

Error in 2018 Schedule D Tax Computations

Just in case you hadn't noticed it yet – In May 2019 IRS announced the Schedule D Tax Worksheet (Forms 1040 & 1041) has an error. The tax was incorrectly calculated if the taxpayer had any 28% tax gain (i.e., collectables gain) or any unrecaptured Section 1250 gain (taxed at a maximum rate of 25%).

The corrected worksheet was released May 15 so any returns prepared after that date should have the corrected worksheet. However, the tax preparation software companies may have needed a little more time to revise their program to take into account the IRS correction.

The IRS website posting stated taxpayers should not amend their returns because “**THE IRS IS REVIEWING ALL POTENTIALLY IMPACTED FILED RETURNS, INCLUDING THOSE FILED BEFORE MAY 16, 2019, AND WILL SEND CORRECTION NOTICES TO ANY AFFECTED TAXPAYERS. TAXPAYERS WHO OVERPAID THEIR TAX DUE TO THE ERROR WILL RECEIVE REFUNDS. IF YOU FILED AN AMENDED RETURN BECAUSE YOU OPTED TO RECALCULATE YOUR REGULAR TAX USING THE NEW WORKSHEET TO SEE IF IT CHANGED, THE IRS IS CURRENTLY PROCESSING THOSE AMENDED RETURNS.**”

This means some clients will have received letters from IRS stating there was an error on their tax return and that they owe additional tax (or are getting a refund). Unfortunately, this letter may cause clients to believe we, the tax professionals, are the ones who made the error.

It may be beneficial to print the IRS' website articles so you can show taxpayers this error was a result of IRS' incorrect worksheet. It also may be a good idea to review the 2018 returns that have collectibles gains or unrecaptured 1250 gains since your software will now display/print the corrected Form 1040.

You can find the articles on IRS' website by typing “Schedule D 2018” in the Search box and click on the applicable links, such as “Error in Tax Calculation in Schedule D Tax Worksheet (Form 1040)”

This text has been shared by David & Mary Mellem, EAs & Ashwaubenon Tax Professionals.

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