchase an APV Pg 261

- Under **Prop. Treas. Reg. § 1.163-16(d)(2)(i)**, a purchase includes other items **customarily financed** that **directly relate** to the APV
- Examples: **vehicle service plans, extended warranties, sales taxes, and vehicle-related fees**
- Whether an item is **customarily financed** is determined on an **industry-wide basis,** not by reference to the financing terms of a **particular financing entity**

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Example 7.13: Vehicle-Related Purchases Pg 261

In 2026, Luna **financed an APV** for personal use, **secured by a first lien**

The retail installment sales contract finances the total of:

- **APV purchase price**
- **Extended warranty**
- **Sales tax**
- **Title and registration fees**
- **Dealer document fee**

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Example 7.13: Vehicle-Related Purchases Pg 261

- All financed amounts are for the **purchase of the APV** and **other items customarily financed** that **directly relate** to it
- The loan is an **SPVL**, and **all interest** may be deductible as **QPVLI**

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Nonpurchase Amount Pg 261

These are **not** treated as the taxpayer's indebtedness for the APV:

- **Collision and liability insurance**
- **Property or services not directly related** to the APV (for example, a **trailer or boat**)
- **Cash proceeds** the taxpayer receives from the lender

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Determining the Nonpurchase Amount Pg 261

- Under **Prop. Treas. Reg. § 1.163-16(d)(2)(iii)(B)**, any **down payment or other consideration** is applied **first** against:
  - **Negative equity** and
  - Other amounts **not incurred** for the APV purchase or for **customarily financed** items
- This **reduces the nonqualifying indebtedness** to the extent of any **down payment or other consideration** given

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Example 7.14: Non-Vehicle-Related Purchase Pg 261

- Brett financed the purchase of an **APV and a trailer**
- The debt is **secured by a first lien** on the APV
- The **trailer's price** was added to the amount financed in the **same retail installment sales contract**
- The portion for the **trailer** is **not** incurred for the APV or for **customarily financed** items directly related to it
- That portion is **not part of the SPVL**

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Example 7.14: Non-Vehicle-Related Purchase Pg 261

- Brett must **allocate** the trailer portion to debt that is **not an SPVL**
- **None** of the interest on that portion is **QPVLI**
- The **remaining** portion **is** an SPVL

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Example 7.15: Negative Equity

Pg 261

- In 2026, Anna financed an APV priced at **$40,000**
- She traded in a used vehicle: **value $8,000**, **loan balance $14,000**
- Negative equity is **$6,000** ($8,000 – $14,000)
- Anna made a **$4,000 down payment**
- Indebtedness is **$42,000** ($40,000 + $6,000 negative equity – $4,000 down payment)

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Example 7.15: Negative Equity

Pg 262

The **$6,000 negative equity** is **not** a customarily financed item directly related to the APV

The **$4,000 down payment** is applied **first against the $6,000 negative equity**

Of the **$42,000** total:

- **$40,000** is incurred for the **purchase of the APV** (QPVLI)
- **$2,000** is **not** incurred for the purchase (remaining negative equity)

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Refinanced SPVLs

Pg 262

- Under **§ 163(h)(4)(E)(ii)**, a new loan from **refinancing an SPVL** is itself an **SPVL** if it is **secured by a first lien** on the same APV
- The new loan is an SPVL **only to the extent** it does **not exceed** the amount of the **refinanced SPVL**
- Under **Prop. Treas. Reg. § 1.163-16(d)(4)**, the SPVL portion is **limited to the outstanding balance** of the refinanced SPVL as of the **refinancing date**
- The SPVL must have been **originally incurred by the taxpayer**

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Indebtedness Secured by a First Lien

Pg 262

- To be QPVLI, interest must be on an **SPVL secured by a first lien** on the APV **at the time** interest is paid or accrued
- Under **Prop. Treas. Reg. § 1.163-16(b)(14)**, **first lien** means a **valid, enforceable security interest** with **priority ahead of all other** security interests

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Indebtedness Secured by a First Lien

Pg 262

- Exception for **tax liens or similar interests** that may later receive higher priority
- **Springing liens** (conditional interests by operation of law), such as a **state property tax lien** from nonpayment, do **not** prevent first-lien status

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Indebtedness Secured by a First Lien

Pg 262

- Under **Prop. Treas. Reg. § 1.163-16(c)(3)(ii)**, collateral may be **substituted** in limited circumstances
- If the APV is replaced with a **substitute APV** due to an **unforeseen intervening event**, and the lien transfers under the loan terms, the debt **remains an SPVL**

Examples include:

- A **defective APV** replaced under a state **lemon law**
- An APV replaced due to an **insurance product**

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Indebtedness Secured by a First Lien

Pg 262

- Limited to substitute vehicles whose **original use begins with the taxpayer** and that **otherwise qualify as an APV**
- Applies only if the **existing SPVL continues unchanged** except for the collateral swap
- If instead the lender **satisfies the original SPVL** and issues **new indebtedness** for the substitute vehicle, the **general rules** apply to test whether the new debt is an **SPVL**

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Applicable Passenger Vehicle

Pgs 262-263

An APV must meet **five requirements**. The vehicle:

1. Has **original use commencing with the taxpayer**
2. Is manufactured primarily for use on **public streets, roads, and highways** (not one operated exclusively on rails)
3. Is a **car, minivan, van, SUV, pickup truck, or motorcycle** with at least **two wheels**
4. Is treated as a **motor vehicle** under **title II of the Clean Air Act**
5. Has a **gross vehicle weight rating under 14,000 pounds**

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Applicable Passenger Vehicle

Pg 263

- **Final assembly** of the APV must take place in the **United States**
- Final assembly is the process by which a manufacturer produces the vehicle at a plant from which it is **delivered to a dealer** with all **component parts** needed for mechanical operation

A taxpayer may rely on either:

- The **plant of manufacture** reported in the **VIN**
- The **final assembly point** on the **label affixed** to the vehicle

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Practitioner Note: VIN Decoder Website

Pg 263

- The **eleventh character** in the VIN is the **assembly plant code**
- The **NHTSA VIN Decoder** website provides **plant of manufacture** information
- Taxpayers can follow the site's instructions to confirm the plant was in the **United States**
- **www.nhtsa.gov/vin-decoder**

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Original Use

Pg 263

- Under **Prop. Treas. Reg. § 1.163-16(e)(2)(i)**, **original use** begins with the **first person** who takes delivery after the vehicle is **sold, registered, or titled**
- Original use does **not** begin with the **dealer** unless the dealer **registers or titles** the vehicle to itself (for example, **loaner vehicles**)

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Original Use

Pg 263

- If a dealer uses a vehicle for **test drives or as a demonstrator**, and state law does **not require** registration or titling, **original use does not begin with the dealer**
- The dealer's **prior use** does **not** prevent the vehicle from being sold as **new**

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Returned Vehicles

Pg 263

- Under **Prop. Treas. Reg. § 1.163-16(e)(2)(ii)**, there is an exception when a vehicle is **returned within 30 days** after the purchaser took delivery
- **Original use** may then begin with a **subsequent retail purchaser** if that purchaser's **loan documentation treats the vehicle as new**

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Personal-Use Requirement

Pg 263

- Under **§ 163(h)(4)(B)**, the APV must be purchased for **personal use**
- **Not** for use in a **trade or business**, **investment**, or other **nonpersonal use**

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Personal-Use Requirement

Pg 263

Under **Prop. Treas. Reg. § 1.163-16(b)(10), personal use** means use **other than**:

- In any **trade or business** (except performing services as an **employee**)
- For the **production of income**
- Note: **commuting** between home and a main or regular workplace is a **personal expense**

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Personal-Use Requirement

Pg 263

- Under **Prop. Treas. Reg. § 1.163-16(f)(1)**, the APV is purchased for personal use if, **when the debt is incurred**, the taxpayer expects it to be **personally used more than 50%** of the time by:
  - The **taxpayer**
  - The taxpayer's **spouse**
  - A person **related** under **I.R.C. § 152(c)(2) or (d)(2)**

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Personal-Use Requirement

Pg 263

- The personal-use test is evaluated **when the indebtedness is incurred**
- The taxpayer is **not required to reevaluate** in later years
- Differences between **expected and actual use** do **not** affect eligibility or the **amount** of QPVLI

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Example 7.16: Predominant Personal Use

Pg 264

- When Yasmine incurred debt to purchase an APV, she expected **85% personal use**
- She expected to use the APV as a **rideshare driver** for the remaining **15%**
- Yasmine is considered to have purchased the APV for **personal use**
- At purchase, she expected **personal use more than 50%** of the time
- The **15% rideshare** use does **not** preclude personal-use treatment

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Example 7.17: Predominant Business Use Pg 264

- When Bill incurred debt to purchase an APV, he expected **60% use** in his **contracting business** (a sole proprietorship)
- He expected **40% personal use**
- Bill is **not** considered to have purchased the APV for **personal use**
- At purchase, he did **not** expect **personal use more than 50%** of the time

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Example 7.18: Personal Use by Related Person Pg 264

- When Jessica incurred debt to purchase an APV, she expected her **daughter** to use the APV **exclusively for personal use**
- Jessica is considered to have purchased the APV for **personal use**
- At purchase, she expected a **related individual** to use it for **personal use more than 50%** of the time

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Nonpersonal Use – Independently Deductible Interest Pg 264

- Under **§ 163(a)**, taxpayers may deduct interest that is QPVLI as a **different type of interest** in certain circumstances
- Example: interest on a vehicle used in a **trade or business** may be deductible as **business interest expense**
- **§ 163(h)(4)** does **not** affect deductibility under **§ 163(a)** or another code section

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Nonpersonal Use – Independently Deductible Interest Pg 264

Under **Prop. Treas. Reg. § 1.163-16(g)(1)**, **independently deductible interest** is interest that is **QPVLI** (before the dollar limit) **and** also deductible as a **different type of interest** under **§ 163(a)** or another section

Under **Prop. Treas. Reg. § 1.163-16(g)(2)**, the amount deductible as QPVLI is **reduced dollar for dollar** to the extent the taxpayer **deducts it as non-QPVLI**

The taxpayer must **report** any independently deductible interest deducted as **non-QPVLI** on **Schedule 1-A (Form 1040)** or another relevant form

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Example 7.19: Independently Deductible Interest Pg 264

- In 2026, April paid **$1,000 of interest** on an SPVL deductible as **QPVLI**
- She used the APV **40%** in her **real estate business**
- April's **MAGI was $95,000**
- April can deduct the full **$1,000 as QPVLI**
- **$400** ($1,000 × 40%) is **independently deductible interest**, deductible **both** as QPVLI **and** as business interest under **§ 163(a)**

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Example 7.19: Independently Deductible Interest Pg 264-265

Assuming April can deduct the full $400 as business interest:

- **Option 1:** Deduct the $400 as **QPVLI**, for a **$1,000 QPVLI** deduction
- **Option 2:** Deduct the $400 as **business interest**, for a **$600 QPVLI** deduction plus a **$400 business interest** deduction

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Example 7.20: Independently Deductible Interest – Dollar Limit Applies

Pg 265

- In 2026, Gary paid **$12,000 of interest** on an SPVL
- He used the APV **30%** in his **consulting business**
- After the **dollar limit**, he may deduct up to **$10,000 as QPVLI**
- Gary's **MAGI was $78,000**
- Independently deductible interest is **$3,600** ($12,000 × 30%)
- This amount is deductible **both** as QPVLI **and** as business interest under **§ 163(a)**

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Example 7.20: Independently Deductible Interest – Dollar Limit Applies

Pg 265

Assuming Gary can deduct the full $3,600 as business interest:

- **Option 1 (maximize QPVLI):** Deduct **$10,000 as QPVLI** and **$2,000 as business interest**
- **Option 2 (maximize business interest):** Deduct **$3,600 as business interest** and **$8,400 as QPVLI**

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Claiming the QPVLI Deduction

Pg 265-266

Taxpayers report and calculate the QPVLI deduction on **Schedule 1-A (Form 1040)**

Example 7.21: Reporting the Deduction

Facts are the **same as Example 7.20** (Gary)

Gary elects to **maximize the business deduction**: a **$3,600 business interest** deduction and an **$8,400 QPVLI** deduction (see Figure 7.5)

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Practitioner Note: Requirement to Report the VIN

Pg 267

- Under **Prop. Treas. Reg. § 1.163-16(c)(5)**, interest on an SPVL is **not deductible as QPVLI** unless the taxpayer **reports the VIN** of the purchased APV
- Reported on **Schedule 1-A (Form 1040)** (or successor) or another relevant form
- **VIN** means the series of numbers and letters assigned to a motor vehicle under **49 C.F.R. § 565.13**

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Payee Reporting

Pg 267

- A person **engaged in a trade or business** who receives **$600 or more** of individual **SPVL interest** in a calendar year must file an **information return**
- The recipient must also **furnish a copy to the payer**
- New **Form 1098-VLI**

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Payee Reporting

Pg 267

The information return must be on the IRS-prescribed form and include:

1. The **name and address** of the individual who paid the interest
2. The **amount of interest** received for the calendar year
3. The **outstanding principal** on the SPVL at the **beginning** of the year
4. The **loan origination date**
5. The **year, make, model, and VIN** of the APV securing the loan
6. Any **other information** the IRS may prescribe

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Payee Reporting

Pg 267

- Penalties may apply for failing to file correct returns or furnish payee statements under § 6050AA:
  - **I.R.C. § 6721** - failure to file correct information returns
  - **I.R.C. § 6722** - failure to furnish correct payee statements

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Practitioner Note: Transitional Relief

Pg 267

- **Notice 2025-57**, 2025-45 I.R.B. 692, provides **transitional relief for 2025**
- Lenders are treated as **meeting reporting obligations** for 2025 SPVL interest if the interest was reported by:
  - An **online portal** the buyer can easily access
  - A **regular monthly statement**
  - An **annual statement**
  - **Similar means**

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Issue 4

Pg 268

Individual Taxpayer Identification Number

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Individual Taxpayer Identification Number (ITIN)

Pg 268

- An **ITIN** is a **nine-digit number** issued by the IRS to individuals who **need a U.S. taxpayer ID** for federal tax purposes but are **not eligible for an SSN**
- It begins with the number **9** and is formatted like an SSN (**NNN-NN-NNNN**)

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Individual Taxpayer Identification Number (ITIN)

Pg 268

Foreign individuals who **could qualify for an SSN** are **not eligible** for an ITIN

They must apply for an SSN using **Form SS-5, Application for a Social Security Card**, filed with the **Social Security Administration**

OBBBA limits the tax benefits and credits that can be claimed with an **ITIN**

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Obtaining an ITIN

Pg 268

- Applicants complete **Form W-7, Application for IRS Individual Taxpayer Identification Number**
- Form W-7 requires documentation substantiating the applicant's **foreign status and identity**

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Obtaining an ITIN

Pg 268

- A **passport** is the **only document** that proves **both** foreign status and identity
- A passport is **not** a stand-alone document for certain **dependents** if **no U.S. date of entry** is present
- A **tax return** or supporting documentation must accompany the application to **support the reason for applying**

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Documentation of Foreign Status and Identity

Pg 268

- Documents must be **original**, or a **copy certified by the foreign government office** that issued them
- A **certified copy** is one the **issuing agency** provides and certifies as an **exact copy**, bearing the agency's **official stamped seal**

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Documentation of Foreign Status and Identity

Pg 268

- An alternative is to present documents to an **IRS-authorized agent**
- A **certifying acceptance agent (CAA)** can certify to the IRS that they **reviewed and verified** the original documents (or a certified copy from the issuing agency)
- CAAs are listed by **state** (U.S.) or **country** (outside the U.S.) at **www.irs.gov/tin/itin/itin-acceptance-agents**

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Reasons for Submitting Form W-7

Pg 268

Applicants meeting an exception to filing a tax return must provide **supporting documentation**. Common exceptions include:

- **Third-party reporting of mortgage interest** (nonresident alien with a loan secured by U.S. real property)
- **Withholding on rental or gambling income**
- **Withholding on the sale of U.S. real property**

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Practitioner Note: US Partnerships

Pg 269

Effective **June 1, 2026**, if the reason for applying is **Exception 1(a), Partnership Income**, the applicant must include part of the **partnership or LLC agreement** showing:

- The partnership's **name**
- The partnership's **EIN**
- The applicant's **name and signature**

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Practitioner Note: US Partnerships

Pg 269

- The document must also show the applicant is a **partner** in a partnership **conducting business in the United States**
- The **EIN** may be **written on the agreement** or printed on an included **CP 575 series EIN confirmation notice** or **Letter 147C**

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Example 7.22: Applying for an ITIN

Pg 269

- Camille is a **Canadian citizen** who bought a **vacation home in Arizona**
- She borrowed part of the price from **Arizona Desert Bank**
- The bank must report mortgage interest on **Form 1098, Mortgage Interest Statement**
- Camille must apply for an **ITIN** so the bank can report the interest

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Example 7.22: Applying for an ITIN

Pg 269

- Camille makes an appointment with a **CAA**, who completes **Form W-7** (see Figure 7.6) and **certifies a copy of her passport**
- The CAA submits the signed **W-7** with a copy of her **Trust Indenture** showing the **mortgage on U.S. real property**
- See **Figure 7.6** (Pgs 269-270)

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Spouses and Dependents

Pg 270

- Spouses and dependents are **not eligible** to **obtain or renew** an ITIN unless they are:
  - Claimed for an **allowable tax benefit**, or
  - Filing their **own tax return**
- They must be **listed on an attached U.S. federal tax return** with the **schedule or form** for the allowable benefit

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Spouses and Dependents

Pg 270

An allowable tax benefit or credit can include:

- A spouse **filing a joint return**
- A dependent claimed for **head of household** or **qualifying surviving spouse** status

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Spouses and Dependents

Pg 270

An allowable benefit can also be a **tax credit**, such as:

- The **American opportunity tax credit**
- The **premium tax credit**
- The **child and dependent care credit**
- The **credit for other dependents (ODC)**

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Example 7.23: Allowable Tax Benefit

Pg 270

- Danny requested an ITIN for his **spouse** and **dependent child** for **2026**
- The attached 2026 return claims **married filing jointly**
- The return does **not** claim the **dependent child** for any allowable tax benefit

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Example 7.23: Allowable Tax Benefit

Pg 270

- The **spouse is eligible** for an ITIN because they **filed jointly**
- The **dependent child is not eligible**, since Danny did **not** file as **head of household** or **qualifying surviving spouse**, nor claim the child for an **allowable credit**

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Expiring ITINs

Pg 271

- An ITIN **not used** on at least one U.S. federal tax return for **3 consecutive years** expires on **December 31** of the third year and must be **renewed**
- Example: an ITIN used for **2022** (filed in 2023) but not for **2023, 2024, and 2025** expires **December 31, 2026**

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Expiring ITINs

Pg 271

- ITINs assigned **before 2013** have **expired** if not renewed
- Renewal is made on **Form W-7**, the same as an initial application, but checking the **"Renew Existing ITIN"** box in the top right corner
- If the ITIN is used **only on information returns** for third-party reporting, the taxpayer **does not** have to renew it
- But if it is later needed to **file a U.S. federal tax return**, it must be **renewed at that time**

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Practitioner Note: Renewal Date is Original Issuance Date

Pg 271

- The **PATH Act** prevents **retroactive claims** for certain tax credits
- It requires individuals claiming various credits to have a **TIN (SSN or ITIN)** issued **on or before the return's due date**
- The IRS stated it followed **Notice 2016-48**, under which the **issuance date of a renewed ITIN** is the **original issuance date**, not the renewal date

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Practitioner Note: Renewal Date is Original Issuance Date

Pg 271

- In its **2026 report**, TIGTA found the IRS **erroneously allowed credits** on **43,604 returns** that **retroactively claimed** credits after **expired ITINs were renewed**
- The IRS stated it followed **Notice 2016-48**, under which the **issuance date of a renewed ITIN** is the **original issuance date**, not the renewal date

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Certifying Acceptance Agents

Pg 271

A CAA does the following:

1. Helps **complete Form W-7**
2. **Authenticates supporting documents**, except foreign military ID cards and any dependent documents other than **passports and birth certificates** (Acceptance agents who are **not** CAAs **cannot certify** documents)

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Certifying Acceptance Agents

Pg 271

A CAA does the following (cont'd):

3. **Returns** authenticated documents to the applicant
4. **Mails** the ITIN application package to the IRS
5. Can work with the IRS to **resolve issues** with applications
6. Receives **copies of client ITIN notices**

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Certifying Acceptance Agents

Pg 271

Becoming an Acceptance Agent:

- All new and renewing applicants must submit an **IRS acceptance agent application** for their firm or organization
- Must first complete **ITIN acceptance agent training** and **forensic training** (CAAs only)

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Certifying Acceptance Agents

Pg 271

Becoming an Acceptance Agent: (Con't)

- Log into **e-Services** and complete the **electronic application**
- Submit the **training completion certificate** and other required documents, such as **professional credentials**, through the **CAA Document Upload Tool**

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Practitioner Note: CAA Application Processing Time

Pg 271

- The new **electronic CAA application** is intended to **reduce processing time**
- The IRS website states it cuts processing for properly submitted applications from **120 days to 60 days**

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Tax Benefits and Credits

Pg 272

- OBBBA modified the requirements for the **child tax credit (CTC)** and **additional child tax credit (ACTC)**
- Previously, only the **qualifying dependent** needed an **SSN**
- Effective **2025**, the **parent or guardian** claiming the credit must also have an **SSN valid for work**, issued **before the return's due date**

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Tax Benefits and Credits

Pg 272

- On a **joint return**, only **one spouse** needs a **valid SSN** for the CTC and ACTC
- The **other spouse** must have an **SSN or ITIN**, issued **on or before the due date** (including extensions)

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Tax Benefits and Credits

Pg 272

OBBBA added SSN requirements for the **American opportunity** and **lifetime learning** credits. A valid **SSN** is required to claim:

- The **American opportunity** and **lifetime learning** credits
- The **CTC** and **ACTC**
- The **earned income tax credit**

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Tax Benefits and Credits

Pg 272

An **SSN** is also required to claim:

- The deductions for **qualified tips and overtime**
- The **senior deduction**
- To open a **Trump account**

Figure 7.7 shows selected tax benefits and credits and whether they can be claimed with an ITIN.

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