



2007 VITA/TCE Publication 1155

Facilitator's Guide

(for use in preparing Tax Year 2007 Returns)

Coming together to
strengthen communities
through free volunteer
tax return preparation
programs

For the most up to date tax products,
information and other training options
such as visit www.irs.gov.



Department of the Treasury
Internal Revenue Service

www.irs.gov

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Technical Updates

Tax law changes implemented after this product was published may cause various forms, tables, and worksheets to change. The supplemental changes (if any) are normally available in mid-December on www.irs.gov (keyword: Community Network).

Technical updates are also conveyed in Volunteer Quality Alerts during the filing season on www.irs.gov. Also, consult your course facilitator and/or site coordinator.

The IRS Mission

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.



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Confidentiality Statement

All tax information received from taxpayers in your volunteer capacity is strictly confidential and should not, under any circumstances, be disclosed to unauthorized individuals and should be properly safeguarded.

All persons, scenarios and addresses appearing in this product are fictitious. Any resemblance to persons living or dead is purely coincidental.

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DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

WAGE AND INVESTMENT DIVISION

November 9, 2007

Dear Facilitators,

Let me first offer my thanks for an exceptional 2007 filing season. The knowledge and expertise you shared with your volunteers helped us achieve another year of amazing results.

Since it's important that we all continue to **Keep an Eye on Quality**, I am asking you to help our volunteers stay focused on providing accurate, quality service while continuing to safeguard taxpayer information.

After years of conducting volunteer instruction, we've found the best training tool is **demonstration**. Please use as many practice exercises and role plays to help volunteers learn about their responsibilities. We want to make sure every volunteer knows what to expect and how to react appropriately in different situations.

During classes, direct volunteers to the IRS.gov home page where they can find a Web page dedicated to Partner Resources. These pages are specifically tailored for them and include valuable products and information. Be sure to remind volunteers to search for the keyword "**Community Network**" on IRS.gov to access these pages.

Remember to direct your students to Link & Learn Taxes, where they can be certified. We also ask you to reinforce the use of our established quality tools such as Form 13614, *Intake and Interview sheet* and Publication 4012, *VITA/TCE Resource Guide*. Additionally, please advise your sponsoring organizations that IRS relationship managers review and monitor the number and accuracy of returns at tax preparation sites.

If you have suggestions and ideas for improving our training materials, please send your feedback by completing the evaluation form in your kit. You may also send an e-mail to partner@IRS.gov, or share your comments with your local relationship manager. All written comments can be mailed to:

Internal Revenue Service
Stop 45-WI-VITA/TCE Training
401 West Peachtree St., NW
Atlanta, GA 30308

I know I can count on all of you to deliver quality training to your volunteers. Thank you in advance for your hard work and dedication. Enjoy the Training!

Sincerely,

Julieta D. Garcia
Acting Director,
Stakeholder Partnerships,
Education & Communication

STUDENT NOTES

Welcome to the Tax Year 2007 Volunteer Income Tax Assistance (VITA)/Tax Counseling for the Elderly (TCE) volunteer preparer training program. There are five volunteer return preparation courses—Basic, Intermediate, Advanced, Military, and International—presented in this guide. This information augments Publication 678, Student Guide (in your kit), and provides you with the information and flexibility needed to facilitate discussions on the “whys and hows” of return preparation, both electronic and paper.

Breathe life into the course you teach by sharing your experiences and insights. As you prepare your lesson plans, we encourage you to “connect the dots” for new and returning volunteers. Each volunteer should fully grasp the correlation between all components (tax law, intake and interview process, reference tools, and quality review of their work) of the return preparation process.

Remember, an accurate return is one of the cornerstones of the VITA/TCE program. Your ability to convey the importance of preparing an accurate return contributes to the taxpayer’s experience and confidence in the program.

We welcome your comments for improving these materials and the VITA/TCE programs. You may follow the evaluation procedures in this kit or e-mail your comments to partner@irs.gov.

The Resources in Your Kit

While every class is unique, we strive for consistency in the training that is presented to volunteer return preparers. Your local IRS relationship manager is available to assist you in planning your training and providing guidance in using the components in this kit. The following is a description of the products in your training kit and their intended use:

1. **Facilitator’s Guide (Publication 1155)** emphasizes administrative information you should share with the volunteers and provides suggestions for facilitating discussion on each lesson in the Student Guide (see enclosed Publication 678).

Also included are two sets of suggested class schedules as follows:

- Integrated training, combining tax law training with tax preparation software training—TaxWise[®] (Appendix A)
- Traditional or manual return preparation, teaching tax preparation and filing using paper return forms, schedules, worksheets, etc. (Appendix B)

Students will need the VITA/TCE Student Guide (Publication 678), Comprehensive Problems and Practice Exercises (Publication 678-W), and the Volunteer Resource Guide (Publication 4012) for both teaching methods. Computers and the TaxWise[®] software are required to teach integrated training.

- 2. Student Guide (Publication 678)** contains administrative guidance and tax law you should cover in your course. The technical lessons contain charts, graphics, narratives, examples, exercises, and interview tips to assist volunteers in learning and applying tax law. The student kit includes all of the items in your kit except facilitator evaluation materials. The student kit contains student evaluation forms.
- 3. Comprehensive Problems and Practice Exercises (Publication 678-W)** allows the volunteers to practice completing returns using the Intake and Interview Sheet and Quality Review Sheet in both paper and electronic tax preparation settings.

Instructions for using the practice exercises and comprehensive problems are included in the publication. The comprehensive problem should be reviewed and discussed in class (at a minimum).

- 4. Volunteer Resource Guide (Publication 4012)** assists volunteers in “asking the right questions” to get to an accurate and quality return. This guide contains interview questions and tips, along with charts, decision trees, and graphics that convey tax law, credit eligibility rules and information, and TaxWise[®] software guidance.

Remind students to always take their Publication 4012 to the VITA/TCE tax preparation site. It is a key training reference used during the return preparation process.

- 5. Test Materials (Form 6744, Test and Retest)** for each of the five courses provide you with insights into the types of questions that will be asked in the certification process. Both tests are open book.

Note: For immediate scoring and certifications, Link and Learn Taxes is recommended for actual completion of the test and/or submitting test answers online. In addition to acknowledging correct answers, L< contains a reference tool for researching incorrect answers. Log on to www.irs.gov and check it out yourself—keyword: Link and Learn Taxes.

The Test and Retest Answers (Publication 4189) are available from your local IRS-SPEC relationship manager this year. The two-page answer key or a complete copy of Publication 4189 is available to you via e-mail or small-package carrier. Publication 4189 is available on CD-ROM.

- 6. Business Reply Label (Document 12107)** is used to mail (postage free) the evaluation forms to the IRS.
- 7. Plastic Bag (Publication 1278)** to carry your training materials.
- 8. Facilitator Course Evaluation Form (Form 13232)** allows space for comments and/or suggestions for improving the quality of this course.

VITA/TCE Courses and Content

All five VITA/TCE courses—**Basic, Intermediate, Advanced, Military, and International**—can be presented using the materials in this kit. The Basic and Intermediate courses are designed for students who will assist taxpayers in filing return Forms 1040EZ, 1040A, and simple 1040. The Advanced, Military, and International courses are designed for students who will assist taxpayers with the more complex VITA/TCE returns.

The courses can be presented in 16 to 40 hours, depending on the student’s tax law expertise and skill levels. Suggested presentation and teaching times for each course are shown in Appendices A and B.

The content of each course is shown in Exhibit 1 on the next page. The information is summarized below:

1. The **Basic** course covers income from wages, interest and dividends, and tax credits for individuals and couples.
2. The **Intermediate** course covers all the tax topics in the Basic course and additional income topics, including alimony, social security income, etc., itemized deductions, adjustments to income, and some pension issues for individuals and families with no stock or sale of home considerations.
3. The **Advanced** course covers all the tax topics in the Basic and Intermediate courses including additional pension topics. Also covered are stock and sale of home issues for individuals and families.
4. The **Military** course is generally the Advanced course with special emphasis on tax issues impacting armed services personnel and their families, i.e., combat pay, moving expenses, etc.
5. The **International** course is generally the Advanced course with special emphasis on international tax law for U.S. residents living outside the United States (nonmilitary), especially those served by U.S. embassies and consulates.

Proof Copies of Forms and Tables

Forms, schedules, and worksheets in the training materials were current as of the “draft/proof” date shown on each product. Final forms may be found at www.irs.gov and may have supplemental changes. Be sure to compare the final forms with those in this publication and make sure you understand processing changes (if any) before sharing them with your students. Draft copies of the Tax Tables and Earned Income Credit Tables are in Publication 678-W.

A set of the draft forms that were available at the time this publication went to print is included in Publication 678-W. Make sure all of the forms your students need to complete the comprehensive problems and practical exercises for the course you’re teaching are available to them.

Exhibit 1: Content and Courses

Content	Course
Highlights of Changes	All courses
Introduction and Administrative Guidelines	All courses
Lesson 1—Taxpayer Identification Numbers and Exemptions	All courses
Getting Started—Military	Military
Lesson 2—Filing Status and Filing Requirement	All courses
Filing Status—Military	Military
Filing Status—International	Military
Lesson 3—Income	See below
Wages, Interest, Dividends, Unemployment, and Gambling	Basic
Wages, Interest, Dividends, Unemployment, Gambling, State and/or Local Tax Refunds, Premature Pensions or Deferred Compensation Distribution, Alimony, Social Security Income, and Schedule C-EZ	All courses (except Basic)
Income—Military	Military
Other Income—Military	Military
Rental Income and Expenses—Military	Military
Foreign Income Exclusion—International	International
Worldwide Income—International	International
Self-Employment Tax—International	International
Lesson 4—Deductions and Tax Computation	See below
Standard Deductions	Basic
Standard and Itemized Deductions	All courses (except Basic)
Tax Computation	All courses
Travel Expenses—Military	Military
Other Miscellaneous Deductions—Military	Military
Business Travel Expenses—International	International
Lesson 5—Earned Income Credit	All courses
Lesson 6—Child Tax Credit	All courses
Lesson 7—Child and Dependent Care Credit	All courses
Lesson 8—Education Credits	All courses
Lesson 9—Miscellaneous Credits	See below
Elderly or Disabled and Qualified Retirement Savings	All courses
Residential Energy, Alternative Motor Vehicle, Mortgage Interest Credit, and Foreign Tax Credit (Form 1116 not required)	All courses (except Basic)
Foreign Tax Credit (Form 1116 required)—International	International
Lesson 10—Adjustments to Income	All courses (except Basic)
Moving Expenses—Military	Military
Lesson 11—Pensions and Other Retirement Income	Advanced, Military, & International (except below)
Taxable Amount Determined	All courses (except Basic)
Lesson 12—Sale of Stock	Advanced, Military, & Int'l
Lesson 13—Sale of Home	Advanced, Military, & Int'l
Lesson 14—Finishing the Return	All courses
Finishing the Return—Military	Military

Teaching Methods

As you prepare to present this material, remember that it is very important that volunteers assist only with those returns, supporting schedules, and forms for which they have received training and are certified. The quality reviewer and/or sponsor should agree on the course that best serves the needs of the students and taxpayers.

The five VITA/TCE courses may be taught using the following delivery methods:

1. **Integrated classroom** instruction combines lecture and discussion with completing the problems and exercises using tax preparation software training. See Appendix A for suggested class schedules.
2. **Traditional classroom** instruction entails lecture and discussion with paper or manual completion of the problems and practice exercises. See Appendix B for suggested class schedules.
3. **Link & Learn Taxes (L<)** classroom instruction entails lecture and discussion using the interactive e-learning application on www.irs.gov.
4. **Self-Study instructions** allow students (using the student training kit, Publication 678, and/or L<) to independently complete their course with your guidance.

Facilitator Prerequisites and Classroom Set-Up

In order to successfully convey the information in this guide, we recommend the following prerequisites for each facilitator:

- Two hours of preparation time for every hour of instruction
- Certification in the course being taught
- Basic computer skills and TaxWise[®] software knowledge (if applicable)
- Access to the Internet and e-mail

Classroom Set-Up

Classes should be 20 students or less and each student will require a:

- Student Kit (Publications 678, 4012, 678-W, etc.)
- Publication 17, Your Federal Income Tax Guide for Individual (if available)
- Individual Income Tax Forms—Series 1040/1040A/1040EZ and associated schedules and instructions (if available)
- State training materials (as appropriate)

Classes that incorporate TaxWise[®] e-filing software will also require:

- A computer for each student
- A facilitator station with computer and projector
- Table space for documents
- Storage disks or CDs for students to save their work
- One assistant per five students (ideally)

For the most up-to-date tax products and information visit Forms and Publications and 1040 Central on www.irs.gov.

Testing and Certification

The Test and Retest are in one product this year—Form 6744. Review the introductory information in Form 6744 in this kit for detailed information about the revised testing approach and information you will need to discuss with your students prior to administering the test.

Volunteers assisting taxpayers with their returns and conducting quality return reviews must pass the test that coincides with the types of returns they will prepare/review. For example, a volunteer that passes the test for the **Basic** course will only provide assistance or quality review with tax matters covered in the **Basic** course.

Volunteer certification can be accomplished using one of the two methods as follows:

- Successful completion of the IRS paper test and retest
- Successful completion of the IRS online test via Link and Learn Taxes

Regardless of the testing method, volunteers should complete the test on their own. Taking the test in groups or with outside assistance could prove to be a disservice to the people they have volunteered to help.

Students can take the test using tax software (where appropriate) and may use any reference materials available to them as volunteers to complete the test.

The test and retest are explained in detail in Form 6744 included in this kit.

This year, the Test and Retest Answers (Publication 4189) are available from your local IRS-SPEC relationship manager via e-mail, small package carrier, or on CD-ROM. Publication 4189 is not included in this training kit.

For immediate testing, scoring, and certifications, the VITA/TCE e-learning application, Link and Learn Taxes is available on the Internet. In addition to acknowledging correct answers, L< contains a reference tool for researching incorrect answers.

Your students can also reinforce their classroom training using Link and Learn Taxes. Log on at www.irs.gov and check it out yourself—keyword: Link and Learn Taxes.

Student and Facilitator Evaluations

We need your help in accomplishing one of our most important goals, which is providing the right training or mix of training that empowers all VITA/TCE volunteers to deliver accurate, quality return preparation assistance.

Please encourage your students to complete the student evaluation form in their kit or online using Link and Learn Taxes. We welcome your comments on the enclosed evaluation Form 13232.

Completing the evaluation forms:

- Each student and facilitator evaluation form must contain the applicable course number and city and state information in Exhibit 2, VITA/TCE Class Numbers, or Exhibit 3, M-VITA Class Number.
- The forms are optically scanned.
- Do not **fold**, **staple**, or **photocopy**.
- Darken the circle “bubbles.”
- Do not place an “X” or check mark in the circle “bubbles.”

After collecting all the evaluations and completing your own, please use an envelope, 9×12 or larger, to forward the completed student and facilitator evaluations to the IRS-SPEC address, using the Business Reply labels included in your kit.

Note: The mailing label (Document 12107) in your kit should be used to mail the evaluation forms only.

Approximate Teaching/Discussion Times At-a-Glance (In hours or fractions thereof)

Lesson/Segment	Basic	Intermediate	Advanced	Military	International
Introduction and Administrative Guidelines	1–2	1–2	1–2	1–2	1–2
Lesson 1—TINs and Exemptions	1–3	1–3	1–3	1–3	1–3
Lesson 2—Filing Status and Filing Requirements	1–3	1–3	1–3	1–3	1–3
Lesson 3—Income – Basic	1–2	1–3	1–3	1–3	1–3
Lesson 4—Deductions and Tax Computation	1–2	2–3	2–3	2–3	2–3
Lesson 5—Earned Income Credit	2–3	2–3	2–3	2–3	2–3
Lesson 6—Child Tax Credit	1	1	1	1–2	1–2
Lesson 7—Child and Dependent Care Expenses	1–2	1–2	1–2	1–2	1–2
Lesson 8—Education Credits	1–2	1–2	1–2	1–2	1–2
Lesson 9—Miscellaneous Credits	1	1	1	1	1
Lesson 10—Adjustments to Income	n/a	1–2	1–2	1–2	1–2
Lesson 11—Pensions and Other Retirement Income	n/a	1–3	1–3	1–3	1–3
Lesson 12—Sale of Stock	n/a	n/a	2–3	2–3	2–3
Lesson 13—Sale of Home	n/a	n/a	1	1–2	1–2
Lesson 14—Finishing the Return	1–2	1–2	1–2	1.5	1.5
Problem and Exercises (Publication 678-W)	1–3	1–3	1–3	1–3	1–3

Exhibit 2: VITA/TCE Class Numbers

SPEC Office	Class Number	SPEC Office	Class Number
Area 1: Greensboro, North Carolina			
Albany NY	WI-2008-14	Baltimore MD	WI-2008-15
Boston MA	WI-2008-16	Buffalo NY	WI-2008-17
Burlington VT	WI-2008-18	Charleston WV	WI-2008-19
Charlotte NC	WI-2008-20	Columbia SC	WI-2008-21
Greensboro NC	WI-2008-22	Hartford CT	WI-2008-23
Manchester NH	WI-2008-24	Newark NJ	WI-2008-25
New York City NY	WI-2008-26	Norfolk VA	WI-2008-27
Philadelphia PA	WI-2008-28	Pittsburgh PA	WI-2008-29
Portland ME	WI-2008-30	Providence RI	WI-2008-31
Raleigh NC	WI-2008-32	Richmond VA	WI-2008-33
Washington DC	WI-2008-34	Wilmington DE	WI-2008-35
Area 2: Indianapolis, Indiana			
Atlanta GA	WI-2008-36	Chicago IL	WI-2008-37
Cincinnati OH	WI-2008-38	Cleveland OH	WI-2008-39
Columbus OH	WI-2008-41	Detroit MI	WI-2008-42
Guaynabo PR	WI-2008-44	Indianapolis IN	WI-2008-58
Jacksonville FL	WI-2008-60	Louisville KY	WI-2008-62
Maitland FL	WI-2008-63	Memphis TN	WI-2008-64
Miami FL	WI-2008-65	Milwaukee WI	WI-2008-66
Nashville TN	WI-2008-67	Panama City FL	WI-2008-68
Plantation FL	WI-2008-69	Tampa FL	WI-2008-70
W Palm Beach FL	WI-2008-71		
Area 3: Dallas, Texas			
Austin TX	WI-2008-72	Birmingham AL	WI-2008-73
Dallas TX	WI-2008-74	Des Moines IA	WI-2008-75
El Paso TX	WI-2008-76	Fargo ND	WI-2008-77
Houston TX	WI-2008-78	Jackson MS	WI-2008-79
Kansas City MO	WI-2008-80	Little Rock AR	WI-2008-81
Lubbock TX	WI-2008-82	New Orleans LA	WI-2008-83
Oklahoma City OK	WI-2008-84	Omaha NE	WI-2008-85
San Antonio TX	WI-2008-86	Sioux Falls SD	WI-2008-87
St. Louis MO	WI-2008-88	St. Paul MN	WI-2008-89
Wichita KS	WI-2008-90		
Area 4: Phoenix, Arizona			
Albuquerque NM	WI-2008-92	Anchorage AK	WI-2008-93
Boise ID	WI-2008-94	Cheyenne WY	WI-2008-95
Denver CO	WI-2008-96	Helena MT	WI-2008-97
Honolulu HI	WI-2008-98	Las Vegas NV	WI-2008-99
Los Angeles CA	WI-2008-100	Phoenix AZ	WI-2008-101
Portland OR	WI-2008-102	Sacramento CA	WI-2008-103
Salt Lake City UT	WI-2008-104	San Diego CA	WI-2008-105
San Francisco CA	WI-2008-106	San Jose CA	WI-2008-107
Seattle WA	WI-2008-108		
Other			
Overseas VITA	WI-2008-109		

Exhibit 3: M-VITA Class Numbers

SPEC Office	Class Number	SPEC Office	Class Number
Area 1: Greensboro, North Carolina			
Albany NY	WI-2008-9	Baltimore MD	WI-2008-10
Boston MA	WI-2008-11	Buffalo NY	WI-2008-12
Burlington VT	WI-2008-13	Charleston WV	WI-2008-40
Charlotte NC	WI-2008-43	Columbia SC	WI-2008-45
Greensboro NC	WI-2008-46	Hartford CT	WI-2008-47
Manchester NH	WI-2008-48	Newark NJ	WI-2008-49
New York City NY	WI-2008-50	Norfolk VA	WI-2008-51
Philadelphia PA	WI-2008-52	Pittsburgh PA	WI-2008-53
Portland ME	WI-2008-54	Providence RI	WI-2008-55
Raleigh NC	WI-2008-56	Richmond VA	WI-2008-57
Washington DC	WI-2008-59	Wilmington DE	WI-2008-61
Area 2: Indianapolis, Indiana			
Atlanta GA	WI-2008-110	Chicago IL	WI-2008-111
Cincinnati OH	WI-2008-112	Cleveland OH	WI-2008-113
Columbus OH	WI-2008-114	Detroit MI	WI-2008-115
Guaynabo PR	WI-2008-116	Indianapolis IN	WI-2008-117
Jacksonville FL	WI-2008-118	Louisville KY	WI-2008-119
Maitland FL	WI-2008-120	Memphis TN	WI-2008-121
Miami FL	WI-2008-122	Milwaukee WI	WI-2008-123
Nashville TN	WI-2008-124	Panama City FL	WI-2008-125
Plantation FL	WI-2008-126	Tampa FL	WI-2008-127
W Palm Beach FL	WI-2008-128		
Area 3: Dallas, Texas			
Austin TX	WI-2008-129	Birmingham AL	WI-2008-130
Dallas TX	WI-2008-131	Des Moines IA	WI-2008-132
El Paso TX	WI-2008-133	Fargo ND	WI-2008-134
Houston TX	WI-2008-135	Jackson MS	WI-2008-136
Kansas City MO	WI-2008-137	Little Rock AR	WI-2008-138
Lubbock TX	WI-2008-139	New Orleans LA	WI-2008-140
Oklahoma City OK	WI-2008-141	Omaha NE	WI-2008-142
San Antonio TX	WI-2008-143	Sioux Falls SD	WI-2008-144
St. Louis MO	WI-2008-145	St. Paul MN	WI-2008-146
Wichita KS	WI-2008-147		
Area 4: Phoenix, Arizona			
Albuquerque NM	WI-2008-148	Anchorage AK	WI-2008-149
Boise ID	WI-2008-150	Cheyenne WY	WI-2008-151
Denver CO	WI-2008-152	Helena MT	WI-2008-153
Honolulu HI	WI-2008-154	Las Vegas NV	WI-2008-155
Los Angeles CA	WI-2008-156	Phoenix AZ	WI-2008-157
Portland OR	WI-2008-158	Sacramento CA	WI-2008-159
Salt Lake City UT	WI-2008-160	San Diego CA	WI-2008-161
San Francisco CA	WI-2008-162	San Jose CA	WI-2008-163
Seattle WA	WI-2008-164		
Other			
Overseas Military	WI-2008-165		

STUDENT NOTES

Volunteer Training Tax Year 2007

Welcome

Sponsoring Organization or Agency
Facilitator(s)
Contact information



Welcome to the Tax Year 2007 VITA/TCE Training

- Facilitator: insert your specific information on the slide.
- Conduct an icebreaker (if desired).
- Have facilitators and students introduce themselves.
- Welcome new and/or returning students.
- Provide scope of program and objectives.
 - VITA/TCE boasts over 11,000 sites and 76,000 volunteers.
 - “To provide free, top-quality service to eligible taxpayers.”
- Discuss common acronyms.
- Provide an overview of the VITA/TCE program.
- Provide an overview of where we fit in the IRS and how they assist us in accomplishing the mission of IRS (if desired).
- Provide students with a copy of the course agenda, information about the facility, break, and lunch information.
- Ask students to open their kit (provide place for trash).
- Introduce the students to the products in their kit and purpose—let students know about the retest, which is not included in their kit and its purpose which is included in the Form 6744 this year.
- Ask students to locate their student text (Publication 678).
- Share your course outline with the students.

Progress to the next slide.

e-learning Options



*linking volunteers to
quality e-learning solutions*

&

Understanding Taxes Web Site

<http://www.irs.gov/app/understandingtaxes/index.jsp>



- Discuss key components of L<.
 - L< is the IRS' VITA/TCE e-learning application.
 - L< is available 24/7 on www.irs.gov. Type "Link and Learn Taxes" in the Keyword/Search field.
 - L< is interactive, and immediate testing and certification feedback is provided.
- Discuss Understanding Taxes: An e-awareness/education program for students and instructors from middle school through college on the hows and whys of the U.S. federal tax system. Also available on www.irs.gov.
- Key points:
 - Students can reinforce this course in the L<.
 - Students can take the test for each course—Basic, Intermediate, Advanced, Military or International on L<.

Progress to the next slide.

Evaluations

- **Course & Facilitator Evaluations**
- **Class Number:** _____
- **How to Complete and Submit**



- Facilitator: include the correct class number on the slide.
- Reintroduce the evaluation forms in the kit.
- State the class number and where it should be entered on the form(s).
- Teach from the evaluation form instructions and the text.
- Tell students how you plan to administer the evaluation at this time.
 - Suggest to students to take notes during the course for ease in completing the Level I Evaluation.
 - Advise students that they will be given an opportunity to complete the Level I Evaluation at the end of the course and it will be taken up at that time.
 - Let students know that the evaluations are anonymous. They are sent to a vendor who prepares reports that help us improve the training.
 - Emphasize the importance of the evaluation. This feedback is a vital part to the success of the program.
- Evaluation Levels: The Level I Evaluation is administered right after the training course. The Level II Evaluation is the skills measurement, which is the test. The Level III Evaluation is administered after the students have had a chance to apply what they have learned in the training course.
- Let students know that the Level III Evaluation will be available during the filing season. The details will come later. The link that will be used is: http://linklearn.webtechteam.com/VITA_TCE_3

Progress to the next slide.

FACILITATOR NOTES

Important Changes

- **These will be covered in more depth in the appropriate lesson:**
 - Standard Deduction
 - Exemption Amount
 - Standard Business-Related Mileage Rate
 - Medical and Move-Related Mileage Rate
 - Charitable Contributions



These slides contain information for all courses and have been updated for Tax Year 2007.

- Ask students to review the “Important Tax Law Changes for 2007” section in Publication 678 for the highlights.
- Inform students that these changes and the amounts for 2007 will be covered in detail in the appropriate lesson.
 - Exemption Amount—**Lesson 1**
 - Standard Deduction—**Lesson 4**
 - Itemized Deductions—**Lesson 4**
- Ask students to name any other items that they think might have changed from last year **(if you have all new students, omit this activity.)**
- Remind students not to be discouraged. The meaning of these terms will be fully explained in later lessons.

Progress to the next slide.

Important Changes

- **Earned Income Credit (EIC):**
 - EIC maximum credits for the tax year
 - Maximum income limitations to qualify
 - Investment income limitations



- Earned income credit is covered in a separate lesson—**Lesson 5**.
- Point out the amounts that are listed in the “Important Tax Law Changes For 2007” section of the student text under the heading **Earned Income Credit (EIC) Amounts Increased**.
- **EITC Assistant**—Online assistant is still available but is **not new for 2007**.
 - It is available to help taxpayers determine EITC eligibility.
 - It is available in English and Spanish at **www.irs.gov**, 24 hours a day, 7 days a week.

Progress to the next slide.

Important Changes

- Other Changes
 - Additional Child Tax Credit income maximum
 - Maximum Social Security Wages
 - Self-Employment Tax Maximum increased
 - IRAs and Other Retirement Plans



- Inform students that these changes will be covered in detail in the appropriate lesson.
 - Child Tax Credit—**Lesson 6**
 - Social Security Wages—**Lesson 3**
 - Education Credits—**Lesson 8**
 - Investment Income of Minor Children—**Lesson 3**
 - Self-Employment Tax—**Lesson 3**
 - IRAs and Other Retirement Plans—**Lessons 3, 10 and 11**
- Inform students that they will probably not have to be concerned about the social security wage limit because the income level is above that of the traditional VITA customer.

Progress to the next slide.

Important Changes

- Income limits increased for
 - Student Loan Interest Deduction
 - Hope and Lifetime Learning Credits
 - Phase-out of itemized deductions
 - Education Savings Bond Exclusion



- Some of the above may never come up but all are covered in specific lessons in the text.

- Student Loan Interest is covered in **Lesson 10**
- Miscellaneous Credits is covered in **Lesson 9**

Progress to the next slide.

Important Changes

- Other Changes
 - Mortgage Insurance Premium Deduction
 - Foreign Earned Income Exclusion
 - Foreign Tax Credits income reclassification
- Pending Legislation

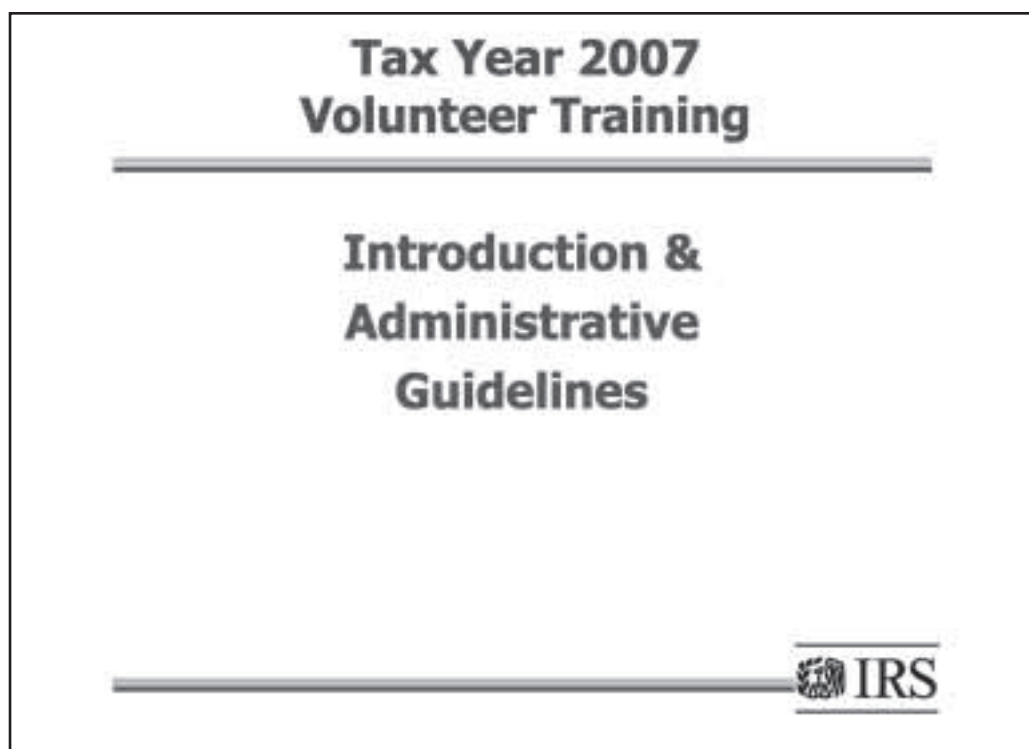


- Inform students that these changes and others will be covered in detail in the appropriate lesson.
 - Mortgage Insurance Premium Deduction—new itemized deduction covered in **Lesson 4**
 - Foreign Earned Income Exclusion—Military and International Only—**Lesson 3**
 - Foreign Tax Credits income reclassification—Military and International Only—**Lesson 9**
- **Expired Benefits**
 - Refund of Long Distance Telephone Tax—expired
 - Vehicle credits—expired
 - Most benefits related to Hurricanes Katrina, Rita and Wilma
- Pending Legislation—At the time this publication went to print, Congress was considering legislation that could impact some of the tax topics covered in the volunteer training materials. If legislation is passed that impacts the taxpayers we serve in volunteer sites, we will issue a Training Supplement.
- Visit **www.irs.gov** for current information on tax changes.

Progress to Introduction & Administrative Highlights.

FACILITATOR NOTES

Lined area for taking notes, consisting of approximately 25 horizontal lines.



This lesson contains information for all courses and has been updated for Tax Year 2007.

■ **References:**

- Publication 678, Student Kit (content)
- Publication 678W, Student Practice Problems
- Form 13614, Intake and Interview Sheet
- Form 13615, Volunteer Agreement/Standards of Conduct
- Form 13645, Wallet Card
- Publication 17, Guide to Federal Taxes for Individuals
- Publication 4012, Volunteer Reference Guide
- Volunteer Protection Act
- Forms and Instructions for 1040, 1040A, and 1040EZ
- Table of Contents (Publication 678)
- Publication 4475 (DVD/VHS)—Interview Techniques (An AICPA and IRS 2006 Production)
- Publication 4299, Privacy and Confidentiality Booklet
- Publication 1915, Understanding Your IRS ITIN

■ **Tell the students what will be discussed in this lesson:**

- An introduction to the course and lesson features
- VITA/TCE process
- Your rights, responsibilities, and resources

Progress to the next slide.

VITA/TCE Course Objectives

- Solicit appropriate information from taxpayers to complete an accurate return
- Determine if the taxpayer should/must file a return
- Complete and file returns accurately (including worksheets and schedules) within the scope of VITA/TCE
- Respond accurately to taxpayer inquiries
- Test and become a certified return preparer



- State the objectives listed on the slide.

Progress to the next slide.

Course Introduction

The VITA/TCE Courses

1. Basic
2. Intermediate
3. Advanced
4. Military
5. International



- Describe the different levels of instruction.
- Point out that learning can be reinforced by using **Link & Learn Taxes**.

Progress to the next slide.

Training Kit

- Publication 678
- Publication 678W
- Publication 6744 – Test/Retest
- Publication 4012 – Volunteer Resource Guide
- Form 13222 – Evaluation



- Offer overview of importance of each component.

Progress to the next slide.

Draft Copies

- Forms in Publication 678 are “draft copies”
- Final copies—www.irs.gov

Note: Final forms may differ—make sure you understand the *reasons* for the changes before helping taxpayers



- Explain that the forms in the lessons are drafts as of the date shown in the watermark, when the training material went to print. The official products, including forms and instructions, are available now on www.irs.gov.

Progress to the next slide.

Lesson Features

- Objectives
- Interview, Quality Review, and Reference Tools
- Sidebars – Alerts and Pitfalls
- Problems, Exercises, and Exhibits
- Summing Up the Lesson



- Explain the components that make up each lesson.

Progress to the next slide.

Volunteer Testing & Certification

**"Assist only with returns,
supporting schedules, and forms
in the scope of your training
and certification."**



- Reintroduce the test/retest booklet (Form 6744 in their kit).
- Explain to students that preparing returns beyond their training and certification may result in errors and cause difficulties for those they wish to help—delayed returns, audits, time off from work, etc.
- Encourage students to refer taxpayers with difficult returns with issues beyond their training and certification to the site coordinator and/or a paid tax preparer.
- Explain that “trained and certified” means they have met the training requirements to be volunteer return preparers, passed the required test, and their signed Volunteer Agreement/Standards of Conduct—Form 13615—is on file with their sponsor/site coordinator.
- Introduce the students to the online test options on **Link & Learn Taxes**.
- Share your plans for administrating the test at this time.

Progress to the next slide.

Screening & Probing Interviews

Form 13614 (Rev. July 2007)	Department of the Treasury – Internal Revenue Service Intake and Interview Sheet	OMB # 1545-1964
---------------------------------------	--	-----------------

You (and Spouse) will need:

- *Proof of Identity*
- *Copies of ALL W-2, 1098, 1099 forms*
- *Social Security (SSN) or Individual Tax Identification Number (ITIN) for all individuals to be listed on the return*
- *Child care provider's identification number*
- *Banking information (checking and/or savings account) for direct deposit/debit*
- *Amounts/dates of estimated or other tax payments made, etc.*
- *Amounts of other income*

Part I: Taxpayer Information

1. Your First Name		M.I.	Last Name		2. SSN or ITIN
3. Date of Birth (mm/dd/yyyy)	4. US Citizen or Resident Alien <input type="checkbox"/> Yes <input type="checkbox"/> No		5. Legally Blind <input type="checkbox"/> Yes <input type="checkbox"/> No		6. Totally and Permanently Disabled <input type="checkbox"/> Yes <input type="checkbox"/> No
7. Spouse's First Name		M.I.	Last Name		8. SSN or ITIN
9. Date of Birth (mm/dd/yyyy)	10. US Citizen or Resident Alien <input type="checkbox"/> Yes <input type="checkbox"/> No		11. Legally Blind <input type="checkbox"/> Yes <input type="checkbox"/> No		12. Totally and Permanently Disabled <input type="checkbox"/> Yes <input type="checkbox"/> No
13. Address			Apt #	City	State Zip Code



- Reintroduce Form 13614 in Publication 4012.
- Form 13614 or equivalent should be the beginning of your collaboration with your taxpayer in building an accurate quality return.
- The taxpayer will complete the first page and together you will complete the second page.
- Never assume; always ask. Listen, probe, and follow up.
- Volunteers are encouraged to use the Publication 4012 decision trees, interview tips, and other information to accurately complete the return.

Progress to the next slide.

Five-Step Interview Process

- Put the Taxpayer at ease
- Use Active Listening
- Explain the Return Preparation Process
- Engage around the Intake Sheet
- Be alert to next steps—
 - Quality Review, Filing, Records, etc.



- Discuss the Five-Step Interview Process.
- Explain and demonstrate how the information in Publication 4012 and Form 13614 contribute to a successful interview and a quality return.
- Show the Interviewing Techniques DVD—Publication 4475. (Contact your IRS coordinator for information about this video produced by the AICPA and IRS.)
- Summarize the intake and interview process using the information in the text.
- **Note:** You might do your own role-play activity.
- Discuss the return prep process including filing, quality review, record keeping, etc.

Progress to the next slide.

Screening & Probing Interview

- Involve the taxpayer
- Ask questions to clarify responses
- Listen
- Use decision trees
- Use reference materials
- Verify



- Restate the importance of getting accurate and appropriate information from the taxpayer.
- Ask the students to state some of the tools available to accomplish this task.
- Inform students that it is also important to provide accurate information to the taxpayer.
- Reintroduce some of the key technical sources of information at the site (i.e., the site coordinator, returning volunteers, Publications 17, 4012, etc.).

Progress to the next slide.

Critical Intake Documents

- Taxpayer Identity
- Income Reporting
- Taxpayer Identification Numbers (TIN)



- Explain the importance of this documentation.
- Explain alternative steps if the documentation is not available.

Progress to the next slide.

Quality Review

All returns prepared **MUST** have a Quality Review. The review can be:

- Self review
- Peer review
- Designated reviewer



- Explain the importance of the Quality Review process.
- Explain how the three types of review work.

Progress to the next slide.

Scope of Program

Returns should only be prepared that are

- Within the scope of the VITA/TCE program, and
- Within the certified competence of the volunteer.



Emphasize the need to conform to the

- Scope of the program
- Level of training and certification received

Progress to the next slide.

Rights and Responsibilities

- **Volunteer Protection Act**
- **Standards of Conduct**
- **Privacy and Confidentiality**
- **Program Integrity**
- **Volunteer Site Credentials**
- **Site Identification Number**



- Explain to the students the provisions and scope of the Volunteer Protection Act. Caution the students to gracefully decline any token of appreciation offered by a taxpayer, while acknowledging the generous intention.
- Note that the Standards of Conduct will be discussed in detail on the next slide.
- Refer students with privacy questions to Publication 4299, Privacy and Confidentiality.
- Refer students to their site coordinator on issues involving Program Integrity.
- Discuss the wallet cards.
- Explain the importance of the SIDN.

Progress to the next slide.

Standards of Conduct

- **Treat taxpayers professionally**
- **Protect and use equipment and supplies (as prescribed)**
- **Do not accept payment**
- **Do not solicit funds**



- Introduce the Volunteer Agreement/Standards of Conduct in Form 6744.
- Explain to students that all volunteers must sign Form 13615 (even those who do not prepare returns).
- Discuss each standard and seek comments and understanding from the class.
- Advise students that no one (neither volunteers nor taxpayers) can be subject to discrimination or denied services because of race, color, sex, national origin, disability, reprisal, or age.
- Seek comments regarding the potential ramifications of the action taken by the VITA/TCE volunteer in the alert.

Progress to the next slide.

Resources

- **E-File software—TaxWise®**
- **Publications 4012 and 17**
- **Intake and Interview Sheet**
- **Volunteer Hotline and Quality Alerts**
- **Instruction booklets and worksheets**
- **Equipment and supplies**



Provide a description of each of the resource tools available to the volunteer and indicate where they would find any and all of the following:

- TaxWise®—Software Edits and Diagnostics
- Publication 17—Tax Law with examples of taxpayer situations
- Publication 4012—Decision Trees, Interview Tips, Eligibility and Limitation Charts
- Intake and Interview Sheet—begins the collaboration with the taxpayer in preparing the return
- Volunteer Hotline—1-800-429-8482—for volunteers ONLY
- Quality Alerts—Tax Law Highlights on Key Topics
- Instructions and forms—detailed information about completing forms & schedules
- Equipment and supplies—computers, forms, and other supplies provided by the local IRS SPEC office

Progress to the next slide.

Summary

- Your rights and responsibilities
- Taxpayers' rights and expectations
- Stay in scope
- Don't assume—interview and probe
- Review quality
- Utilize all of your resources

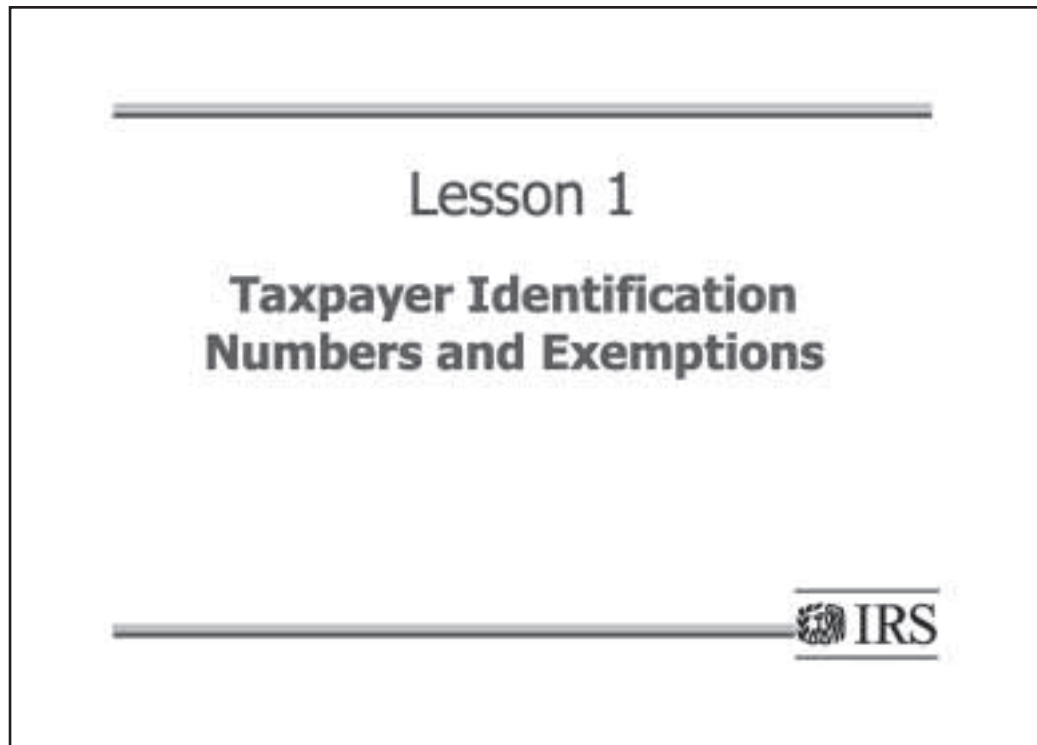


Note: The information in this lesson sets the stage for the course.

- Explain: Volunteers should understand the importance of the services they provide and that there are ramifications for intentional misdeeds as a VITA/TCE volunteer.
- A quality return is complete and accurate. To achieve this goal, each return should receive a quality review and all the information should be confirmed with the taxpayer—DON'T ASSUME.

Progress to the next slide.

FACILITATOR NOTES



This lesson contains information for all courses and has been updated for tax year 2007.

■ **References:**

- Form 1040, Form 1040A, and Form 1040EZ and applicable instructions
- Form W-7 and Form W-7A, Application for Taxpayer Identification Number
- Form SS-4, Application for Social Security Card
- Form 2120, Multiple Support Declaration
- Form 8332, Release of Claim of Exemption for Child of Divorced or Separated Parents
- Publication 4012, Volunteer Resource Guide
- Publication 17, Income Tax Guide for Individuals

■ **Additional References:**

- Publication 501, Exemptions, Standard Deduction, and Filing Information
- Publication 555, Community Property

Progress to the next slide.

Objectives

- Explain the importance of the taxpayer identification number (TIN)
- Identify the three types of taxpayer identification numbers (TINs)
- Define the terms “personal” and “dependency” exemption
- Apply the dependency exemption tests for qualifying child/relative



- State the objectives and provide highlights of what will be discussed under each objective. For example:
 - **Taxpayer Identification Numbers (TINs).** All taxpayers and dependents on a return (Form 1040, 1040A, or Form 1040EZ) must have a taxpayer identification number. Returns that do not have TINs will incur processing delays.
 - **Three types of TINs.** State the three types of TINs—SSN, ITIN, ATIN—that will be discussed.
 - **Exemptions.** Share the two types—personal and dependency—that will be discussed and explain that each allowable exemption reduces a taxpayer’s taxable income by \$3,400 this year.
 - **Dependency tests.** Advise the students to make sure that they apply the rules for the dependency tests.
- Show the students a completed Form 13614 in Publication 678 and discuss the information in the text.
- Tell the students that worksheets are available to assist them in applying the dependency tax law.

Progress to the next slide.

Form 13614—Intake and Interview Sheet: Part I

Part I: Taxpayer Information

1. Your First Name		M.I.	Last Name		2. SSN or ITIN	
3. Date of Birth (mm/dd/yyyy)	4. US Citizen or Resident Alien <input type="checkbox"/> Yes <input type="checkbox"/> No		5. Legally Blind <input type="checkbox"/> Yes <input type="checkbox"/> No		6. Totally and Permanently Disabled <input type="checkbox"/> Yes <input type="checkbox"/> No	
7. Spouse's First Name		M.I.	Last Name		8. SSN or ITIN	
9. Date of Birth (mm/dd/yyyy)	10. US Citizen or Resident Alien <input type="checkbox"/> Yes <input type="checkbox"/> No		11. Legally Blind <input type="checkbox"/> Yes <input type="checkbox"/> No		12. Totally and Permanently Disabled <input type="checkbox"/> Yes <input type="checkbox"/> No	



- Use Form 13614, Intake and Interview Sheet, to engage the taxpayer in preparing an accurate return.
- Use the Intake Sheet as a starting point for comprehensive interaction with the taxpayer, in combination with all of the source documents provided by the taxpayer, to ensure quality and accuracy on each return.
- Confirm each item on Form 13614 (or similar tool used at your site) to make sure you and the taxpayer have considered all of the necessary information to ensure that all of the questions and issues have been addressed. If items are incorrect or incomplete, revisit the issue and make corrections to the return, as needed.
- Ensure the accurate reporting of the taxpayer's information by confirming the name, date of birth, and taxpayer identification number. If filing a joint return, include the spouse's information.
- Refer students to Determination of Residency Status in the Volunteer Resource Guide, Tab A (Who Must File/Which Form to File) to determine if they should continue to assist the taxpayer or refer him or her to the site coordinator.
- Students should understand that they should not try to assist nonresident alien taxpayers unless they have been trained and certified in preparing tax returns such as Form 8843, Form 1040NR, or Form 1040NR-EZ.

Progress to the next slide.

Form 13614–Intake and Interview Sheet: Part II

Part II. Family and Dependent Information – Do not include you or your spouse.

Print the name of everyone who lived in your home and outside your home that you supported during the year.

Name (first, last)	Date of Birth mm/dd/yyyy	Social Security Number or ITIN	Relationship to you (son, daughter, etc.)	Number of months person lived with you in 2007	US Citizen, Resident of US, Canada or Mexico (yes or no)	Is the dependent a full time student born before 1989? (yes or no)
(a)	(b)	(c)	(d)	(e)	(f)	(g)



- Ensure the accurate reporting of the taxpayer's dependency information by completing columns (a) thru (g) for each person listed on the return as a dependent. A taxpayer's return cannot be prepared without this information.

Progress to the next slide.

Form 13614—Intake and Interview Sheet: Part III

Part III. Filing Status & Dependency Determination

Based on the interview, the filing status of the taxpayer is: Single MFJ MFS* HOH QW

*Spouse Name _____ Social Security Number _____

- | | | |
|------------------------------|-----------------------------|--|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 1. Did you provide more than 50% of the support for the dependents claimed? |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 2. Can anyone else claim any of these dependents on their income tax return? |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 3. Were any of these dependents permanently and totally disabled in 2007? |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 4. Did any of these dependents file a joint return for 2007? |
| | | 5. Based on the interview, how many individuals qualify as dependents for this return? |



- Probe to ensure that the taxpayer is entitled to claim the dependency exemption for individuals listed on the return.

Progress to the next slide.

Taxpayer Identification Numbers

- The Taxpayer Will Need
- TINs – What Are They?
- TINs – Who Needs One?
- TINs – How to Obtain Them



- Read the PowerPoint slide and test the students' knowledge by seeking their responses to the questions. For example:
 - **The taxpayer will need.** Restate the critical documents that taxpayers need to bring with them using Form 13614 in Publication 4012 or the text. **Note:** Using the form in Publication 4012 will make the students aware of where they can find the information at the tax preparation site.
 - **TINs—What are they?** Restate the three types of TINs.
 - **TINs—Who needs one?** Ask individual students when each type of TIN is required.
 - **TINs—How to obtain them.** Ask students which government agency issues SSNs and which agency issues ITINs and ATINs. Which forms are required to request ITINs and ATINs?
- Teach from pages 1-2 and 1-3.
- Emphasize the need for filing returns with correct TINs and the advantages of looking at the taxpayer's actual documentation from the IRS and/or the Social Security Administration (SSA). For example, social security card(s) are from the SSA and ITIN/ATIN documents are from the IRS.
- Discuss the Social Security Cards and Determining the Last Name of Taxpayer to Use in Tax Preparation Software chart in the Volunteer Resource Guide, TAB 1 (Starting TaxWise®).

Progress to the next slide.

Individual Taxpayer Identification Numbers

- Who Needs an ITIN?
- Assisting Taxpayers without an ITIN
- Assisting Taxpayers with an ITIN



- Teach from pages 1-4 and 1-5.
- Test the students' knowledge—ask them the purpose of the ITIN.
- Discuss critical points on pages 1-4.
 - A tax return is required regardless of immigration status unless the taxpayer meets 1 of 4 exceptions (see Form W-7 or Form W-7SP).
 - Supporting documentation for an ITIN.
 - IRS is the source of ITINs.
- Discuss critical points on page 1-5.
 - Do not electronically file returns that require an ITIN to be issued by the IRS.
 - You may assist the taxpayer with his or her return.
 - ITINs are nine-digit numbers with the fourth and fifth digits in the range of 70-89.
 - Temporary ITIN numbers are required for TaxWise®.
 - ITIN acceptance agents.
- Summarize by having students read the Alerts and Potential Pitfalls aloud on pages 1-2 through 1-4. You may provide additional insights.
- Use the Potential Pitfall on page 1-5 to begin discussions on SSN/ITIN mismatches.

Progress to the next slide.

Individual Taxpayer Identification Numbers

- SSN/ITIN Mismatches
- ITIN Resources for Volunteers



- Teach from page 1-6.
- Read the slide.
- Ask the students to name some of the reporting documents that contain SSN/ITIN information.
- Discuss the SSN/ITIN mismatch information on page 1-6.
- Emphasize that returns with SSN/ITIN mismatches can be filed electronically.
- Discuss the Incorrect SSN/ITIN Usage Alert on page 1-6.
- Ask the student to state the key messages in the narrative.
- Provide insights into the resources available to the volunteers.

Progress to the next slide.

Summing Up Taxpayer Identification Numbers

- Required Supporting Documentation
- TINs – SSNs, ATINs, ITINs
- ITIN/SSN Mismatches
- ITIN Support



- Summarize this topic by recapping critical points.
- Refer to page 1-6.

Progress to the next slide.

Exemptions

- Personal Exemptions
- Dependency Exemptions
- \$3,400 each for Tax Year 2007



- Restate the objectives on page 1-1 as they relate to this topic:
 - Define the terms “personal” and “dependency” exemption.
 - Apply the tests to determine whether an individual can be claimed as a dependent on a taxpayer’s tax return.
- Advise students that an exemption reduces the taxpayer’s taxable income and, for tax year 2007, each exemption is worth \$3,400. You may refer to the phaseout for certain adjusted gross incomes (if you like).
- Discuss the meaning of the Potential Pitfall on page 1-7.
- Explain that this is one of the key areas where tax law is applied incorrectly.
- Define the two types of exemptions—personal and dependency.

Progress to the next slide.

Personal Exemptions

- Personal Exemptions
 - Taxpayer Exemption
 - Exemption for a Spouse



- Read the information on the slide.
- Discuss personal exemptions in detail using the information in the text on pages 1-7 and 1-8.
- Go over the interview tips for personal exemptions and ask the students if they have any questions. Refer to Interview Tips for the Personal Exemption chart in the Volunteer Resource Guide, TAB C (Personal Exemptions/Dependency). Key points:
 - Establish if the taxpayer was considered married on 12/31/2007.
 - State or local laws determine the validity of a marriage.
 - If the taxpayer's spouse died during the year and the taxpayer did not remarry by 12/31/2007, the taxpayer can generally claim the deceased spouse's personal exemption.

Progress to the next slide.

Dependency Exemptions

- Qualifying Child
- Qualifying Relative



- Read the information on this slide and emphasize the following under each topic:
 - A dependent is either a **qualifying child or qualifying relative**.
Note: Obtain a copy of the latest Publication 501 or Publication 17 for additional information on this topic.
- Inform students that a taxpayer's spouse is never the taxpayer's dependent (even if he or she has no income or does not provide family support).
- Ask students how exemptions impact the taxpayer's taxable income.

Progress to the next slide.

Tax Year 2007 Dependency Tests

- Qualifying Child
- Tie-Breaker Rule
- Qualifying Relative
- The Dependent Worksheets



- Ask the students to refer to pages 1-8 through 1-10.
Note: All of the tests will be discussed in detail.
- Introduce the Qualifying Child Dependency Tests on page 1-9 and the critical narrative points.
- Discuss the tiebreaker rule.
- Introduce the Qualifying Relative Dependency Tests on page 1-10, and the critical narrative points.
- Introduce all three pages of Exhibits 1, 2, and 3 on pages 1-12 through 1-14.
Note: The “Definitions and Special Rules” are in alphabetical order.
- Read the title of each step in the exhibits (especially Steps 1 and 4).
- Point out that Step 3—Child Tax Credit will be discussed later in Lesson 6, Child Tax Credit.
- Inform the students that the exhibits are drafts of the worksheets from Form 1040 instruction booklet. They should use the worksheets in the applicable Form 1040 or Form 1040A instruction booklet at the tax preparation site. Dependents are not claimed on Form 1040EZ.
- Make sure to explain the significance of the words “AND” and “OR” used in the worksheet.

Progress to the next slide.

Tax Year 2007 Dependency Test Qualifying Child

- Qualifying Child
 - Relationship Test
 - Age Test
 - Residence Test
 - Support Test
 - Special Test for Qualifying Child of More Than One Person



- Ask the students to look at Step 1 on page 1-12.
 - Show the students where each test for qualifying child is shown in Step 1.
 - Explain that support will be discussed in detail later.
 - Encourage students (especially returning students) to obtain a copy of Publication 501 for more details about the dependency tax law.
 - Fully discuss the meaning of each test (using the Definitions and Special Rules reference in the narrative of each test).
- Note:** You may teach from the Interview Tips instead of the worksheet. Refer to Interview Tips for the Personal Exemption chart in the Volunteer Resource Guide, TAB C (Exemptions/Dependency).

Progress to the next slide.

Tax Year 2007 Dependency Test Qualifying Relative

- Qualifying Relative
 - Not a Qualifying Child Test
 - Member of Household or Relationship Test
 - Gross Income Test
 - Support Test



- Refer to page 1-10.
- Read the information on this slide and show the students where each test for a qualifying relative is shown in Step 4.
- Point out how the words “AND” and “OR” are used in the worksheet.
- Discuss each test in detail using the information in the exhibit.
- Gross income is discussed on page 1-11.

Progress to the next slide.

Tax Year 2007 Dependency Test Overview of the Rules

- Dependents on more than one return
- Joint Returns and Dependents
- Residency Requirement
- Dependent – Qualifying Child
- Dependent – Qualifying Relative



- Refer to pages 1-14 and 1-15.
- Read the information on this slide.
- Discuss the information in detail using Exhibit 3 and the Overview of the Rules for Claiming an Exemption for a Dependent chart in the Volunteer Resource Guide, TAB C (Exemptions/Dependency).
- Close by discussing gross income information on page 1-15.

Progress to the next slide.

Tax Year 2007 Dependency Support Test

- A qualifying child must not have provided more than half of his or her own support
- The taxpayer must provide more than half of the support of a qualifying relative



- Refer to pages 1-15 and 1-16.
- Read the information on the slide.
- Introduce the expenses included in support.

Progress to the next slide.

Support Test

- Sources of Support
 - The individual's contributions
 - The taxpayer's contributions
 - State contributions



- Teach from page 1-16.
- Discuss information in detail regarding sources of support.

Progress to the next slide.

Determining Support

- Worksheet for Determining Support
- What's Included
- What's Not included



- Read the information on the slide.
- Introduce Exhibit 4, Worksheet for Determining Support.
- Show the students how the exhibit can be used to determine what's included and what's not included in support.
- Allow the students to complete the exercises.

Progress to the next slide.

Support Exception

- Multiple Support



- Teach from pages 1-19 through 1-21.
- Read the slide and define the terms.
- Teach from the text.
- Go over the examples with the class.
- Discuss Children of Divorced or Separated Parents and Form 8332.
- Share: Specific documentation will be required to determine who will be allowed to claim the exemption if more than one individual claims the same qualifying relative.

Progress to the next slide.

Form 8158

Quality Review Sheet

Yes <input type="checkbox"/>	No <input type="checkbox"/>	Names and social security numbers (SSN) or individual taxpayer identification numbers (ITIN) on the return match the intake sheet and supporting documents.
---------------------------------	--------------------------------	--

Yes <input type="checkbox"/>	No <input type="checkbox"/>	Dependency exemptions on the return were determined based on the interview with the taxpayer and the intake and interview sheet.
---------------------------------	--------------------------------	---



- Use Form 8158, Quality Review Sheet, or an approved alternative form to review all returns prepared.
- Apply the quality review tools in combination with the Intake and Interview Sheet and all the source documents to the returns you prepare to ensure quality and accuracy for every taxpayer.
- Consider each box on the Quality Review Sheet which applies to the taxpayer's situation to confirm that all the necessary questions and issues have been addressed.
- If items are incorrect or incomplete, revisit the issue and make corrections to the return, as needed.
- To ensure accurate reporting, verify that the dependency exemption information matches the Intake Sheet.
- To ensure accurate reporting, verify that the names and taxpayer identification numbers match the Intake Sheet and supporting documents.

Progress to the next slide.

Tax Year 2007 Tools for Determining Dependency

- Tools for Determining Personal and Dependency Exemptions
- Claiming the Exemption on the return
- Apply what you have learned



- Refer to the Interview Tips for Personal Exemptions chart in the Volunteer Resource Guide, TAB C (Exemptions/Dependency).
- Go over each interview tip (especially those with footnotes and notes).
- Show the students where the tips are located in Publication 4012 for this topic.
- Teach the information on page 1-21—Exemption Section of the Return.
- Allow the students time to complete and discuss the exercises on page 1-23.
- Encourage the students to use the interview tips to complete the exercises (where possible).
- Discuss the answers to the exercises.

Progress to the next slide.

Summing Up Exemptions

- Exemptions impact taxable income
- Use the Dependency Tools



- Summarize this lesson using the information on page 1-26.

Progress to the next slide for the Military/International course; others go to Lesson 2.

Military Matters

- Explain how to obtain an SSN for children born abroad
- Determine whether an individual is a nonresident alien or a resident alien
- Determine if an exemption can be claimed for a nonresident spouse
- Determine if an individual can be claimed as a dependent



- Refer to page M-1-1.

- **References:**

- Publication 3, Armed Forces' Tax Guide
- Form 1040NR, U.S. Nonresident Alien Income Tax Return
- Publication 519, U.S. Tax Guide for Aliens

- State the objectives.
- Teach from the text.

Progress to the next slide.

Children Born Abroad

- Must have a Tax Identification Number to be claimed as a dependent



- Refer to page M-1-1.
- Review the “Children Born Abroad Obtaining an SSN” section of the student text.
- Stress that each dependent must have a Tax Identification Number.

Progress to the next slide.

Determining Residency Status

- Resident
- Nonresident
- Dual Status



- Refer to page M-1-2.
- Discuss the three types of residency statuses for aliens.
- Tell students that Publication 519 is a good resource for further information on determining residency.

Progress to the next slide.

Residency Status Tests

- Green Card
- Substantial Presence



- Refer to pages M-1-2 through M-1-4.
- Teach from the text.
- Optional Guided Question: When a green card has been issued, what is the residency status? (Resident alien)
- Allow the students to review Example 1.
- Discuss with the students.

Progress to the next slide.

Exceptions to the Substantial Presence Test

- Commuter
- Short stay
- Medical condition
- Exempt individual



- Refer to pages M-1-5 through M-1-6.
- Teach from the text.
- Inform the students that these exceptions do not occur very often on military returns.

Progress to the next slide.

Residency Status

- Part-Year Resident
- Enlistees as Resident Aliens
- Choices – Nonresident Spouse
- Dual-Status Aliens
- Undocumented Aliens



- Refer to pages M-1-6 through M-1-8.
- Teach from the text.
- Discuss key points about the information on the slides.

Progress to the next slide.

Exemptions

- Foreign Spouse
- Married Filing Separately



- Refer to page M-1-9.
 - Teach from the text.
- Progress to the next slide.**

Dependents – Armed Forces Members

- Claiming a Dependent
- Citizen and Residency Test



- Refer to pages M-1-9 through M-1-11.
- Teach from the text.

Progress to the next slide.

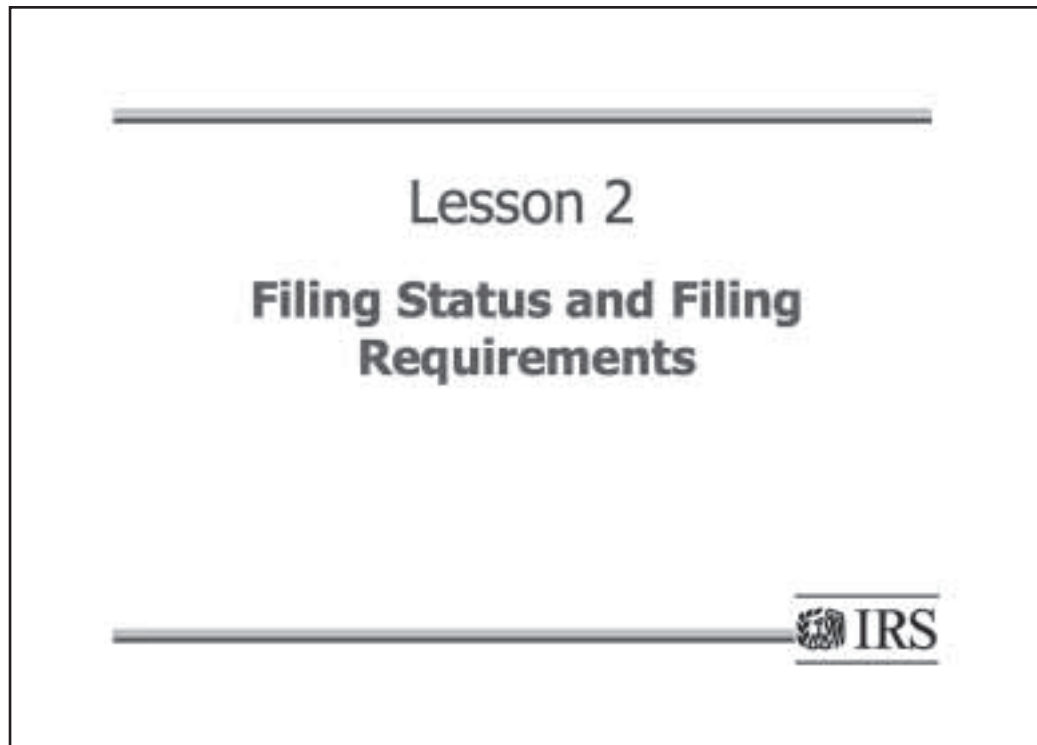
Summing Up This Military Segment

- Resident or Nonresident
- Personal Exemptions
- Dependents



- Refer to page M-1-11.
- Review the summary points with the class.
- Solicit questions/concerns from the class.

Progress to the next lesson.



This lesson contains information for all courses and has been updated for Tax Year 2007.

■ **References:**

- Form 1040
- Form 1040A
- Publication 501, Exemptions, Standard Deduction, and Filing Information
- Publication 4012, Volunteer Resource Guide

■ **Additional Reference:**

- None

Progress to the next slide.

Objectives

- Apply the requirements for each of the five filing statuses
- Determine who must file
- Determine who should file
- Select the appropriate tax form to use



- Review the objectives with the class.
 - Show the students where to find this information in Publication 4012.
- Progress to the next slide.**

Intake/Interview Process

Form 13614 – Intake and Interview Sheet Taxpayer Information Section

Part I: Taxpayer Information

16. On December 31, 2007:

- a. Were you: Single Legally Married Separated Divorced Widowed
b. If married, were you living together (with your husband/wife) **on/after June 30, 2007?** Yes No
c. Was your spouse deceased? If yes, provide the date of death, _____ (mm/dd/yyyy)

17. Did you pay more than half the cost of keeping up the home for the year? Yes No

Part II. Family and Dependent Information – Do not include you or your spouse.

Part III. Filing Status & Dependency Determination

Based on the interview, the filing status of the taxpayer is: Single MFJ MFS* HOH QW

*Spouse Name _____ Social Security Number _____

- Yes No 1. Did you provide more than 50% of the support for the dependents claimed?
 Yes No 2. Can anyone else claim any of these dependents on their income tax return?
 Yes No 3. Were any of these dependents permanently and totally disabled in 2007?
 Yes No 4. Did any of these dependents file a joint return for 2007?
_____ 5. Based on the interview, how many individuals qualify as dependents for this return?



- Use **Form 13614, Intake and Interview Sheet** to engage the taxpayer in preparing an accurate return.
- Use the Intake and Interview Sheet as a starting point for a comprehensive interaction with the taxpayer in combination with all the source documents provided by the taxpayer to ensure quality and accuracy on each return.
- Confirm each item on Form 13614 (or similar approved tool used at your site) to make sure you and the taxpayer have considered all the necessary information to ensure that all questions and issues have been addressed. If items are incorrect or incomplete, revisit each issue and make corrections to the return, as needed.
- Filing Status and Filing Requirements are covered in this lesson. To accurately determine filing status, ask what the taxpayer's marital status was on December 31, 2007. You will also need to know if he or she pays more than half the cost of keeping up the home and, if married, was the taxpayer living apart from his or her spouse during the last 6 months of the year, etc.
- You will learn more about the requirements for determining filing status and filing requirements later in this lesson.
- Filing requirements are also covered in this lesson. Many of the facts that you obtain from using Form 13614 will help you determine the filing requirements of the taxpayer, i.e., filing status, age, gross income, if claimed as a dependent on another tax return, etc. Ensure that all questions on Form 13614 are asked.

Progress to the next slide.

Filing Status

- Single
- Married Filing Jointly
- Married Filing Separately



- Have the students read the text for the Single, Married Filing Jointly, and Married Filing Separately filing statuses.
- Inform the students that the married filing separately status may result in lower tax if one spouse has high medical or miscellaneous expenses.
- Ask Guided Questions:
 - **Is married filing jointly the only status available to spouses?** (No. They can file married filing separately.)
 - **If a married couple files separately and one spouse itemizes deductions, is the other spouse required to itemize deductions?** (Yes)

Progress to the next slide.

Filing Status

- Head of Household
- Qualifying Widow(er)



- Have the students read the text for the Head of Household and Qualifying Widow(er) filing statuses.
- Review the qualifications for head of household with the class; emphasize that the taxpayer must have a qualifying child or qualifying relative. Review Example 1 (Darlisa) on page 2-6 with the class.
- Have the students answer the Practice Scenarios for Head of Household Filing Status and discuss each answer. (The answers are on page 2-11.)
- Ask Guided Questions:
 - **For a relative to qualify a taxpayer for the Head of Household filing status, how long must the taxpayer's home be the main home of the relative?** (More than half of the year.)
 - **What information must you know to determine if a widow or widower can use the Qualifying Widow(er) filing status?** (The year the spouse died and if the taxpayer has a qualifying child.)

Progress to the next slide.

Tools For Determining Filing Status

- Interview Tips
- Decision Tree



- Inform students that Publication 4012, Volunteer Resource Guide, contains the Filing Status Interview Tips chart. Have them locate the chart in Publication 4012.
- Ask Guided Question:
 - **Why is it important to select the correct filing status?** (Because the filing status determines which column of the tax chart is used to calculate the taxpayer's tax.)
- Review the TaxWise® Hints on page 2-10.
- Have the students complete the exercises on page 2-12. The answers are on page 2-13.
- Review the answers to the exercises and ask if there are any questions.

Progress to the next slide.

Who Must/Should File?

- Charts are provided to help you determine who must file
- Taxpayers who fall below the filing requirements should file:
 - to claim a refund of withheld taxes
 - to claim an Earned Income Credit
 - to claim the Additional Child Tax Credit
 - to claim a credit for federal telephone excise tax paid



- Have the students read the Who Must File/Who Should File section of this lesson.
- Review the Who Must File charts (in Publication 4012) with the class. Stress that caution should be used in determining which chart applies.
- Have students complete Exercises 12 and 13.
- Review the answers to the exercises.
- Ask Guided Question:
 - **What information must a volunteer have to determine if an individual must file a return?** (The filing status, age, gross income, and type of income.)
- Ask if there are any questions.

Progress to the next slide.

Which Form Should You Use?

- The simplest form that will accommodate the taxpayer's income and expenses:
 - 1040EZ
 - 1040A
 - 1040



- Have students read this section of the lesson.
- Tell the students that using the simplest form that will accommodate the taxpayers' income and expenses will help reduce errors on returns and allow faster processing of the return.
- Ask if there are any questions.

Progress to the next slide.

Quality Review (QR)

Form 8158 – Quality Review Sheet Filing Status

Yes <input type="checkbox"/>	No <input type="checkbox"/>	Filing status on the return was determined based on the interview with the taxpayer and the intake and interview sheet.
--	---------------------------------------	--



- Use Form 8158, Quality Review Sheet or approved alternative form to review all returns prepared.
- Apply the quality review tools in combination with the Intake and Interview Sheet and all the source documents to the returns you prepare to ensure quality and accuracy for each taxpayer.
- Consider each box on the Quality Review Sheet that applies to the taxpayer's situation to confirm that all the necessary questions and issues have been addressed. If items are incorrect or incomplete, revisit each issue and make corrections to the return, as needed.
- To ensure accurate reporting of filing status, verify that the information on the Intake and Interview Sheet and on the taxpayer's supporting documents is included on the return.
- Confirm that all questions on filing status have been discussed with the taxpayer and are shown on the return, if applicable.

Progress to the next slide.

Lesson Summary

- Choose the correct Filing Status
- Determine the appropriate tax form to use



- Review each of the five filing statuses.
- Key points:
 - Consider each of the **applicable** filing statuses and choose the one that will result in the lowest tax.
 - Review the Determination of Filing Status chart, Publication 4012, Tab B, Filing Status.
 - Always use the tax form that will best accommodate the taxpayer's income and expenses. Summarize using the charts in Publication 4012, Tabs A and B.

If covering the Military/International courses, progress to the next slide. All others, progress to Lesson 3.

Military Objectives

- Determine the correct filing status for resident aliens
- Explain how to treat a nonresident alien's spouse as a resident



- Additional resource
 - Publication 3, Armed Forces' Tax Guide

Progress to the next slide.

Military Filing Status Issues

- Married nonresidents filing jointly
- Treating nonresident spouse as a U.S. resident
- Making the choice



- Have students read pages M-2-1 through M-2-4.
- Review Examples 1, 2, and 3.
- Discuss special rule for Head of Household filing status.

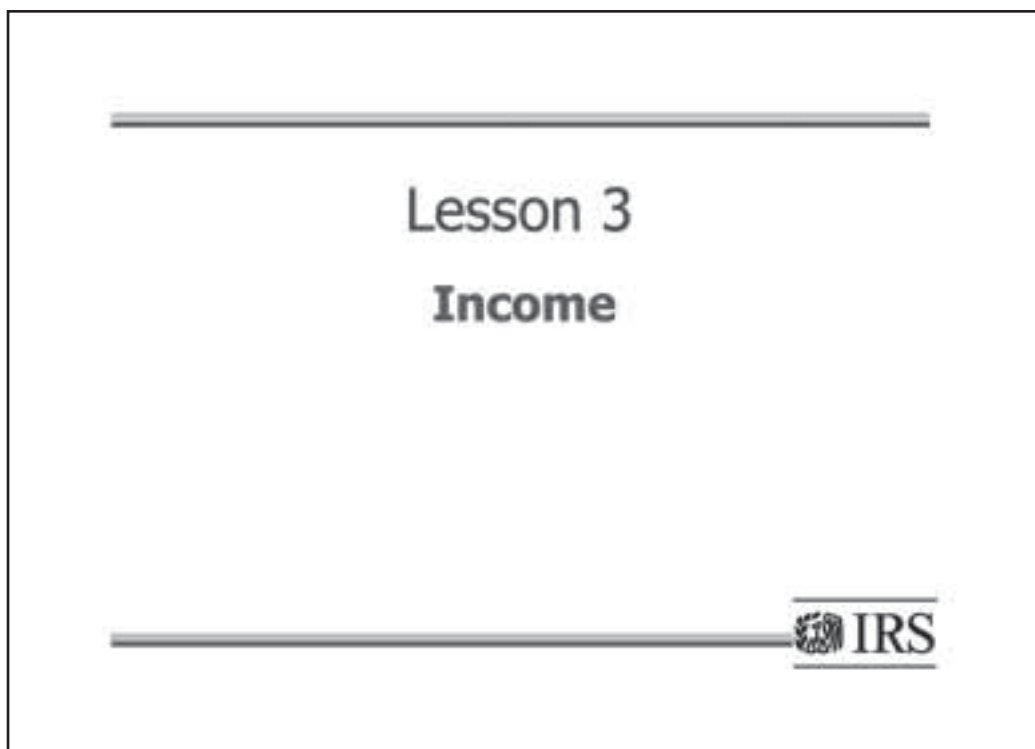
Summing Up This Military Segment

- The taxpayer may be considered unmarried for the Head of Household filing status if the spouse was a nonresident alien at any time during the year and the taxpayer does not choose to treat the spouse as a resident alien.



Progress to the next lesson.

FACILITATOR NOTES



This lesson contains information for all courses and has been updated for Tax Year 2007.

A **Military Course** follows that has a section on rental income. Slides and issues will be identified by course.

■ **References:**

- Form 1040
- Form 1040, Schedule B
- Form 1040A
- Form 1040A, Schedule 1
- Form 1040EZ
- Form W-2
- Forms 1099-INT, 1099-DIV, 1099-G, 1099-R, 1099-MISC
- Schedules C-EZ and SE (for self-employment income)
- Form 4137 (for tax on allocated tips)
- Form 4852 (substitute for Form W-2)
- Form 8158
- Form 13614

■ **Additional References:**

- Publication 4012, Volunteer Resource Guide
- Publication 17, Your Federal Income Tax
- Publication 525, Taxable and Nontaxable Income
- Publication 3, Armed Forces' Tax Guide
- Publication 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad

Progress to the next slide.

Objectives

- Determine what is taxable and nontaxable income
- Determine where to report income on Forms 1040, 1040A, and 1040EZ
- Identify who can file Schedule C-EZ
- Identify who must file Schedule SE



- Read objectives at the start of Lesson 3.
- Go over list of types on income. This lesson gives students practice in using the forms needed to complete the income section of the taxpayer's Form 1040, 1040A, or 1040EZ, as appropriate. Students will practice using Forms W-2, 1099-INT, and 1099-DIV, Schedules B and C-EZ, and others.
- Direct attention to the chart of taxable and nontaxable income in Publication 4012, Income Tab.

Progress to the next slide.

Intake/Interview Process— Form 13614—Income

Part IV. Income — In 2007, did you (or your spouse) receive:

- | | | |
|------------------------------|-----------------------------|--|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 1. Wages or Salary (include W-2s for all jobs worked during the year) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 2. Disability income |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 3. Interest/Dividends from: checking or savings account, bonds, CDs, or brokerage account |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 4. State tax refund (may be taxable if you itemized last year) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 5. Alimony income |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 6. Tip income |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 7. Pension and/or IRA distribution |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 8. Unemployment (1099-G) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 9. Social Security or Railroad Retirement Benefits (1099-SSA or RRB) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 10. Self Employment Income - business, farm, hobby (1099-Misc or any earned income not reported on W-2) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 11. Other Income such as gambling winnings, awards, prizes and Jury Duty pay, etc. |



Explain the following to the students about the Form 13614 – Intake and Interview process:

- Use **Form 13614, Intake and Interview Sheet**, to engage the taxpayer in preparing an accurate return. Use the *Intake and Interview Sheet* as a starting point for a comprehensive interaction with the taxpayer in combination with all the source documents provided by the taxpayer to ensure quality and accuracy on each return.
- Confirm each item on Form 13614 (or an approved alternative form) to make sure you and the customer have considered all the necessary information to ensure all questions and issues have been addressed. If items are incorrect or incomplete, revisit the issue and make corrections to the return, as needed.
- To ensure accurate reporting of income, verify that the taxpayer's wages are accurate and that all income from Form(s) W-2 and other income documents, such as Form(s) 1099, have been included. Confirm that all income received by the taxpayer has been discussed and shown on the return, if required.

Progress to the next slide.

Taxable Income

- Wages, salaries, commissions, tips
- Interest, dividends, pensions, capital gains
- Alimony, business income, hobby income
- Rents, royalties, partnership/S corporation, estate or trust income
- Unemployment benefits, jury duty pay, gambling
- Other items of income unless they are designated as nontaxable
- See complete list in Publication 4012



- Show students where income is reported.
- Wages, etc., from box 1 of Form W-2 are reported on line 7, Form 1040 and 1040A (line 1 on Form 1040EZ). Tips, if not included on Form W-2, are added into the line 7 total.
- Use Form 4137, Social Security and Medicare Tax on Unreported Tip Income, to figure social security on tips (not a VITA issue).
- Interest Form 1099-INT—line 8a, Form(s) 1040 and 1040A (line 2 on Form 1040EZ), and if over \$1,500, attach Schedule B to Form 1040 or Schedule 1 to Form 1040A (Form 1040EZ is not applicable).
- **Intermediate/Advanced/Military/International**—Pensions and IRA distributions are reported on Form 1099-R.
- **Intermediate/Advanced/Military/International**—Alimony is added on Form 1040, line 11.
- **Child support payments are not alimony.** Inform students that taxpayers must report on the return the social security number of the person who pays alimony.
- **Intermediate/Advanced/Military/International**—Business income from box 7 of Form 1099-MISC is reported on Schedule C-EZ, and Self-Employment Tax is figured on a net profit of \$400 or more on Schedule SE.
- **Intermediate/Advanced/Military/International**—Hobby income (other income) is reported on line 21, Form 1040.
- **Military**—Rents, etc., are not normally handled by VITA/TCE. See the Military Course for exceptions.
- Unemployment is added on Form 1040, line 19; Form 1040A, line 13; or Form 1040EZ, line 3.
- If taxpayers received jury duty pay, report it on line 21, Form 1040.

Progress to the next slide.

Nontaxable Items

- Child support
- Federal income tax refunds
- Gifts and inheritances
- Municipal bond interest
- Public assistance
- Veteran's disability benefits
- Other items listed in the text



- **Reminder:** Child support is sometimes thought to be alimony. It is only for the support of the child and is not taxable.
- Point out that gifts and inheritances may generate taxable interest or dividends.
- Explain that interest (exempt) paid from states or local governments is shown on Forms 1040 and 1040A, line 8b, or Form 1040EZ next to line 2, with "TEI" next to the amount. This will be used to figure if any social security benefits are taxable.
- Remember public assistance benefits are never taxable.
- Social Security may be taxable (will receive SSA Form 1099).
- SSI benefits are never taxable (no form will be received).
- Refer to Income Lesson in Student Guide and Publication 4012, Income Tab.
- Use resources like Publication 525, Taxable and Nontaxable Income.
- Read Example 1.
- Review Exercise 1. Ask students to use the chart to explain why each form of income named was either included or excluded when computing the total taxable income for each taxpayer.
- **Military Course reminder:** Combat zone pay is excludable from income. It is shown in box 12 of the W-2, coded Q. Nontaxable combat pay may affect credits.

Progress to the next slide.

Earned Income

- Wages and salaries
- Tip income
- Scholarships and fellowships



- Household employees who do not receive Form W-2 because they were paid less than \$1,500 must still report the income on line 7, Form 1040 or 1040A; or line 1, Form 1040EZ.
- Taxpayers who have household employees should refer to Publication 926, *Household Employer's Tax Guide*, or seek professional assistance.
- Review with students procedures to follow if Form W-2 is not received.
- Review Potential Pitfalls Alert Box. Stress potential fraud possibilities with Form W-2s.
- Point out what happens when tips are received. Taxpayers must file Form 1040 if they received \$20 or more in tips in any month while working for one employer but did not report the full amount to the employer. (These tips are subject to social security and medicare tax.) Taxpayers whose Form W-2 has an amount entered in box 8, Allocated tips, must report these tips as income. For more information, see Publication 531.
- Review with students the scholarship/fellowship TIP in Publication 4012.
- Read Example 2.
- Complete Exercise 2. The answers are at the back of the lesson.

Progress to the next slide.

Interest

- Interest income
- Taxable interest income
- Coverdell ESA
- Tax-exempt interest



- Interest income is considered unearned income. Money earns interest.
- Remember interest on savings accounts is taxable.
- Review Exhibit 3, Who Pays Tax on U.S. Savings Bond Interest.
- Review Example 3.
- For savings certificates, money market certificates, and other deferred interest accounts—review Examples 4, 5, and 6.
- Review Interest on “Insurance Proceeds.”
- Remind students that interest on a Coverdell ESA is growing tax-free.
- Show examples of tax-exempt interest.
- Remind students that, while tax-exempt interest is not included as part of taxable income, it still must be shown on Forms 1040, 1040A, or 1040EZ.
- Review Exhibit 4, Form 1099-INT.
- Remind students that some Form 1099-INTs will show federal income tax withheld in box 4.
- Explain that interest on Form 1099-OID is usually beyond VITA/TCE scope. See examples.
- Cover Reporting Interest Income. Read Example 7.
- Complete Exercise 3.

Progress to the next slide.

Dividend Income

- Dividends and capital gain distributions



- Review Exhibit 6, Form 1099-DIV.
- **Which type of dividends can be reported on Form 1040A?** (Ordinary and qualified dividends)
- Show when Form 1040, Schedule B, or 1040A, Schedule 1, is necessary.
- **Under what circumstances must a taxpayer complete Schedule B of Form 1040?** (If taxable interest or dividend income is over \$1,500, if the taxpayer claims an exclusion of interest from Series EE or I U.S. savings bonds issued after 1989, or if another situation listed in the Schedule B instructions applies)

If covering the Intermediate/Advanced/Military/International Courses, progress to the next slide. Others, skip the next three slides.

Other Income

- State and local tax refunds
- Alimony
- Income from business



- Explain that a state refund is only taxable if a taxpayer itemized in the previous year to the extent a tax benefit was received.
- Point out that alimony received is taxable and the social security number of the giver has to be entered on Form 1040, line 31a.
- **Reminder:** Child support payments are not alimony.
- Review Exhibit 7.
- Schedule C-EZ, Net Profit from Business, and Schedule SE, Self-Employment Tax, are discussed in the next two slides.

Progress to the next slide.

Who Can File Schedule C-EZ?

- Do not exceed \$5,000 in business expenses
- Use the cash method of accounting
- Do not maintain an inventory
- Do not have a net loss
- Have no employees
- Do not claim depreciation
- Do not deduct expenses for use of home



- Point out that taxpayers may receive a Form 1099-MISC with an entry in box 7, non-employee compensation, or this could be a small self-owned business.
- Discuss who is considered self-employed.
- Explain cash method—income and deductions are reported when received or paid.
- Review the points when a taxpayer can use Schedule C-EZ.
- Explain that taxpayers cannot take depreciation and the standard mileage rate at the same time for business use of a car. If a taxpayer decides to take depreciation instead of standard mileage, the taxpayer should be referred to a professional tax preparer.

Progress to the next slide.

Completing Schedule C-EZ and Schedule SE

- Be sure to include the principal business code on Schedule C-EZ.
- You do **not** have to provide details on the type of expenses included.
- Complete Schedule SE if the net profit is \$400 or more.
- Remember to deduct, as an adjustment to income, half of the amount calculated on the SE.



- Show where to find principal business codes (in the 1040 instruction booklet or Schedule C instruction). Try to fit the code as close as possible to the business.
- Caution taxpayers to save records to support expenses claimed.
- Show that net income from Schedule C-EZ goes on Form 1040, line 12, and, if \$400 or more, on Schedule SE to figure self-employment tax.
- Explain that the self-employment tax (social security for the self-employed) is reported on page 2, Form 1040, Other Taxes. Half of the tax is taken as an adjustment (subtraction) from income on page 1, Form 1040.
- Individuals who have more than one business must file separate Schedule Cs but combine the income on one Schedule SE. Schedule C is usually beyond the scope of VITA/TCE.

Progress to the next slide.

Other Income

- Capital gains and losses
- Sale of business property
- Pension and annuity income
- Rents, royalties, partnerships, S corporation, estates, and trusts
- Farm income
- Unemployment compensation



- Review types of other income:
 - **Intermediate** capital gains and losses
 - Sale of business property (refer to a professional tax preparer)
 - **Intermediate** pension and annuity income
 - Rents, royalties, partnerships, S corporation, estates, and trusts (refer to a professional tax preparer). Refer students to Lesson M-3, Publication 678
 - Farm income (refer to a professional tax preparer)
 - Unemployment compensation
- Review TaxWise® hints.
- Review the summary at the end of the lesson.

Progress to Military Course on the next slide or proceed to the next lesson.

Quality Review (QR)—Income

- Use Form 8158, Quality Review Sheet, or an approved alternative form to review all returns prepared.

Note: All **income** indicated on the intake sheet and supporting documents is included on the return.



Explain the following concepts to the students:

- Apply the quality review sheet in combination with the Intake and Interview Sheet and all the source documents to the returns you prepare to ensure quality and accuracy for every taxpayer.
- Consider each box on the Quality Review Sheet that applies to the taxpayer's situation to confirm that all the necessary questions and issues have been addressed. If items are incorrect or incomplete, revisit the issue and make corrections to the return, as needed.
- To ensure accurate reporting of income, verify that the taxpayer's wages are accurate and that all income from Form(s) W-2 and other income documents, such as Form(s) 1099, have been included.
- Confirm that all income received by the taxpayer has been discussed and shown on the return, if required.

Lesson Summary

Review types of income



- Review “Summing Up This Lesson.”

If covering Military/International Courses, progress to the next slide. All others, progress to Lesson 4.

Military Objectives

- Determine gross income of Armed Forces members
- Amend return for military separation with disability severance pay
- Determine combat pay exclusion
- Identify qualifying items of military pay received from combat zone



- Additional resources
 - Publication 3, Armed Forces' Tax Guide
 - Publication 555, Community Property
 - Publication 54

Note: In preparing tax returns for Armed Forces members, there are a variety of pay and allowances that are taxable or excludable income. Refer to charts in this course for help. Form W-2 from Defense Financial Accounting Services (DFAS) is usually very accurate. Refer taxpayers back to the unit finance office if there is a question.

- Determine the effect on income for personnel assigned to a combat zone.
- Determine other benefits for personnel in a designated combat zone.

Progress to the next slide.

Military Income

- Includable and excludable military income
- Military separation with disability severance pay
- Combat zone exclusion
- Combat zones



- Know how to calculate the taxable wages for a member of the Armed Forces who receives medical separation pay.
- **Note:** The Veterans Administration (VA) determines the percentage. Medical separation pay—Form W-2 is issued and the income is taxable—Disability compensation paid by the VA—Form W-2 or 1099-R is not issued and the income is not taxable.
- Use Anita Bennett, Example 1, to show separation pay.
- Discuss combat zone pay exclusions.
- Point out the differences in exclusion between officers and enlisted members.
- **TaxWise®** issue: potentially high withholding amounts when a military person has combat zone excluded wages. If the amount on Form W-2, box 2, is more than 50 percent of the amount in box 1, the return must have a combat zone designation on the main information sheet or the return cannot be e-filed.
- List combat zones.
- Complete Exercises 1 and 2. Refer students to Publication 3, which lists combat zones and qualified hazardous areas.
- Sum up the lesson.

Progress to the next slide.

Military Issues

(Refer to the Military segment –
Lesson M-3)

Objectives—Rental Income and Expenses

- Determine how to report rental income
- Determine how to report rental expenses
- Determine how to report rental income when property is used for personal purposes either part of the year or during the entire year



- Cover the objectives. Refer students to the lesson “Rental Income and Expenses” in the Military segment.

Progress to the next slide.

Military Issues

Objectives—Rental Income and Expenses – cont'd

- Determine how to compute deductible depreciation expenses
- Identify the application of at-risk and passive activity rules



- Continue to cover the objectives. Refer students to the lesson “Rental Income and Expenses” in the Military segment.
- Review all examples and exercises.

Progress to the next slide.

Military Summary

Review Military Income Issues



- Review “Summing Up this Segment.”

Progress to the next slide.

International Issues

Objectives—Worldwide Income

- Define “worldwide income” and compute the U.S. dollar value of a foreign currency
- Determine when to use average annual exchange figures



- Review the objectives and Example 1 and 3.
- Have students complete Exercises 1 through 5.
- Use Publication 54 as a resource guide.

Progress to the next slide.

International Issues

Objectives—Self-Employment Tax

- Determine who is a self-employed individual
- Compute the self-employment tax for a U.S. citizen or resident abroad
- Compute the deduction for the self-employment tax



- Review the objectives.
- Explain that a taxpayer must use a consistent method in determining self-employment income.
- Point out that a self-employed individual is responsible to keep records for income and expenses claimed.
- Review Examples 1 and 2.
- Have students complete the Summary Exercises.
- Point out that a self-employed individual is responsible for keeping records for income and expenses claimed.
- Use Publication 54 as a resource guide.

Progress to the next slide.

International Issues

Foreign Earned Income Exclusion

- Determine whether the taxpayer qualifies for the foreign earned income exclusion
- Calculate the foreign earned income exclusion
- How to report income earned abroad



- Turn to the “Foreign Earned Income Exclusion” section.
- Go over the objectives.
- **Note:** As an optional election, a taxpayer living overseas may be eligible to exclude up to \$85,700 in earned income.
- References
 - Form 2555 and Form 2555-EZ, with instructions, Foreign Earned Income Exclusion.
 - Publication 54, Tax Guide for U.S. Citizens and Residents Aliens Abroad.

Progress to the next slide.

International Issues

Foreign Earned Income Exclusion

- Must show home is in foreign country
- Meet bona fide residence or physical presence test
- Tax home



- Explain what “tax home” is.
- Determine regular place of abode.
- Use the three guided questions.
- Ask the taxpayer how long the job is expected to last.
- Review Exercise 1, Example 1, and Exercise 2.

Progress to the next slide.

International Issues

Foreign Earned Income Exclusion

- Bona fide presence test
- Physical presence test



- Explain two ways to qualify for period of stay.
- Explain “physical presence.”
- Explain “bona fide presence test” (330 days).
- Discuss Examples 2 through 4.
- Complete Exercises 3 and 4.

Progress to the next slide.

International Issues

Foreign Earned Income Exclusion

- Military members working second jobs
- Spouses



- **Reminder:** Many military members may take second jobs while stationed in a foreign country and think they can exclude that income.
- Highlight to preparers that income earned from the U.S. Government or any instrumentality of the United States is not eligible for this exclusion. Other foreign income earned by military personnel or their spouses may be eligible for this exclusion.

Progress to the next slide.

International Issues

Foreign Earned Income Exclusion

- Must have earned income
- Can exclude up to \$85,700
- Must elect exclusion
- Use Form 2555 or 2555-EZ



- Explain income that qualifies.
- Discuss Examples 5 and 6.
- Ask students to do Exercises 5 through 7.
- Remind students that the exclusion from income is voluntary.
- Complete Form 2555 or 2555-EZ.
- Discuss Example 7.
- Review Exercise 8, using Form 2555-EZ.
- Explain Example 8.
- Show students deductions allocated to excluded income.
- Caution students that only a simple Form 2555 or 2555-EZ can be filled out as part of the overseas military VITA program.

Progress to the next slide.

International Summary

Review international
income issues



- Review “Summing Up this Segment.”

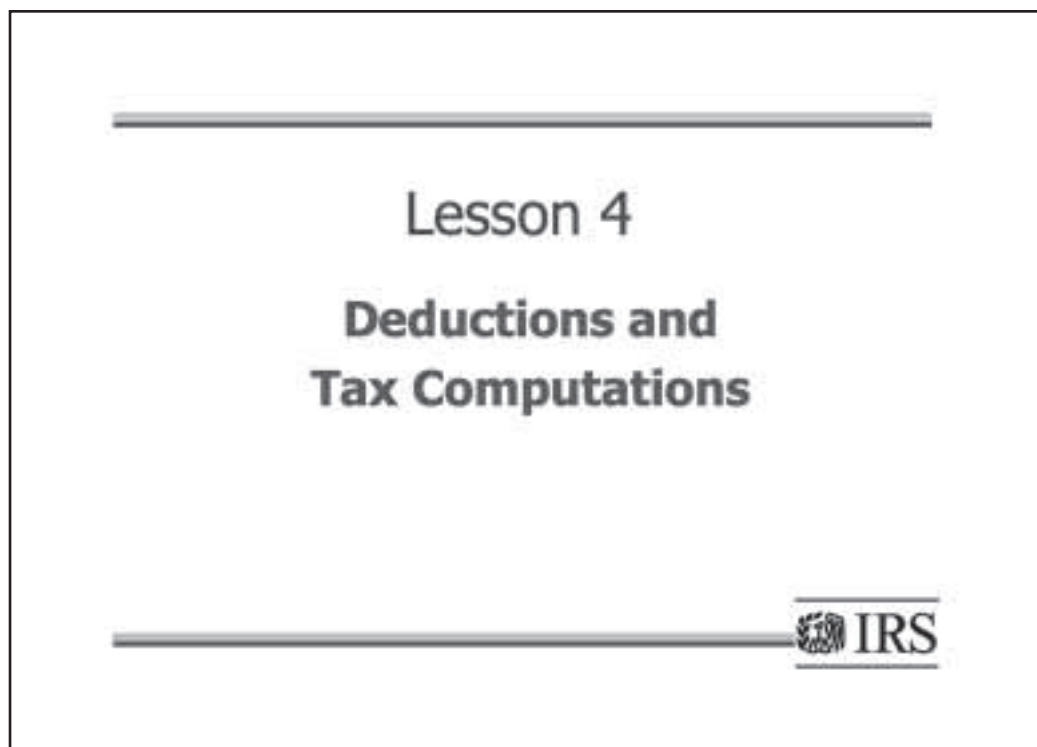
Progress to the next slide.

Tax Tips for United States Citizens and Residents Abroad



- Refer students to Lesson I-3-6 for additional information on Tax Treaties available to U.S Citizens residing and working abroad.

Progress to the next lesson.



This lesson contains information for all courses and has been updated for Tax Year 2007. The standard deduction portion of this lesson is studied in **all courses**. The itemized deduction portion is studied in the **Intermediate, Advanced, and Military/International** courses.

■ **References:**

- Schedule A, Itemized Deductions
- Instructions for Schedules A and B (Form 1040)
- Standard Deduction Chart for Most People
- Standard Deduction Chart for People Age 65 or Older or Blind
- Standard Deduction Worksheet for Dependents

■ **Additional References:**

- Publication 4012, Volunteer Resource Guide
- Publication 17, Your Federal Income Tax
- Publication 463, Travel, Entertainment, Gift, and Car Expenses
- Publication 502, Medical and Dental Expenses
- Publication 526, Charitable Contributions
- Publication 529, Miscellaneous Deductions
- Publication 530, Tax Information for First-Time Homeowners 1040 Instructions
- Publication 678W, 2007 Workbook—Comprehensive Problems and Practice Exercises

Progress to the next slide.

OBJECTIVES

- Identify the correct standard deduction.
- Calculate and accurately report itemized deductions on Schedule A.
- Identify the miscellaneous deductions reported on Schedule A, lines 21 through 23, that are subject to the 2% AGI limitation.
- Complete the Qualified Dividends and Capital Gain Tax Worksheet.
- Explain the process to calculate and report tax liability.



- Review the objectives with the class.
- Note that **all** students who are taking the **Basic** course need to know how to apply the first and last objectives.
- Students who are taking the **Intermediate, Advanced, and Military/International courses** will need to know how to apply all the objectives.

Progress to the next slide.

Intake/Interview Process

Form 13614 – Intake and Interview Sheet Itemized Deductions

Part VI. Itemized Deductions – Did you (or your spouse) have 2007 expenses for:

- | | | |
|------------------------------|-----------------------------|--|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 1. Un-reimbursed medical expenses |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 2. Home mortgage payments (interest and taxes – see Form 1098) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 3. Charitable contributions |
-



- Use **Form 13614, Intake and Interview Sheet** to engage the taxpayer in preparing an accurate return.
- Use the Intake and Interview Sheet as a starting point for a comprehensive interaction with the taxpayer in combination with all the source documents provided by the taxpayer to ensure quality and accuracy on each return.
- Confirm each item on Form 13614 (or an approved alternative form) to make sure you and the taxpayer have considered all the necessary information to ensure that all questions and issues have been addressed. If items are incorrect or incomplete, revisit each issue and make corrections to the return, as needed.
- Standard and Itemized Deductions are covered in this lesson. To ensure the accurate reporting of these deductions, verify that information on the Intake and Interview Sheet and on the taxpayer's supporting documents is included on the return.
- You will learn more about how a taxpayer may be eligible for these deductions later in this lesson.
- Other credits are also covered in this lesson. Although they are not specifically listed on Form 13614, you should ask probing questions to ensure the accurate reporting of all credits.

Progress to the next slide.

Standard Deduction

- Based on the following factors:
 - Filing Status
 - Dependency Status
 - Blindness
 - Age



- Have students read the “Standard Deduction” section of the text.
- Review the charts, **Standard Deduction for Most People**, **Standard Deduction for People 65 or Older or Blind**, and **Standard Deduction Worksheet for Dependents** in Publication 4012, G. Credits section and point out how to use the charts to determine the standard deduction.
- Ask for a volunteer to read Example 1. Then discuss.
- Ask for a volunteer to read Example 2. Then discuss.
- Have students read the Standard Deduction in Connection with Standard Deduction on Form 1040EZ.
- Have students complete Exercise 1. Review the answers with the students.
- Optional Guided Questions
 - **Name at least three factors that determine the taxpayers’ standard deduction.** (Filing status, age, blindness, and whether they can be claimed as a dependent.)
 - **How is the standard deduction affected when the taxpayer’s filing status is married filing a separate return and the taxpayer’s spouse files Form 1040 and itemizes deductions?** (The standard deduction would be zero. The taxpayer would have to itemize to benefit from deductions.)

Progress to the next slide.

Taxable Income Computation

- Taxable income less than \$100,000



- Discuss with the students the “Finding the Tax” topic in this course.
- Explain to students that taxable income less than \$100,000 can be filed on all three forms: 1040, 1040A, and 1040EZ.
- Ask the students to turn to the tax charts in Publication 678-W.
- Create some scenarios to help students learn how to use the charts (for example, a single taxpayer with taxable income of \$8,345). Ask all students to use the charts to locate the correct tax. Then ask for a volunteer to share the answer.

Progress to the next slide.

Itemized Deductions

- Standard Deduction vs. Itemized Deductions
- When married filing separately taxpayer must itemize deductions



- Inform students that, generally, the larger of the Standard Deduction or the Itemized Deductions will be used. State that people who do not own their home often do not have enough expenses to benefit from itemizing. Also, inform the students that some people choose to itemize even when the standard deduction would be larger. This does not happen often and is sometimes related to how the state income tax system is structured.
- Review that a married filing separately taxpayer must itemize deductions if his or her spouse is itemizing.

Progress to the next slide.

Medical Expenses

- Whose expenses
- What expenses
 - Deductible
 - Nondeductible
 - Long-Term Care Premiums
- New Tax Law
 - Medical standard mileage rate



- Have students read the “Medical and Dental Expenses” section of the student text.
- Review that the expenses must be incurred for the taxpayer, spouse, or dependent.
- Remind students that the medical standard mileage rate increased for the cost of operating a vehicle to 20 cents a mile.
- **Note:** The rate for providing services for charitable organizations is set by statute, not the IRS, and remains at 14 cents a mile.
- Review the Long-Term Care Premiums chart, Exhibit 2, page 4-7.
- Ask the students if they have any questions about what types of expenses are includable.
- Have the students complete Exercise 2 and then discuss the answer.
- Remind the students that Publication 502 provides more information about Medical and Dental Expenses.

Progress to the next slide.

Taxes

- State and Local Income or General Sales Taxes
- Real Estate Tax
- Personal Property Tax



- Have class read the student text on “Taxes.”
- Discuss with the students the “State and Local Income Taxes.”
- Discuss with the students the “General Sales Taxes.”
- Review Example 4.
- Review what types of taxes are not deductible.
- Optional Guided Questions:
 1. **What three conditions must be met in order for a tax to be deductible?** (The tax must be imposed on the taxpayer. The tax must be paid by the taxpayer. The tax must be paid during the year.)
 2. **Can a taxpayer deduct income taxes and real estate taxes paid to a state, local, or foreign government?** (Yes. A taxpayer may be able to deduct taxes paid to any of these governments.)
 3. **Are all federal, state, and local taxes deductible?** (No. For example, social security is not deductible.)

Progress to the next slide.

Interest

- Home Mortgage
- Points
- Mortgage Insurance Premium Deduction
- Investment



- Have the students read the section on “Interest.”
- Discuss the mortgage interest deduction. Tell the students that most taxpayers who pay interest on their mortgage will meet the requirements for the interest to be deductible.
- Emphasize to students that the only types of points that can be deducted on Schedule A are the points paid for the use of money (as a form of interest), including seller-paid points (deductible by the buyer). Any other points are not considered interest and are not deductible.
- Tell the students, new for 2007, home mortgage insurance premiums can be deducted on Schedule A, Interest section.
- Inform the students that the investment interest deduction is generally outside of the scope of the VITA/TCE.
- Optional Guided Question:
 - **The amount of mortgage interest that a taxpayer can deduct depends on what three conditions?** (The date of the loan, the amount of the loan, and the use of the proceeds of the loan.)
- Have the students complete Exercise 3 and then discuss the results.

Progress to the next slide.

Contributions

- Recipient
- Deductible
- Nondeductible



- Have the students read the “Contributions” section of the lesson.
- Remind students that the charitable contribution standard mileage rate for the cost of operating a vehicle remains at 14 cents a mile. The rate for providing services for charitable organizations is set by statute, not the IRS, and didn’t change for 2007.
- Ask students to name some charitable organizations.
- Discuss what types of contributions are deductible and what types aren’t.
- Tell the students that it is not their responsibility to determine the value of donated property. They can tell the taxpayers how to determine the value, but it is the responsibility of the taxpayer to provide the value of the donated items.
- Tell the students that taxpayers who have more than \$500 in non-cash contributions should seek the assistance of a paid preparer.
- Optional Guided Questions:
 1. **Can taxpayers deduct contributions made directly to needy individuals?** (No. In order to be deductible, contributions must be made to a qualified organization, not an individual.)
 2. **Can taxpayers take a contribution deduction for the cost of a raffle ticket sold by their church?** (No. This is not considered a charitable contribution.)
- Have the students complete Exercise 4 and discuss the answer.

Progress to the next slide.

Miscellaneous Deductions on Schedule A

- Expenses subject to the 2% Adjusted Gross Income (AGI) limitation vs. expenses not subject to the 2% AGI limitation



- Have the students read the “Miscellaneous Itemized Deductions” section of the student text.
- Review the following expenses that are **subject** to the 2% AGI limitation: union dues and fees, professional dues, uniforms not adaptable to general use, small tools and supplies, professional books, magazines, journals, job hunting costs, investment and tax counsel fees.
- Review that the following miscellaneous deductions are **not subject** to the 2% AGI limitation: Gambling losses to the extent of gambling winnings and work-related expenses for an individual with a disability.
- Give an example of “losses to the extent of winnings” and briefly talk about the importance of good recordkeeping. Taxpayers should keep an accurate record of gambling activity.
- Have the students complete Exercise 5 and then discuss.

Progress to the next slide.

Total Itemized Deductions

- Complete Exercise 6



- Have the students complete Exercise 6. You may want to let the class split into groups and work together on the exercise.
- Discuss the answer to Exercise 6. Ask the students what they found challenging about this exercise. Be prepared to provide guidance on how the answer was calculated.

Progress to the next slide.

Taxable Income Computation

- Taxable income less than \$100,000
- Qualified Dividends and Capital Gain Tax Worksheet



- Have the students read the “Finding the Tax” section of the lesson.
- Ask the students to turn to the Tax Tables in Publication 678-W, Appendix B.
- Create some scenarios to help students learn how to use the charts (for example, a single taxpayer with taxable income of \$11,932). Ask all students to use the charts to locate the correct tax. Then ask for a volunteer to share the answer.
- Tell students that if the taxpayer has a positive number on the qualified dividends and/or the capital gain line, the tax for the entire return should be calculated using the Qualified Dividends and Capital Gain Tax Worksheet.
- Read Example 5 and review the tax computation with the class.
- Review TaxWise® Hint.

Progress to the next slide.

Quality Review (QR)

Form 8158 – Quality Review Sheet Adjustments, Deductions, and Credits Section

<input type="checkbox"/>	<input type="checkbox"/>	All adjustments, deductions and credits indicated on the intake/interview sheet and supporting documents are included on the return.
--------------------------	--------------------------	---



- Use **Form 8158, Quality Review Sheet** or an **approved alternative form** to review all returns prepared.
- Apply the quality review tools in combination with the Intake and Interview Sheet and all the source documents to the returns you prepare to ensure quality and accuracy for every taxpayer.
- Consider each box on the Quality Review Sheet that applies to the taxpayer's situation to confirm that all the necessary questions and issues have been addressed. If items are incorrect or incomplete, revisit the issue and make corrections to the return, as needed.
- To ensure accurate reporting of adjustments, deductions, and credits, verify that the information on the Intake and Interview Sheet and on the taxpayer's supporting documents is included on the return.
- Confirm that all potential adjustments, deductions, and credits have been discussed with the taxpayer and are shown on the return, if applicable.

Progress to the next slide.

Lesson Summary

- Standard Deduction or Itemized
- Medical Expenses, Taxes, Interest, Contributions, Miscellaneous Deductions
- Tax Charts
- Qualified Dividends and Capital Gain Tax Worksheet



- Review the “Summing Up This Lesson” section with the students.
- Remind the students that for 2007 the standard medical mileage rate increased to 20 cents a mile.
- Ask if there are any questions.

If teaching the Military/International Course of this lesson, progress to the next slide; otherwise go to Lesson 5.

Travel Expenses

- Fully Reimbursed
- Accountable Plan
- Adequate Records
- Form 2106



- Have the class read the “General Information,” Form 1040, and Form W-2 sections of the student text.
- Stress that if the expenses have been fully reimbursed and the reimbursement is not part of the wage income, there is no additional deduction available.
- Explain that an accountable plan is one where the employee provides the employer with a list or voucher of expenses. Any excess reimbursement must be returned to the employer.
- Have the students review the Form 2106 section of the student text.
- Explain that once the deductible expenses have been calculated on Form 2106, the total is transferred over to Schedule A, Itemized Deductions. Form 2106 expenses are a miscellaneous adjustment subject to the 2% of AGI limitation.

Progress to the next slide.

Deductible Expenses

- Away from home
- Local travel
- Meals
- Reimbursable Expenses



- Have the students read the “Travel Expenses” section in the student text.
- Ask for any questions.
- Review Example 1.
- Allow the students time to complete Exercises 1 and 2. Then discuss the answers.
- Explain to the students that expenses that were eligible for reimbursement are not deductible. A taxpayer who did not apply for the reimbursement is not entitled to deduct those expenses. For example, if the taxpayer never submitted the required travel voucher for reimbursable local transportation, he or she could not deduct those expenses on the tax return.

Progress to the next slide.

Armed Forces Reservists

- Temporary Active Duty
- More than 100 miles
- Form 2106



- Have the students read the “Armed Forces Reservists” section of the student text.
- Discuss the requirements for a reservist to deduct travel costs.
- Review with the students that Form 2106 would be used to calculate the deduction and that it would be a part of Miscellaneous deductions on Schedule A.
- Review Example 2.
- Optional Group Activity:
 - Ask students to share experiences they have had working with reservists. (If you do not have any returning students, skip this activity.)

Progress to the next slide.

Other Miscellaneous Deductions

- Uniforms worn off-duty
- Uniform allowances
- Insignia of rank, corps devices, epaulets, aiguillettes, and swords
- Professional society dues



- Have the students read the “Uniforms” section of the student text.
- Explain to the students that uniforms that can be worn off-duty are not deductible.
- Guided Question:
 - **What are the criteria for taking military uniforms and their upkeep as a deduction?**
(Military policy must state that the uniform cannot be worn off-duty. The deduction amount must be reduced by the amount of any clothing allowance the military member received.)
- Have the students complete Exercise 1 and then discuss it.
- Review what types of professional dues are deductible (those directly related to their trade or business).

Progress to the next slide.

Educational Expenses

- Qualifications
- Deductible Expenses
- Education Credits



- Have the students read the “Educational Expenses” section of the student text.
- Discuss the qualifications for deductible educational expenses.
- Review Examples 1 and 2.
- Have the students complete Exercises 2, 3, and 4.
- Review the exercises.
- Remind students that the same expenses cannot be used for educational credits (covered in Lesson 8) and an itemized deduction.

Progress to the next slide.

Business Travel Expenses

- Travel Expenses
- Deductible Expenses
 - Car, Meal, Home Leave
- How To Report
- Form 2106
- Foreign Earned Income Exclusion



- Ask the students to read the “Travel Expenses” topic and Example 1.
- Read and discuss with the students deductible expenses.
- For volunteers who will work with Foreign Service members, review the Home Leave rules.
- Explain to students how allowable expenses are reported and discuss Examples 2 through 4.
- Discuss with students “Completing Form 2106” and review Exhibits 1 and 2.
- Ask students to complete Exercise 1 and review it.

Progress to the next slide.

Military/International Summary

- Travel Expenses
- Uniforms
- Professional dues
- Education
- Home Leave



- Review Travel Expenses, Uniforms, Professional Dues, Educational Expenses, and Home Leave sections of the text as they relate to members of the Armed Forces.
- Ask if there are any additional questions.

Progress to the next lesson.

Lesson 5

Earned Income Credit (EIC)



This lesson contains information for all courses and has been updated for Tax Year 2007.

- This lesson will use a lot of what you have already learned about filing status, exemptions, etc.
- The definition of a qualifying child comes into play on several different levels.
- This chapter will help you determine if the taxpayer is entitled to claim the Earned Income Credit and how to calculate it.

Progress to the next slide.

Objectives

- Determine which taxpayer may be eligible for the EIC using Publication 4012 and Form 13614
- Determine if a taxpayer has a qualifying child for the EIC
- Calculate the credit using the EIC worksheets
- Request advance payment of the EIC in a paycheck
- Report AEIC on a tax return



- Review the objectives with the class.
- Explain that the EIC is a refundable credit. An eligible taxpayer can receive a refund even if they owe no tax and had no income withheld.
- Introduce the requirements for claiming EIC.
- Point out the general requirements to the class.
- Give the class the maximum EIC for 2007 on page 2 in the text.
- Stress to the class: the IRS wants all eligible taxpayers to receive the EIC. Their goal is a fair and balanced EIC program—one that clearly encourages eligible taxpayers to apply while reducing an unacceptably high rate of erroneous claims.
- **Caution:** For **paper returns**, incorrectly calculated EIC is a common error. The worksheets become very important when figuring the credit without the aid of a computer.

Progress to the next slide.

Intake/Interview Process

Form 13614 – Intake and Interview Sheet Credits Section

16. On December 31, 2007:

- a. Were you: Single Legally Married Separated Divorced Widowed
b. If married, were you living together (with your husband/wife) **on/after June 30, 2007?** Yes No
c. Was your spouse deceased? If yes, provide the date of death: _____ (mm/dd/yyyy)

17. Did you pay more than half the cost of keeping up the home for the year? Yes No

Part II. Family and Dependent Information – Do not include you or your spouse.

Print the name of everyone who lived in your home and outside your home that you supported during the year.



This is the portion of the form the taxpayer may have filled out.

- Use the tools you are provided (Pub 4012 and Form 13614) to let the taxpayer help you reach the right conclusion.
- Confirm their answers to questions on Form 13614 Intake/Interview Sheet.
- Use the charts in Pub 4012 not only to make the determination yourself but for interaction with the taxpayer. If items are incorrect or incomplete, revisit the issue and make corrections to the intake sheet because the Quality Reviewer needs to determine that a correct return was prepared based on the information given and verified.
- The Intake/Interview sheet does not have a specific section for the Earned Income Credit on the front page but see the next slide for more information.

Progress to the next slide.

Intake/Interview Process (cont'd)

Form 13614 – Page 2- Part VIII

Part VIII. Earned Income Tax Credit Determination – EITC Eligibility

- Yes No 1. Was EITC previously disallowed? (if yes, taxpayer may not be eligible for EITC)
 Yes No 2. Based on the interview, is the taxpayer qualified for EITC?
-



- This is the portion of the intake sheet you (the volunteer) are responsible for.
- Notate any corrections on the section prepared by the taxpayer.

Progress to the next slide.

General Eligibility Rules

- Must file a tax return
- Must have earned income
- Must not exceed maximum limits
- Must have valid SSN
- Must not use MFS filing status
- Must be a US citizen or resident alien



- Discuss each rule with the class.
- Review the maximum earned and adjusted gross income limits for 2007.

Progress to the next slide.

General Eligibility cont'd.

- Must not file form 2555
- Must not exceed investment income limit
- Must not qualify another taxpayer for EIC



- Continue review.
- Investment income will be discussed in detail later but more than \$2,900 will disallow EIC.
- Review **Example 2** in the student text.

Progress to the next slide.

Investment Income

- Defined:
 - Interest, dividends, capital gains, rental income, royalties, etc.
 - Also considered unearned income
- Limit:
 - In 2007 more than \$2,900 in unearned income will disallow the credit.



- Give students the maximum investment income limit for 2007.
 - **Caution** – do not omit any type of income when figuring the credit.
- Progress to the next slide.**

Earned Income

- Usually W-2 or Self Employment income.
- Exceptions:
 - Household employee may not be issued W-2 if income is low enough
 - Inmate may receive a W-2 but not be able to include it.
 - Military personnel can choose not to include combat pay.
 - Disability benefits may or may not count



- Household income doesn't require a W-2 if under \$1,500.
- Military personnel can choose to exclude combat pay from earned income if it is more advantageous.
 - They must, however, include or exclude it all.
 - Explain that both spouses can choose differently.
- Discuss Disability Benefits – if you are young enough to still be in the work force you can call it earned income, if not it cannot call the benefits earned income.
- Review **Example 3**.

Progress to the next slide.

General Rules With Qualifying Children

Must meet all 3 tests

- Relationship Test
- Age Test
- Residency Test



- Discuss the general rules for claiming the EIC with a qualifying child and review the table in Publication 4012, Tab H.
- Refer the class to the table on page 5-7 in the student text.
- Remind students that the EIC could be as much as \$2,853 with one qualifying child and \$4,716 with 2 or more qualifying children.

Discuss the following points as a review for the class since this has all been discussed previously:

- Ask the class who a relative might not include. (A relative does not include cousins or the neighbor's child, etc.)
- Ask the students about the age test since it has previously been discussed. (Is it 13, 17, 19, 24)
- What does residency mean? (Residency could even mean a homeless shelter)

Progress to the next slide.

Qualifying Child

After the first three tests are met the most complicated one is:

- **You cannot be a qualifying child**



- Have the students imagine themselves as the qualifying child and review the examples.
- Usually, your parents, grandparents, an older sibling, aunt or uncle can claim you for EIC as long as you lived in their home more than six months, were either under 19 or under 24 and a full time student (See Pub 17 for clarification) or disabled. Whether someone claimed you or not, you are not entitled to EIC on your return.
- If you lived at home until you marry and are the age discussed above, you and your new spouse may not be entitled to EIC unless you or your new spouse has a filing requirement.
- Refer often to the Interview Tips provided in Pub. 4012 behind Tab H.

Progress to the next slide.

Qualifying Child cont'd.

- Eligible foster child
- Adopted child
- Permanently and totally disabled
- Child who was kidnapped



- Discuss the definitions above.

Progress to the next slide.

Qualifying Child of More Than One Taxpayer

- You can choose which person will claim the EIC, or
- The tie-breaker rules will be applied.



- Emphasize to students that a custodial parent can still allow the non-custodial parent to claim the dependency exemption and child tax credit.
- Discuss Form 8332, when it is needed, and that it is the final determination in a Divorced or Separated Parents situation for dependency and child tax credit but it has no bearing what-so-ever on the EIC.
- If you and someone else have the same qualifying child, you and the other person(s) can decide which of you, if otherwise eligible, will take all of the following benefits based on the qualifying child:
 - The child's exemption
 - The child tax credit
 - Head of household filing status
 - The credit for dependent care benefits
 - The EICThe other person(s) cannot take any of these benefits unless he or she has a different qualifying child.
- Review the **tie-breaker rules** in Publication 4012, Tab H.
- Review **Example 4, 5** and 6 in the student text.

Progress to the next slide.

Who Can Claim the EIC Without a Child

- Lived in the United States more than half the tax year
- At least 25 but under age 65 on Dec. 31
- Does not qualify as the dependent of another person



- Explain the income limitations of **\$12,590** or **\$14,590** for married filing joint.
- Explain the Maximum credit is **\$428**.
- Clarify what it takes to meet the age requirements and that only one spouse if married filing joint has to meet it.
- Give students a few statistics such as the number of errors during the early filing season last year: **49,147 paper tax returns** were disallowed EIC because the taxpayer's age was not right.
- TaxWise® requires a birth date for all taxpayers and dependents on any return. This date and Social Security Number and name are matched through the Social Security Admin. TaxWise® therefore does not allow this error.
- Complete **Exercise 1**

Progress to the next slide.

EITC Tips

- Just because you have a child you may **not** be entitled to claim the following:
 - EIC
 - Dependency Exemption
 - Child Tax Credit
 - Child Dependent Care Credit
 - Head of Household Filing Status
- Any guesses why?



Review these tips again before completing Exercise 1

- You must be able to claim the child as a dependent (unless you gave the non-custodial parent Form 8332) and reside in the home where the child lived with you for more than half the year.
- And potentially pass the tie-breaker rules.

Dependency Exemption

- You still have to pay more than half the child's total support.
- The child can not have earnings of more than the exemption amount unless he or she is under 19 or under 24 and a full time student, and
- The child has to be a citizen and not file a joint return, etc., etc., etc.

Child Tax Credit

- This credit is tied directly to the dependency exemption but the child must also be the right age – under 17.

Child Dependent Care Credit

- The child still has to be under 13 at time of payment or disabled.
- The fees have to be paid for you (and a spouse if joint return) to be gainfully employed or looking for work.
- Must be paid to the right persons for the right reasons. No family member who is a dependent, no overnight summer camps for other reasons, etc.

Head of Household filing status

- You still have to provide more than half the cost of keeping up a home for a qualifying child.

Complete **Exercises 2 and 3** using the rules for a qualifying child as discussed earlier. This is good test preparation.

Progress to the next slide.

EIC Worksheets

- TaxWise Worksheet
- Paper Return Worksheets
- EIC Table



- **Explain to students that EIC worksheets must be attached to the tax return.** When preparing the worksheets it is imperative that you speak aloud to the taxpayer and not assume anything. Even though you may have asked it before, just repeat the answer you are entering.
- Tell students that TaxWise® provides you with a worksheet if all other entries are made and there is still an indication that there might be a question about the EIC. Such as:
 - The birth-date of the dependent – if the child is over 19 it gives you more questions to answer.
- **Explain that Form 1040 and 1040-A** have almost identical worksheets. Form 1040-EZ basically tells you how to look up the amount because it is based on age and income.
- Tell students that the worksheets are very thorough flow charts that are very helpful when filing a return. Especially a paper return.
- Suggested probing questions for the class:
 - Ask if anyone knows why Form 1040-EZ doesn't have a lengthy worksheet for a qualifying child.
 - The answer would be – no dependents are allowed on 1040-EZ.

Review the EIC Table and **Example 7** which provide the completed sheets in **Exhibits 1-5**.

- Have the students complete **Exercise 4**.
- Review the exercise.
- Review **Example 8 and Exhibit 11**.

Progress to the next slide.

Schedule EIC for Qualifying Child(ren)

- Reporting Qualifying Child Information



- Discuss when Schedule EIC is required.
- Let students know that Schedule EIC must be attached to the taxpayer's Form 1040A and 1040 when they file the return with the IRS.
- Review **Example 8** and discuss.
- Have the students complete **Exercise 5** – Schedule EIC.
- Review the exercise.
- Caution the students that the EIC is not for everyone. Only those taxpayers who are eligible should claim the credit. It is important to understand the eligibility requirements and claim the EIC on the returns of only those taxpayers who qualify for it.

Progress to the next slide.

EIC – General Information

- EIC – Eligibility Tools
- Common EIC Return Errors
- Disallowed Earned Income Credit
- Advance Earned Income Credit Payments (AEIC)



- Ensure that students know that EIC is not for everyone; the taxpayer must qualify for the credit.
- List some of the **most common reasons for disallowance** are:
 - Claiming the credit with a child who is not the taxpayer's qualifying child.
 - Married taxpayers filing as single or head of household.
 - Reporting income incorrectly.
 - Missing or **incorrect** social security numbers. An incorrect number more often than not means the name does not match the number. (With so many mixed families and second marriages today, sometimes the children of first marriages blend right in. Even school and medical records show incorrect last names to match everybody else in the family. If a child's social security card has not been corrected to reflect the change, the return will reject.)
- **Take Credit** (online tool), Publication 4012, the EIC worksheets and Publication 596, are all excellent tools when assisting taxpayers in claiming the EIC.
- Complete the revised **Exercise 4** – Advance EIC and review.

Progress to the next slide.

Quality Review (QR)

Form 8158 – Quality Review Sheet Adjustments, Deductions, and Credits Section

Yes	No	Certified Quality Reviewer Check each item as you verify that the review step is complete.
<input type="checkbox"/>	<input type="checkbox"/>	All income indicated on the intake/interview sheet, taxpayer's interview and/or supporting documents are included on the return



To the Volunteer:

- The intake sheet, supporting documentation and any notations you made on the intake sheet **should be sufficient for a third party to clearly see how you reached your decisions**. You may have to do the review yourself but if someone who was not a party to the earlier conversations you had with the taxpayer looked at the source documents, that person should reach the same conclusion you did.
- Use the **Form 8158, Quality Review Sheet** or your site's approved equivalent to review all returns prepared.

To the Quality Reviewer:

- Apply the QR tools in combination with the Interview/Intake Sheet and all the source documents to the returns you prepare **to assure quality and accuracy for every taxpayer**. Consider each box on the Quality Review Sheet which applies to your taxpayer's situation to confirm that all the necessary questions and issues have been addressed. If items are incorrect or incomplete, revisit the issue and make corrections to the return, as needed.
- Ensure accurate reporting of adjustments, deductions, and credits, verify that the information on the Intake/Interview Sheet and on the taxpayer's supporting documents is included on the return.
- Verify that the EITC was not previously disallowed and the taxpayer is eligible for the credit.
- Confirm that all potential adjustments, deductions, and credits have been discussed with the taxpayer and shown on the return, if applicable.

Progress to the next slide.

Lesson Summary

- General EIC Requirements & Eligibility Rules
- Schedule EIC
- Common EIC Return Errors
- Disallowed EIC
- Advance EIC Payments



- Review the Summing Up This Lesson section with the students.
- **Ask if there are any questions.**

EIC Errors accumulated:

- Personal exemption not allowed SSN name mismatch – 1,583
- Dependents were disallowed – 26,544
- Disallowed because Form 8862 (EIC was disallowed the year before and form is required) was not attached – 5,520
- Incorrectly figured– 4,176 (would have been paper returns).
- Wrong Age – EIC disallowed – 1,791 on 1040 A, 3,246 on 1040 EZ, 6,762 on 1040 (this would have been paper also.
- Complete **Exercise 6** and review.

Progress to the next slide.

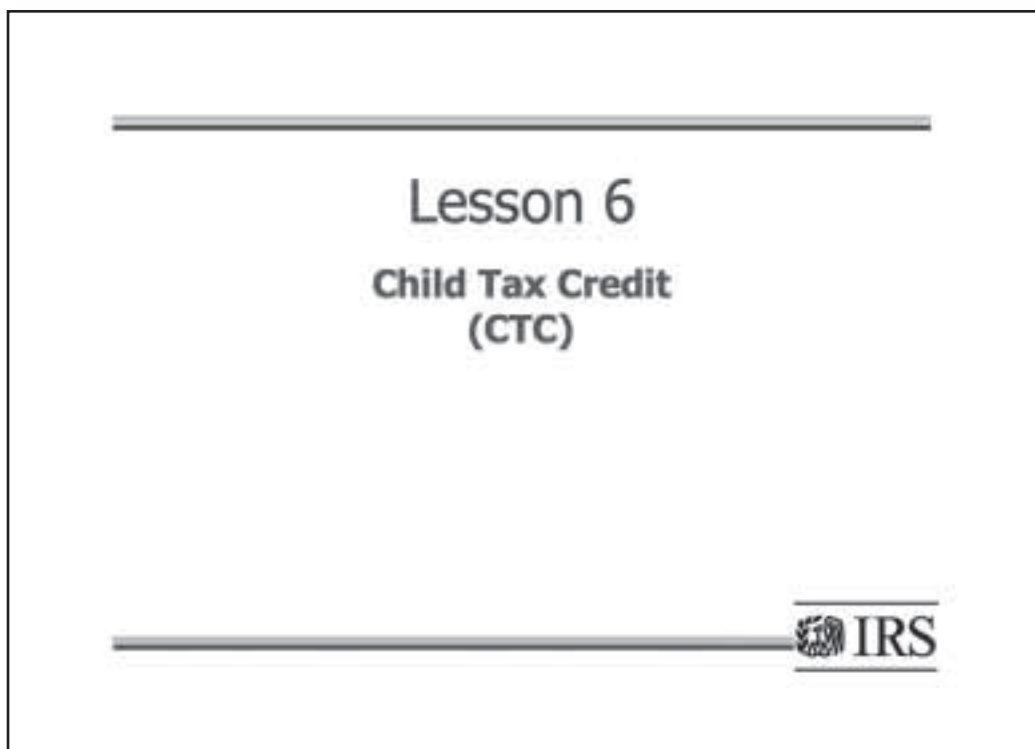
EIC Eligibility Requirements - Summary

- Rules for Everyone
- Rules If You Have a Qualifying Child
- Rules If You Do Not Have a Qualifying Child
- Earned Income and AGI Limitations



- Review the Summary of Eligibility Requirements table in Publication 4012, Volunteer Resource Guide, Tab H.
 - Part A—Rules for Everyone
 - Part B—Rules If You Have a Qualifying Child
 - Part C—Rules If You Do Not Have a Qualifying Child
 - Part D—Earned Income and AGI Limitations
- Ask if the students have questions.
- Propose a few questions that require use of the tables.

Progress to the next slide.



This lesson contains information for all courses and has been updated for Tax Year 2007.

■ **References:**

- Child Tax Credit Worksheet in both Form 1040 and 1040A Instructions
- Form 8812, Additional Tax Credit
- Page 2 of Form 1040

■ **Additional References:**

- Publication 4012, Volunteer Resource Guide
- Publication 972, Child Tax Credit
- Publication 17, Your Federal Income Tax
- Form W-4, Employee's Withholding Allowance Certificate
- Form 8901, Information on Qualifying Children Who Are Not Dependents (For Child Tax Credit Only)

Progress to the next slide.

Objectives

- Determine who is eligible to claim the Child Tax Credit and the Additional Child Tax Credit.
- Determine the amount of the Child Tax Credit and the Additional Child Tax Credit.



- Read and discuss the course objectives.
- Inform students that additional information about the Child Tax Credit can be found in Publication 972, Child Tax Credit.

Progress to the next slide.

Intake/Interview Process

Form 13614 – Intake and Interview Sheet

Part VII. Credits – In 2007 did you (or your spouse) have:

- | | | |
|------------------------------|-----------------------------|--|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 1. Child/dependent care expenses that allow you (and your spouse-if MFJ) to work |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 2. Educational expenses for you (or your spouse) and/or your dependents |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 3. Retirement Contribution to a traditional IRA, Roth IRA or 401k as shown on Form W-2 |



- Use **Form 13614, Intake and Interview Sheet** to engage the taxpayer in preparing an accurate return.
- Use the Intake and Interview Sheet as a starting point for a comprehensive interaction with the taxpayer, in combination with all the source documents provided by the taxpayer, to ensure quality and accuracy on each return.
- Confirm each item on Form 13614 (or an approved alternative form) to make sure that you and the taxpayer have considered all the necessary information. Ensure that all questions and issues have been addressed. If items are incorrect or incomplete, revisit the issue and make corrections to the return, as needed.
- The Intake and Interview Sheet does not have a specific section for the Child Tax Credit. This lesson covers how to determine which person can claim the child as a dependent and therefore claim the Child Tax Credit. To ensure accurate reporting of this credit, verify that the appropriate information on the Intake and Interview Sheet and on the taxpayer's supporting documents is included on the return.
- You will learn more about how a taxpayer may be eligible for the Child Tax Credit later in this lesson.
- Other credits are also covered in this lesson. Although they are not specifically listed on Form 13614, you should ask probing questions to ensure the accurate reporting of all credits.

Progress to the next slide.

Qualifying Child

- Relationship
- Age
- Citizenship
- Support
- Residency



- Read the “Qualifying Child” section in the student text and discuss.
- Explain that the definition of a qualifying child for Child Tax Credit is similar to a qualifying child for dependency, except that the qualifying child must be under 17 at the end of the year. The Child Tax Credit and Earned Income Credit also have differing requirements for a qualifying child.

Progress to the next slide.

Child Tax Credit

- Exception to “Time-Lived-With-You” Requirement
 - Child born/died in 2007
 - Kidnapped Child
 - Special Rules for Children of Divorced or Separated Parents



- Review the exceptions to the “Time-Lived-With-You” requirement on Page 6-2 of the student text and discuss.
- Express to the students that whether or not the taxpayer can claim the credit, sensitivity must be shown to taxpayers/parents when interviewing, probing, and questioning them on these emotional subjects. For example, if they encounter such an instance during their interview, they should give the taxpayers time to gather themselves before pressing on. Also, they may want to reluctantly express the necessity of continuing with the interview. They should follow the pace set by the taxpayer.
- **Note about the Alert:** Applies to very limited circumstances if a qualifying child is married. A taxpayer may be able to claim the Child Tax Credit for a qualifying child who is not his or her dependent. When this occurs and the Special Rules for Divorced or Separated or Never Married Parents do not apply, complete and attach Form 8901, Information on Qualifying Children Who Are Not Dependents (**For Child Tax Credit Only**), to Form 1040 or 1040A.

Progress to the next slide.

Review Rules for Children of Divorced or Separated or Never Married Parents

- If a divorced or separate maintenance decree or agreement, after 1984, states all the following:
 1. The noncustodial parent can claim the child as a dependent.
 2. The other parent will not claim the child as a dependent.
 3. The years for which the claim is released.



- Ask the class to read the “Children of Divorced or Separated or Never Married Parents” section in the student text and discuss.
- Read Example 1 and discuss with the class.

Progress to the next slide.

Review Rules for Children of Divorced or Separated or Never Married Parents

- If the rules for Divorced or Separated or Never Married Parents apply:
 - Only the noncustodial parent can claim the Child Tax Credit.



- Tell the students, if the rules apply, only the noncustodial parent can claim the child for both the Child Tax Credit and the Dependency exemption.
- Read Example 2 and discuss with the class.
- Ask the class to read the “Qualifying child of More Than One Person” section.

Progress to the next slide.

Child Tax Credit

- Limits on Credit
- Modified AGI



- Read the “Limits on Credit” and “Modified AGI” sections in the student text and discuss.
- Remind students that if the taxpayer’s modified adjusted gross income exceeds the threshold limit, the taxpayer must use Publication 972, Child Tax Credit, to compute his or her child tax credit.
- Threshold limits:
 - Married filing Jointly—\$110,000
 - Single, Head of Household, or Qualifying Widow(er)—\$75,000
 - Married Filing Separately—\$55,000
- Use the questions in the tax form instructions (shown in Exhibit 1) to see if the taxpayer must use the Publication 972 worksheet. If not, he or she can use the shorter worksheets in the Form 1040 or 1040A Instructions.
- Read Example 3 and discuss with the class.

Progress to the next slide.

Check Withholding

- The child tax credit decreases the tax liability dollar for dollar, but not below zero.
- The taxpayer may want to adjust his or her withholding if he or she is having too much tax withheld.



- Read the “Checking your Withholding” section in the student text and discuss.
- Tell the class to inform the taxpayer that if the child tax credit can be claimed on his or her income tax return, the taxpayer may want to consider having less tax withheld from his or her wages during the year.
- Explain that the volunteer may need to suggest that the taxpayer check what withholding allowances are currently claimed.
- Optional Guided Question: **If the taxpayer is having too much tax withheld and prefers to have the money during the year, how does the taxpayer claim more withholding allowances?** (The taxpayer should file a new 2008 Form W-4 with his or her employer so that less income tax is withheld from his or her wages. Advise the taxpayer that doing so will reduce the amount of refund he or she may receive.)

Progress to the next slide.

Additional Child Tax Credit

- Information about the Additional Child Tax Credit.
- Use Form 8812, Additional Child Tax Credit, to compute the credit.



- Read the “Additional Child Tax Credit” section in the student text and discuss.
- The Child Tax Credit must be computed before the Additional Child Tax Credit can be figured.
- Inform students that a taxpayer who can claim the Additional Child Tax Credit should file a tax return even if he or she is not otherwise required to file because the Additional Child Tax Credit may give the taxpayer a refund, even if he or she does not owe any tax.
- Refer to Form 8812 when discussing how to compute the credit.
- Explain that this credit is based on 15% of the taxpayer’s taxable earned income in excess of \$11,750.
- **Military Personnel Note:** Military personnel who received nontaxable combat pay and did not elect to include this amount when computing the EIC (or did not claim the EIC) must include the nontaxable combat pay in the total on Form 8812.

Progress to the next slide.

Additional Child Tax Credit

- **Before completing the form, gather the following information:**

- Earned Income Credit Amount
- Taxable earned income
- Any adjustment to income for self-employment tax
- If the taxpayer has three or more children, total social security and Medicare taxes withheld (Form W-2, boxes 4 and 6)



- **Note:** If students have questions about “Total Taxable Income,” refer them to the “Earned Income” section (and the associated questions) on page 2 of Form 8812, Additional Child Tax Credit.
- The taxpayer will need to seek the assistance of a professional tax preparer if he or she has:
 - Excess social security and RRTA tax withheld (more than one employer and gross income in excess of \$97,500), or
 - Social security and Medicare tax on unreported tip income.
- Read and discuss Example 4, page 6-9.

Progress to the next slide.

Quality Review (QR)

Form 8158 – Quality Review Sheet Adjustments, Deductions, and Credits Section

<input type="checkbox"/>	<input type="checkbox"/>	All adjustments, deductions and credits indicated on the intake/interview sheet and supporting documents are included on the return.
--------------------------	--------------------------	---



- Use **Form 8158, Quality Review Sheet** or **an approved alternative form** to review all returns prepared.
- Apply the quality review tools in combination with the Intake and Interview Sheet and all the source documents to the returns you prepare to ensure quality and accuracy on each return.
- Consider each box on the Quality Review Sheet that applies to the taxpayer's situation to confirm that all the necessary questions and issues have been addressed. If items are incorrect or incomplete, revisit each issue and make corrections to the return, as needed.
- To ensure accurate reporting of adjustments, deductions, and credits, verify that the information on the Intake and Interview Sheet and on the taxpayer's supporting documents is included on the return.
- Confirm that all potential adjustments, deductions, and credits have been discussed with the taxpayer and shown on the return, if applicable.

Progress to the next slide.

Lesson Summary

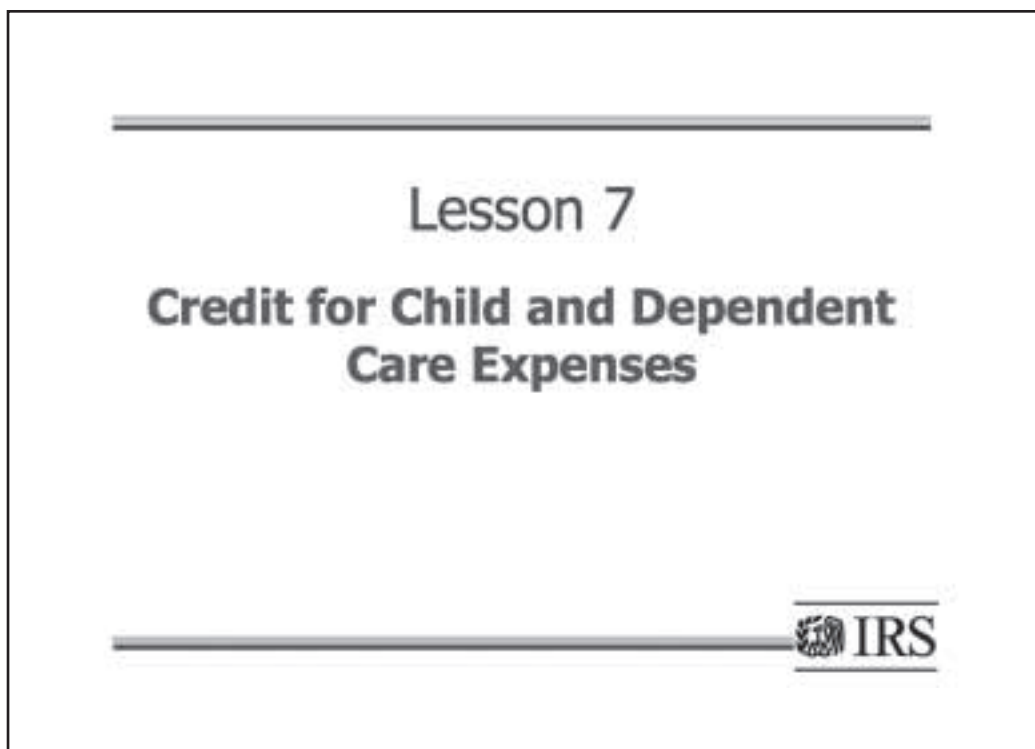
- **Interview Tips**
- **Exercise 1**
- **Questions**



- Review the Interview Tips in Publication 4012, Tab G “Credits” section and discuss.
- Remember to apply the Interview Tips sheet steps for each child.
- Complete Exercise 1, page 6-14 and discuss the answer with the class.
- Optional Guided Questions:
 1. **Where does a taxpayer figure the child tax credit?** (Child Tax Credit Worksheet)
 2. **What 3 factors affect the amount of a taxpayer’s child tax credit?** (The taxpayer’s modified AGI, his or her filing status, and his or her liability)

Progress to the next lesson.

FACILITATOR NOTES



This lesson contains information for all courses and has been updated for tax year 2007.

■ **References:**

- Form 2441, Child and Dependent Care Expenses
- Form 13614, Intake and Interview Sheet
- Publication 4012, Volunteer Resource Guide
- Publication 17, Your Federal Income Tax for Individuals

■ **Additional References:**

- Form W-2, Wage and Tax Statement
- Schedule 2, Child and Dependent Care Expenses for Form 1040A Filers
- Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents
- Form W-10, Dependent Care Provider's Identification and Certification
- Publication 503, Child and Dependent Care Expenses

Progress to the next slide.

Introduction and Objectives

- Determine who is eligible for the Credit for Child and Dependent Care Expenses
- Calculate the credit and the exclusion and report the expenses on the correct form



- Introduce the lesson.
- Review the objectives with the class.
- Note that **all** students must know how to apply both objectives.

Progress to the next slide.

Form 2441 and Schedule 2

The image displays two versions of IRS Form 2441, 'Child and Dependent Care Expenses', for the year 2007. The forms are side-by-side, showing the layout of the document with various sections for reporting expenses and claiming credits. The IRS logo is visible in the bottom right corner of the image area.

- Show students that Form 1040A, Schedule 2, and Form 2441 (used with Form 1040) are virtually identical.
- Explain that this lesson will use only Form 2441.

Progress to the next slide.

Intake and Interview Process

Form 13614 - Intake and Interview Sheet Credits Section

Part VII. Credits – In 2007 did you (or your spouse) have:

- | | | |
|------------------------------|-----------------------------|--|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 1. Child/dependent care expenses that allow you (and your spouse-if MFJ) to work |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 2. Educational expenses for you (or your spouse) and/or your dependents |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 3. Retirement Contribution to a traditional IRA, Roth IRA or 401k as shown on Form W-2 |
-



- Use Form 13614, Intake and Interview Sheet, to engage the taxpayer in preparing an accurate return.
- Use the Intake and Interview Sheet as a starting point for a comprehensive interaction with the taxpayer, in combination with all the source documents provided by the taxpayer, to ensure quality and accuracy on each return.
- Confirm each item on Form 13614 (or similar tool used at your site) to make sure you and the taxpayer have considered all the necessary information. Ensure that all questions and issues have been addressed. If items are incorrect or incomplete, revisit each issue and make corrections to the return, as needed.
- Advise the students that they will need information from both the “Family and Dependent” and “Credit” sections of Form 13614 to complete this section.

Progress to the next slide.

Five Qualifying Tests

1. Qualifying Person
2. Earned Income
3. Work-Related Expense
4. Joint Return
5. Provider Identification



- Explain to the students that in order to qualify for this credit, the taxpayer must satisfy all five tests of eligibility.
- Refer students to the Publication 4012, Volunteer Resource Guide, Tab G, and introduce them to the child and dependent care credit requirements and decision tree.

Progress to the next slide.

Five Qualifying Tests – cont'd

- **Qualifying Person Test**

- Qualifying Child
- Disabled Dependent
- Disabled Spouse



- Read and discuss the “Qualifying Person Test” section.
- Ask for a volunteer to read Example 1, then discuss.
- Ask students why Janet and Jill are qualifying persons.
 - Answer: Janet is physically disabled and Jill is under 13.
- Ask for a volunteer to read Example 2, then discuss.
- Advise the student of the potential pitfall at the top of page 7-3.
- Advise students to complete Exercise 1, then discuss.
- Read and discuss “Children of Divorced or Separated Parents.”
- Advise students of the Alert regarding never married parents.
- Ask for a volunteer to read Example 3, then discuss.
- Advise students to complete Exercise 2, then discuss.
- Optional Guided Questions:
 1. **To qualify for the credit, under what age must a child have been when the care was provided, assuming the child is not permanently or totally disabled?** (The age is 13.)
 2. **Does the child have to be 13 at the end of the year to qualify for the credit?** (No, the credit allows qualifying expenses to be claimed up to the day the child turns 13.)
 3. **If a non-custodial parent has a signed Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents, can he or she claim the credit for child and dependent care expenses?** (No. Only a custodial parent can claim this credit for his or her qualifying children.)
- Refer to the decision tree in Publication 4012 to assist with determining who qualifies for this credit.

Progress to the next slide.

Five Qualifying Tests – cont'd

- **Earned Income Test**

- Must have earned income during the year
- If married, both spouses needed to work unless one was:
 - A full-time student (for at least 5 months), or
 - Incapable of self-care.



- Read the “Earned Income Test” section and discuss.

Progress to the next slide.

Five Qualifying Tests – cont'd

- **Earned Income Test (Continued)**

- If a spouse was a full-time student or was incapable of caring for himself or herself, income is considered to be at least:

- \$250 for one qualifying person, or
 - \$500 for two or more qualifying persons.



- Ask for a volunteer to read Example 4.
- Discuss the exceptions if a spouse is a full-time student or is unable to care for himself or herself.
- Discuss the exception if both taxpayers are either full time students or unable to care for themselves.

Progress to the next slide.

Five Qualifying Tests – cont'd

- **Work-Related Expense Test**

- Allows the taxpayer to work or look for work
- Provides for qualified person(s) care

- **Joint Return Test**

- **Provider Identification Test**

- Due Diligence
- Provider Refusal



- Read the “Work-Related Expense Test” section and discuss.
- Review the Alert box at the top of Page 7-5, Publication 678, and discuss.
- Ask for a volunteer to read Example 5 and discuss.
- Ask for a volunteer to read Example 6 and discuss.
- Read the information about “Camp” and “Payments to Relatives.”
- Read the “Joint Return Test” section and discuss.
- Read the “Provider Identification Test” section and discuss.
- Read the Alert box on page 7-6 of the student guide.
- Optional Guided Question:
 - If the care provider refuses to give the taxpayer the identifying information, what do you do?** (Report whatever information is available, enter “see page 2” for the missing information, and provide a statement at the bottom of page 2 of Form 2441.
- Refer to Publication 17 for additional information on due diligence and provider refusal.
 - Note:** The taxpayers will **not** be able to e-file their returns if the provider information is not shown on their returns.

Progress to the next slide.

Limit on Expenses

Amount of eligible expenses limited to the lowest of:

- Lower paid spouse's earned income (if married)
- Single taxpayer's earned income
- Actual expenses paid
- Overall limits of
 - \$3,000 for one qualifying person
 - \$6,000 for two or more persons



- Read the "Limit on Expenses" section and discuss.
- Point out that Form 2441 requires the preparer use the lower amount.
- Ask for a volunteer to read Example 7 and discuss.
- Ask for a volunteer to read Example 8 and discuss.
- Have the students use the Volunteer Resource Guide, Tab G, Credit for Child and Dependent Care Decision Tree, to assist them with Exercise 3. (The answers to Exercise 3 are listed on page 7-15 of Publication 678.)

Progress to the next slide.

Figuring the Credit

- Use Form 1040A, Schedule 2
- Use Form 2441 for Form 1040
- Complete Part III of the form if the taxpayers received benefits under a dependent care benefits program



- Read the “Figuring the Credit” section and discuss.
- Read the potential pitfall on page 7-8 of Publication 678 and discuss.
- Remind students that if Form W-2 has dependent care benefits in box 10, they must first complete Part I. Next, they will complete Part III on the back to account for the dependent care benefits received from the taxpayer’s employer. Then, they may complete Part II.
Note: If there are **no** dependent care benefits paid by the employer, they may complete the front of Form 2441 only (Parts I and II).
- Ask for a volunteer to read Example 9 and discuss.
- **Exhibit 1:** Students may question why Exhibit 1 shows \$2,000 and not \$3,000 as the amount of qualified expenses entered on line 3 of Form 2441, Part II. Point out that the Fullertons received \$1,000 under a dependent care benefits program, and that for taxpayers like the Fullertons, Part III of Form 2441 must be filled out before Part II.
- Complete Exercise 4 and discuss the answer. (The answers are on pages 7-16 and 7-17 of Publication 678.)
- Advise students to check and recheck that the name and SSN entered agree with the person’s social security card. If the return and SSN do not agree at the time the return is processed, the credit may be reduced or disallowed. If the qualifying child was born and died in 2007, and did not have a SSN, enter “Died” in column (b) and attach a copy of the person’s birth certificate. If the name or SSN on the person’s social security card is not correct, the taxpayer will need to contact the Social Security Administration at 1-800-772-1213.
- Review TaxWise® Hints.

Progress to the next slide.

Quality Review (QR)

Form 8158 – Quality Review Sheet Adjustments, Deductions, and Credits Section

Yes <input type="checkbox"/>	No <input type="checkbox"/>	All adjustments, deductions and credits indicated on the intake/interview sheet and supporting documents are included on the return.
--	---------------------------------------	---



- Use Form 8158, Quality Review Sheet, or an approved alternative form, to review all returns prepared.
- Apply the quality review tools, in combination with the Intake and Interview Sheet and all the source documents, to the returns you prepare to ensure quality and accuracy for each taxpayer.
- Consider each box on the Quality Review Sheet which applies to the taxpayer's situation to ensure that all questions and issues have been addressed. If items are incorrect or incomplete, revisit each issue and make corrections to the return, as needed.
- To accurately report adjustments, deductions, and credits, verify that the information on the Intake and Interview Sheet and on the taxpayer's supporting documents is included on the return.
- Confirm that all potential adjustments, deductions, and credits have been discussed with the taxpayer and shown on the return if applicable.

Progress to the next lesson.

Lesson Summary

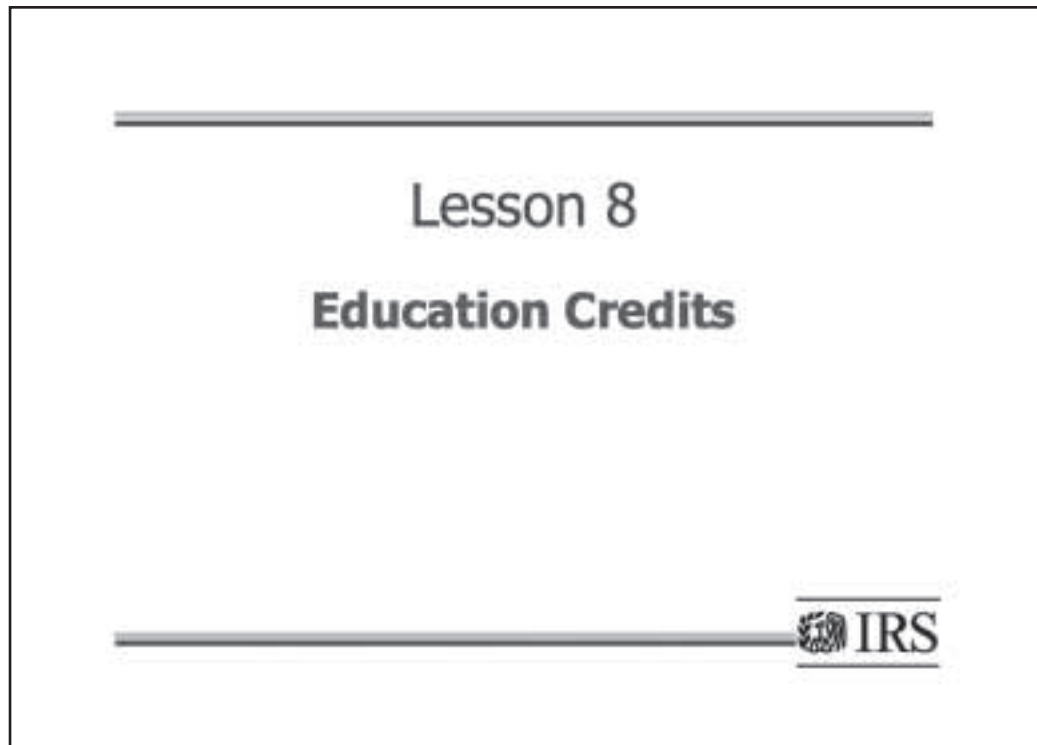
- Nonrefundable credit
- Five qualifying tests
- Volunteer Resource Guide



- Read the “Summing Up This Lesson” box.
- Optional Guided Questions:
 - **Ask students to name the Five Qualifying Tests.** (Qualifying Person Test, Earned Income Test, Work-Related Expense Test, Joint Return Test, and Provider Identification Test.)
 - **True or False. The child and dependent care credit is a refundable credit.** (False. The credit is nonrefundable.)
 - **Can taxpayers claim qualifying child and dependent expenses for their dependent child who turned 13 in October 2007?** (Yes, they can claim the expenses up to the day of the child’s 13th birthday.)
- Remind students to always use Publication 4012, Volunteer Resource Guide, when determining eligibility for the credit.

Progress to the next lesson.

FACILITATOR NOTES



This lesson contains information for all courses and has been updated for Tax Year 2007.

■ **References:**

- Form 8863, Education Credits
- Form 1098-T, Tuition Statement
- Publication 4012, Volunteer Resource Guide

■ **Additional References:**

- Publication 17, Your Federal Income Tax
- Publication 970, Tax Benefits for Education

Progress to the next slide.

Introduction and Objectives

- Determine who is eligible to claim an education credit
- Determine which credit should be claimed



- Introduce the lesson.
- Review the objectives with the class.
- Explain that the Hope and Lifetime Learning credits are nonrefundable credits that allow a taxpayer to claim all or a portion of qualified tuition and related expenses paid for postsecondary education.
- Explain that the **Hope Credit** and the **Lifetime Learning Credit** are separate options that can be claimed.
- Explain that these credits directly reduce the amount of tax owed on the return.

Progress to the next slide.

Intake and Interview Process

Form 13614 – Intake and Interview Sheet Credits Section

Part VII. Credits – In 2007 did you (or your spouse) have:

- | | | |
|------------------------------|-----------------------------|--|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 1. Child/dependent care expenses that allow you (and your spouse-if MFJ) to work |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 2. Educational expenses for you (or your spouse) and/or your dependents |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 3. Retirement Contribution to a traditional IRA, Roth IRA or 401k as shown on Form W-2 |



Advise students to:

- Use Form 13614, Intake and Interview Sheet, to engage the taxpayer in preparing an accurate return.
- Use the Intake and Interview Sheet as a starting point for a comprehensive interaction with the taxpayer, in combination with all the source documents provided by the taxpayer, to ensure quality and accuracy on each return.
- Confirm each item on Form 13614 (or similar tool used at your site) to make sure you and the taxpayer have considered all the necessary information. Ensure that all questions and issues have been addressed. If items are incorrect or incomplete, revisit each issue and make corrections to the return, as needed.
- Use information from the “Family and Dependent” and “Credit” sections of Form 13614 to complete this section.
- Ask probing questions to ensure all credits are accurately reported, although they are not specifically listed on Form 13614.

Progress to the next slide.

General Requirements

- The taxpayer cannot file married filing separately (MFS)
- Have qualified expenses
- Eligible student must attend eligible institution
- Have an eligible student
- Phase out:
 - \$94,000–\$114,000 for married filing jointly (MFJ)
 - \$47,000–\$57,000 for others



- Explain general requirements.
- Refer to the student text for requirements.
- Explain that to claim either of the education credits the taxpayer must file using any filing status **other than married filing separately**.
- Read “Eligible Educational Institution” and discuss.
- Read “Qualified Education Expenses” and discuss.
- Explain to students that to help figure the taxpayer’s education credit, the taxpayer should receive Form 1098-T. Generally, an eligible educational institution (such as a college or university) must send Form 1098-T (or an acceptable substitute) to each enrolled student by January 31, 2008.
- Read Example 1 and discuss.
- Read “Adjustments to Qualified Expenses” and discuss.
- Advise students of the Alert about taxable scholarships on page 8-4.
- Read Example 2 and discuss.
- Advise students that if taxpayers receive a refund of qualified tuition and related expenses, they may have to repay all or a part of the credit. Advise the taxpayers to consult a paid tax professional.
- Read the “Eligible Student” section and discuss.
- Review “Who Can Claim Expenses?” and discuss.
- Read Example 3 and discuss.

Progress to the next slide.

Hope Credit

- Can be claimed for each eligible student
- Maximum is \$1,650 credit per student
- Applies to the first two taxable years of postsecondary education
- Calculated in Part I of Form 8863
- Can be claimed on Form 1040A or Form 1040



- Explain to students that a Hope Credit can be claimed for each eligible student.
- Explain to students that there is a maximum credit amount per student.
- Explain to students that the credit only applies for the first two years of postsecondary education.
- Read Example 4 and discuss.

Progress to the next slide.

Lifetime Learning Credit

- The credit is based on the total of qualified expenses, not the number of eligible students
- The maximum credit is \$2,000 per year
- The credit is figured in Part II of Form 8863
- The credit can be claimed on Form 1040A or Form 1040



- Explain to the students that this credit is based on the total qualified education expenses paid by the taxpayer and not on the number of eligible students.
- Have the students read the “Lifetime Learning” section of the student text.
- Read Examples 5 and 6 and discuss.
- Read Example 7 and discuss.
- Refer the students to the Alert at the top of page 8-11.
- Have students read the “Comparison Table” for differences between the two credits.
- Advise students to complete Exercise 1 and discuss the answer.
- Read **TaxWise® Hint:** To input qualified tuition expenses and prepare Form 8863 using TaxWise®, link from Form 1040, line 49, to select Form 8863, enter the student’s name in either the Hope Credit section or the Lifetime Learning Credit section, and complete all the entries annotated in red. TaxWise® will automatically complete the form and carry the mathematical calculations to Form 1040.

Progress to the next slide.

No Double Benefits

- Cannot claim an education credit based on higher education expenses deducted on the return (e.g., as a business expense)
- Cannot claim the Hope and Lifetime Learning credits based on the same qualified expenses



- There are rules to prevent a taxpayer from using qualified education benefits twice.
- Refer to the Publication 678 under “No Double Benefits” for further information.

Progress to the next slide.

No Double Benefits – cont'd

- Cannot claim an education credit based on qualified education expenses paid with tax-free assistance
- Cannot claim an education credit based on expenses used to figure the tax-free portion of a distribution from a Coverdell ESA or a qualified tuition program (QTP)



- For example, a student who receives a tax-free, full-tuition scholarship will not have qualifying expenses because the expenses are paid with tax-free assistance. (Reminder: The earlier lesson on income discussed scholarships and when a scholarship might be taxable.)

Quality Review (QR)

Form 8158 – Quality Review Sheet – Adjustments, Deductions, and Credits Section

Yes <input type="checkbox"/>	No <input type="checkbox"/>	All adjustments, deductions and credits indicated on the intake/interview sheet and supporting documents are included on the return.
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Advise students to:

- Use Form 8158, Quality Review Sheet, or an approved alternative form, to review all returns prepared.
- Apply the quality review tools, in combination with the Intake and Interview Sheet and all the source documents, to the returns you prepare to ensure quality and accuracy for each taxpayer.
- Consider each box on the Quality Review Sheet that applies to the taxpayer's situation to confirm that all the necessary questions and issues have been addressed. If items are incorrect or incomplete, revisit each issue and make corrections to the return, as needed.
- Verify that the information on the Intake and Interview Sheet and on the taxpayer's supporting documents is included on the return, to accurately report adjustments, deductions, and credits.
- Confirm that all potential adjustments, deductions, and credits have been discussed with the taxpayer and shown on the return, if applicable.

Progress to the next slide.

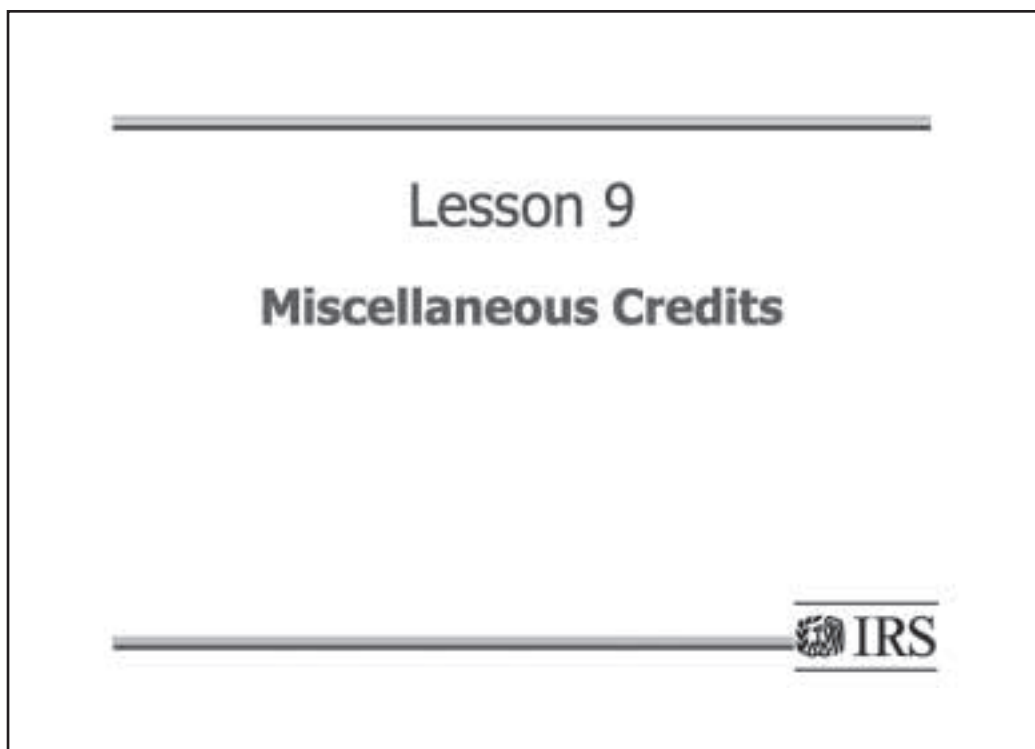
Lesson Summary

- A taxpayer cannot:
 - Deduct higher education expenses and also claim a Hope or lifetime learning credit based on the same expenses,
 - Claim a Hope Credit and a lifetime learning credit based on the same qualified education expenses, or
 - Claim a credit based on expenses paid with tax-free scholarship, grant, or employer-provided educational assistance.



- Review the “Summing Up This Lesson” section with the students.
- Ask if there are any questions.

Progress to the next lesson.



This lesson contains information for all courses and has been updated for Tax Year 2007.

■ **References:**

- Schedule R (1040) or Schedule 3 (1040A)—Credit for the Elderly or Disabled
- Form 8880, Credit for Qualified Retirement Savings
- Form 8396, Mortgage Interest Credit
- Form 1116, Foreign Tax Credit
- Publication 524, Credit for the Elderly or Disabled
- Form 5695, Residential Energy Credits
- Form 8910, Alternative Motor Vehicle Credit

■ **Teaching Tip:** Even though TaxWise® will flow information to these forms, make sure that you check all tax forms for accuracy.

■ Each of these credits has certain requirements that must be met in order for the taxpayer to claim them. Take the time to answer the taxpayers' questions so that they understand why they can or cannot claim the credit.

Progress to the next slide.

Objectives

- Determine eligibility for the Credit for the Elderly or the Disabled
- Calculate the Credit for the Elderly or the Disabled
- Calculate the Credit for Qualified Retirement Savings Contributions – Form 8880
- Calculate the Residential Energy Credits for nonbusiness energy property and residential energy-efficient property using Form 5695.
- Calculate the Alternative Motor Vehicle Credit using Form 8910.
- Accurately report the Foreign Tax Credit if Form 1116 is not required
- Be aware of the Mortgage Interest Credit



- Read objectives.
- Determine and calculate the correct amounts of these tax credits.
- Point out that although the Mortgage Interest Credit is outside of the scope of the volunteer program, it is important to be aware of this credit in case a taxpayer comes to your site for assistance.
- Remind volunteers to complete the supporting forms to 1040 and 1040A.

Note: This lesson contains basic and intermediate tax law course topics. The Credits for the Elderly or the Disabled and the Qualified Retirement Savings Contributions are included in the Basic course. The Residential Energy Credits, the Alternative Motor Vehicle Credit, the Mortgage Interest Credit, and the Foreign Tax Credit (if Form 1116 is not required) are covered in the Intermediate course. The International Segment of this lesson covers the Foreign Tax Credit in more detail.

Progress to the next slide.

Intake/Interview Process

Form 13614 – Intake and Interview Sheet – Credits Section

Part VII. Credits – In 2007 did you (or your spouse) have:

- | | | |
|------------------------------|-----------------------------|--|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 1. Child/dependent care expenses that allow you (and your spouse-if MFJ) to work |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 2. Educational expenses for you (or your spouse) and/or your dependents |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 3. Retirement Contribution to a traditional IRA, Roth IRA or 401k as shown on Form W-2 |



- Use **Form 13614, Intake and Interview Sheet**, to engage the taxpayer in preparing an accurate return.
- Use the Intake and Interview Sheet as a starting point for a comprehensive interaction with the taxpayer, in combination with all the source documents provided by the taxpayer, to ensure quality and accuracy on each return.
- Confirm each item on Form 13614 (or similar tool used at your site) to make sure you and the taxpayer have considered all the necessary information. Ensure that all questions and issues have been addressed. If items are incorrect or incomplete, revisit the issue and make corrections to the return, as needed.
- The Retirement Savings Contribution Credit is covered in this lesson. To ensure accurate reporting of the Saver's Credit, ask the taxpayer about contributions to a retirement plan or IRA. The amount of the credit is determined by the taxpayer's filing status, adjusted gross income, and qualified contributions. There are also age and other requirements.
- You will learn more about how a taxpayer may be eligible for the Saver's Credit later in this lesson.
- Other credits are also covered in this lesson. Although they are not specifically listed on Form 13614, you should ask probing questions to ensure the accurate reporting of all credits.

Progress to the next slide.

Credit – Elderly/Disabled Qualifications

- U.S. citizen or resident
- At least age 65 or retired on permanent and total disability
- AGI is less than:
 - Single, Head of Household, or Qualifying Widow(er) \$17,500
 - MFJ (both spouses qualified) \$25,000
 - MFJ (one spouse qualified) \$20,000
 - MFS (didn't live together) \$12,500



- Refer students to “Credit for the Elderly or the Disabled.”
- Review requirements to claim this credit. The taxpayer must meet all three requirements.
- Refer to the chart in the credits tab of Publication 4012, Volunteer Resource Guide to determine if a person qualifies for this credit and for the income limits for each filing status.
- This information can also be found in the Instructions to Schedule R, Form 1040 and Schedule 3, Form 1040A.
- Review Guided Questions:
 - 1. What two criteria determine whether a taxpayer is permanently and totally disabled?**
(A taxpayer is permanently and totally disabled if he or she cannot engage in any substantial gainful activity because of a physical or mental condition, and a physician certifies that the disability has lasted, or is expected to last, continuously for one year or more, or is expected to result in death.)
 - 2. How is disability income reported?** (Before the taxpayer reaches mandatory retirement age, disability income is reported as normal wages on Form W-2. After the taxpayer has reached retirement age, disability income is reported on Form 1099-R.)

Progress to the next slide.

Credit – Elderly/Disabled Computation

- Nontaxable Social Security or nontaxable pension(s) must be less than:
 - Single, Head of Household, or Qualifying Widow(er) \$5,000
 - MFJ (both spouses qualify) \$7,500
 - MFJ (one spouse qualifies) \$5,000
 - MFS (didn't live together) \$3,750
- Use Schedule 3 if filing Form 1040A; use Schedule R if filing Form 1040
- Substantial Gainful Activity



- Tell the students that the taxpayer must complete either Schedule R or Schedule 3 in order to receive the credit.
- Volunteers should make sure that they use the nontaxable portion of the taxpayer's Social Security.
- Explain that after completing the appropriate schedule, the volunteer should enter the number on Line 48 (Form 1040) or Line 30 (Form 1040A). If you are using TaxWise®, much of the information will flow to the schedule.
- Review Schedule R (Form 1040) and Schedule 3 (Form 1040A).
- Review the Example 1.
- Review Teaching Tip:
 - A substantial gainful activity consists of the performance of significant duties over a reasonable period of time for pay or for profit, or performance of such duties which generally are done for pay or profit. Full-time or part-time work done at the employer's convenience, in a competitive work situation for at least the minimum wage, shows that a taxpayer is able to engage in a substantial gainful activity. The fact that a taxpayer has not worked for an extended period of time is not conclusive evidence that the taxpayer cannot engage in substantial gainful activity.

Progress to the next slide.

Credit for Qualified Retirement Savings Contributions

- Contributions to a retirement plan or IRA may be eligible for a tax credit
- Non-refundable credit
- Maximum credit is \$1,000 (up to \$2,000 if MFJ)
- Limitations based on:
 - Filing status
 - Adjusted gross income
 - Qualified contributions



- Introduce the “Credit for Qualified Retirement Savings Contributions,” a non-refundable tax credit meant to encourage taxpayers to save.
- Point out the chart in Publication 4012.
- Discuss eligibility—
To be eligible for this saver’s credit, a taxpayer:
 - Must be age 18 or older by the end of the tax year,
 - Cannot be claimed on another person’s tax return, and
 - Cannot be a full-time student.
- Refer to Exhibit 6 (Form 8880) which has a table for the credit rate based upon Filing Status and AGI.
- The Credit for Qualified Retirement Savings Contributions is figured by multiplying the credit rate by the lesser of the:
 - Maximum allowable contribution (\$2,000), **or**
 - Eligible contributions.
- If the taxpayer is filing Married Filing Jointly, both the taxpayer and the spouse are eligible for a credit on the maximum annual contribution amount of \$2,000.

Progress to the next slide.

Credit for Qualified Retirement Savings Contributions

- Form 8880 is used to calculate the credit
- Chart for the applicable percentage is part of the form
- If the taxpayer has received any distributions from a retirement plan, you may need to complete line 4 on Form 8880



- Remind students that TaxWise® will do all the calculations and transfer the information to Form 8880. If you are filing a paper return, make sure all information is placed on Form 8880.
- Advise students to carefully look at the taxpayer's Form(s) W-2. An entry in box 12 or an "X" in the retirement box is an indicator the taxpayer is eligible for the retirement savings contribution credit. Advise students to research Publication 17 for more information.
- Caution the taxpayer that if a distribution is received during this period, the taxpayer may be ineligible for the credit.
- The **testing period** includes:
 - The tax year,
 - The two preceding tax years, and
 - The period between the end of the tax year and the due date of the return (including extensions).
- Review Examples 2 and 3.
- Complete Exercises 1 and 2. Then review.

Progress to Lesson 9 Summary Slide to complete the basic course; otherwise progress to the next slide.

Residential Energy Credits

- Nonbusiness Energy Property Credit
- Residential Energy Efficient Property Credit
- Form 5695



- Energy Credits are the Nonbusiness Energy Property Credit and the Residential Energy Efficient Property Credit. Taxpayers who made energy savings improvements in 2007 to their home may qualify.
- Manufacturers offering energy-efficient items can assure their customers that their energy-efficient items will qualify for the tax credit by providing the customer with a certification statement. The certification statement may be provided by including a written copy of the statement with the packaging of the item, in printable form on the manufacturer's web site, or in any other manner that will permit the taxpayer to retain the certification statement for tax recordkeeping purposes.
- Form 5695, Residential Energy Credits, is used to claim the credit.
- Review qualifications.
- **Note:** Installation costs for insulation, storm windows, and storm doors is not included in the amount eligible for the credit. (See Form 5695 Instructions.)
- Review Example 4.

Progress to the next slide.

Alternative Motor Vehicle Credit

- Requirements – Alternative Motor Vehicle
- Form 8910



- Taxpayers may be able to claim a credit for an alternative motor vehicle placed in service for business or personal use after 2005. An alternative motor vehicle must meet certain requirements and be new.
- Generally, for a passenger car or light duty truck that is either a qualified hybrid vehicle or an advanced lean burn technology vehicle, taxpayers can rely on the manufacturer's (or, in the case of a foreign manufacturer, its domestic distributor's) certification that a specific make, model, and model year vehicle qualifies for the credit, and the maximum amount of the credit for which it qualifies.
- If the taxpayer purchased a qualified vehicle from a manufacturer that previously sold at least 60,000 qualified vehicles, the phaseout percentage may be reduced below 100 percent. The manufacturer should give the taxpayer the information needed to figure the phaseout percentage.
- If a taxpayer cannot use part of the personal portion of the credit because of the tax liability limit, the unused credit is lost. The unused personal portion of the credit cannot be carried back or forward to other tax years.
- Form 8910, Alternative Motor Vehicle Credit, is used to claim the credit.
- Review qualifications.
- Review Example 5.

Progress to the next slide.

Mortgage Interest Credit

- Hold a qualified Mortgage Interest Credit Certificate on main home
- Must reduce mortgage interest deduction on Schedule A (if itemizing)
- Use Form 8396 to figure credit on mortgage interest paid
- May carry forward unused credit for up to three years



- Read Mortgage Interest Credit.
- **This credit does not fall within the scope of VITA/TCE.** It is introduced here only as an awareness topic.
- Tell students that taxpayers who hold Mortgage Interest Credit Certificates under a qualified state or local government program may claim a credit for mortgage interest paid. The certificate must be for the taxpayer's main home. If the interest is paid to certain related parties (such as relatives), the credit cannot be claimed. If this credit is used, then the mortgage interest deduction on Schedule A must be reduced. The credit is figured on Form 8396, *Mortgage Interest Credit*. Advise the taxpayer to seek the assistance of a tax professional.

Progress to the next slide.

Foreign Tax Credit

- Created to avoid double taxation.
- If the taxpayer paid income, war profits, excess profit taxes to any:
 - Foreign country, U.S. possession, political subdivision, or agency of the country or possession.
- May need to consult tax preparer to determine if the tax paid is eligible for the foreign tax credit.



- U.S. taxpayers are taxed on their worldwide income. This tax credit can be used to avoid double taxation if all the requirements are met.
- Discuss types of taxes that may qualify for a foreign tax credit.
- Restricted countries—A taxpayer cannot claim the foreign tax credit paid to certain restricted countries.
- **Caution** This credit can be quite complicated. On domestic returns, students are not to complete Form 1116, but only handle amounts that can be entered directly on line 51 (up to \$300, or \$600 for MFJ). Be aware that you must go to line 51, Form 1040; link to Form 1116; click Simplified Limitation Election; and enter the amount.
- Make students aware that when using TaxWise® to link to Form 1116, TaxWise® will carry the amount to Form 1040 and will generate Form 1116 only if it is required.

Progress to the next slide.

Foreign Tax Credit – cont'd

- If all of the following requirements are met, Form 1116 is **not** required:
 - Foreign-source income is from interest and dividends only
 - The total of the foreign taxes does not exceed \$300 (\$600 for MFJ)
 - All of the foreign taxes were legally owed and paid to countries recognized by the U.S. as eligible for the credit



- Generally, to claim the Foreign Tax Credit, a taxpayer is required to file Form 1116 unless all of the above exceptions are met.
- **Note:** If dividend income—shares must have been held for at least 16 days.
- Point out that if the taxpayer meets all of the requirements (refer to slide) and does not file Form 4563, Exclusion for Bona Fide Residents of American Samoa, or excludes income from sources within Puerto Rico, the taxpayer can enter the credit directly on Form 1040 by linking from line 51 to create the entry on Form 1116.
- Review Example 6.
- Complete Exercise 3.

Progress to the next slide.

Quality Review (QR)

Form 8158 – Quality Review Sheet Adjustments, Deductions and Credits Section

Yes	No	
<input type="checkbox"/>	<input type="checkbox"/>	All adjustments, deductions and credits indicated on the intake/interview sheet and supporting documents are included on the return.



- Use **Form 8158, Quality Review Sheet**, or **the site's approved alternative form** to review all returns prepared.
- Apply the quality review tools in combination with the Intake and Interview Sheet and all the source documents, to the returns you prepare to ensure quality and accuracy for each taxpayer.
- Consider each box on the Quality Review Sheet which applies to the taxpayer's situation to ensure that all necessary questions and issues have been addressed. If items are incorrect or incomplete, revisit each issue and make corrections to the return, as needed.
- To accurately report adjustments, deductions, and credits, verify that the information on the Intake and Interview Sheet and on the taxpayer's supporting documents is included on the return.
- Confirm that all potential adjustments, deductions, and credits have been discussed with the taxpayer and shown on the return, if applicable.

Progress to the next lesson.

Lesson Summary

- Credit for the Elderly or the Disabled
- Credit for Qualified Retirement Savings Contributions
- Residential Energy Credits
- Alternative Motor Vehicle Credit
- Foreign Tax Credit
- Mortgage Interest Credit



- Review the miscellaneous credits covered in the lesson.
- This lesson contains basic and intermediate tax law course topics.
- Basic—The Credits for the Elderly or the Disabled and the Qualified Retirement Savings Contributions are included in the Basic course.
- Intermediate—The Residential Energy Credits, the Alternative Motor Vehicle Credit, the Foreign Tax Credit (if Form 1116 not required), and the Mortgage Interest Credit are covered in the Intermediate course.

Progress to Lesson 14 to complete the Basic course; the next slide for the International Segment of Lesson 9; all others proceed to Lesson 10.

Lesson 9

International Segment Foreign Tax Credit



This lesson contains information for the International Course and has been updated for Tax Year 2007.

■ **References:**

- Form 1116, Foreign Tax Credit
- Publication 514, Foreign Tax Credit for Individuals

Progress to the next slide.

Objectives

- Determine which taxes are eligible for the Foreign Tax Credit
- Apply the criteria for claiming the Foreign Tax Credit
- Accurately compute the Foreign Tax Credit using Form 1116 or tax preparation software
- Assist the taxpayer in compiling the documents necessary for a tax professional to complete the return



- Read the objectives.

Progress to the next slide.

Intake/Interview Process

Form 13614 – Intake and Interview Sheet Credits Section

Part VII. Credits – In 2007 did you (or your spouse) have:

- | | | |
|------------------------------|-----------------------------|--|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 1. Child/dependent care expenses that allow you (and your spouse-if MFJ) to work |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 2. Educational expenses for you (or your spouse) and/or your dependents |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 3. Retirement Contribution to a traditional IRA, Roth IRA or 401k as shown on Form W-2 |



- Use Form 13614, Intake and Interview Sheet, to engage the taxpayer in preparing an accurate return.
- Use the Intake and Interview Sheet as a starting point for a comprehensive interaction with the taxpayer, in combination with all the source documents provided by the taxpayer, to ensure quality and accuracy on each return.
- Confirm each item on Form 13614 (or an approved alternative form) to make sure you and the taxpayer have considered all the necessary information. Ensure that all questions and issues have been addressed. If items are incorrect or incomplete, revisit the issue and make corrections to the return, as needed.
- The Foreign Tax Credit is covered in this lesson. Although it is not specifically listed on Form 13614, you should ask probing questions to ensure the accurate reporting of all credits.
- You will learn more about what taxes qualify for the Foreign Tax Credit later in this lesson.

Progress to the next slide.

What Taxes Qualify

- **Foreign Source Income – Taxed by Foreign Country**
- **The following are the basic requirements:**
 - Tax imposed must be similar to income tax imposed in the U.S.
 - Taxpayer must not receive any kind of specific economic benefit from the payment of the tax
 - Tax must be imposed by "eligible foreign country"



- Review Examples.
- Complete the Exercises.
- Review the list of ineligible countries.

Progress to the next slide.

Types of Income

- Passive Category Income
- General Category Income



- A separate Form 1116 must be completed for each different type of income. This lesson will cover only two of the income categories—Passive Category Income and General Category Income.
- Discuss the two income categories.
- Review Examples.

Progress to the next slide.

Form 1116

- Part I – Used to report the taxable income or loss from sources outside the United States
- Part II – Used to report foreign taxes paid or accrued
- Part III – Used to compute the amount of the Foreign Tax Credit



- Part I is used to figure the taxable income from foreign sources in each income category.
- Review Examples.
- Part II is used to report the amount of foreign taxes paid or accrued.
- Review Examples.
- Foreign Exchange Rate—Complete the Exercise.
- Part III is used to compute the amount of the Foreign Tax Credit.
- Review Examples.

Progress to the next slide.

Quality Review (QR)

Form 8158 – Quality Review Sheet Adjustments, Deductions and Credits Section

Yes	No	
<input type="checkbox"/>	<input type="checkbox"/>	All adjustments, deductions and credits indicated on the intake/interview sheet and supporting documents are included on the return.



- Use Form 8158, Quality Review Sheet, or an approved alternative form to review all returns prepared.
- Apply the quality review tools in combination with the Intake and Interview Sheet and all the source documents to the returns you prepare to ensure quality and accuracy for each taxpayer.
- Consider each item on the Quality Review Sheet which applies to the taxpayer's situation to ensure that all necessary questions and issues have been addressed. If items are incorrect or incomplete, revisit each issue and make corrections to the return, as needed.
- To accurately report adjustments, deductions, and credits, verify that the information on the Intake and Interview Sheet and on the taxpayer's supporting documents is included on the return.
- Confirm that all potential adjustments, deductions, and credits have been discussed with the taxpayer and shown on the return, if applicable.

Progress to the next lesson.

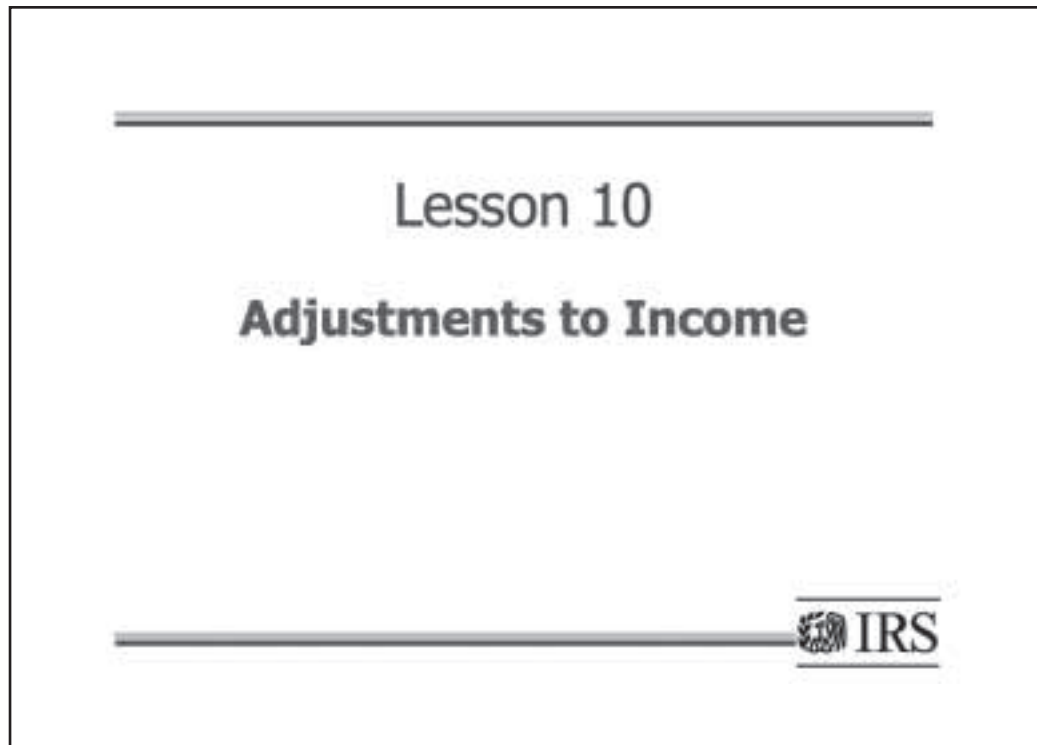
International Summary

- **To be eligible for the Foreign Tax Credit, foreign taxes must be:**
 - Based on foreign sourced income
 - Similar to U.S. income tax
 - Free of any specific economic benefit
 - Paid to an “eligible foreign country”
- **The Foreign Tax Credit is computed using Form 1116**



- Review the Summary Slide.

Progress to the next slide.



This lesson contains information for all courses (except the basic course) and has been updated for Tax Year 2007.

■ **References:**

- Form 8606, Nondeductible IRAs
- Traditional IRA Deduction Worksheet
- Student Loan Interest Deduction Worksheet

■ **Additional References:**

- Publication 3, Armed Forces' Tax Guide (Military Module)
- Publication 529, Miscellaneous Deductions
- Publication 590, Individual Retirement Accounts
- Publication 970, Tax Benefits for Education

Progress to the next slide.

Objectives

- Identify which adjustments are within the scope of VITA/TCE
- Calculate adjustments to income
 - Educator expenses
 - Student Loan Interest Deduction
 - Tuition and Fees deductions
- Identify contribution limits for IRA



- Read and discuss objectives.
- Explain the relationship between **adjustments** and **adjusted gross income** (AGI).
- **Note:** New volunteers should understand that many of the worksheets, Form 1040 schedules, and associated forms use **AGI as opposed to gross income** in various calculations.

Progress to the next slide.

Intake and Interview Sheet

Part V. Adjustments – In 2007 did you (or your spouse) make:

- | | | |
|------------------------------|-----------------------------|--|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 1. Contributions to IRA, 401k or other retirement account |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 2. Alimony payments (if yes, you must provide the name and SSN of the recipient) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 3. Education related expenses |
-



- Working with the taxpayer, discuss the adjustments which the taxpayer may have. Remember: **Don't assume.**
- Complete the information for Form 13614, Intake and Interview Sheet.

Progress to the next slide.

Adjustments to Income

- Educator expenses
- Contributions to traditional IRAs
- Student Loan Interest deduction
- One-half of the Self-Employment Tax paid
- Tuition and Fees deductions



- Emphasize to students that these are the adjustments within the scope of the volunteer program. This lesson will explain the seven adjustments to income covered in the VITA/TCE program.
- Explain that there are other deductions outside of the scope of VITA/TCE, such as:
 - Health savings account deduction
 - Moving expenses deduction (**Note:** special section for military personnel at the end of this lesson)
 - Self-employment health insurance deduction
 - SEP, SIMPLE, and qualified plan deductions
 - Domestic production activities deduction
- Remember, the above deductions are outside of the scope of the program and the taxpayer should be referred to a paid tax preparer.

Progress to the next slide.

Adjustments to Income – cont'd

- Alimony paid
- Jury duty pay given to your employer
- Penalty for early withdrawal of savings
- Overnight travel expenses of National Guard and Reserve members (covered in Lesson 4 – Military Travel Expenses)



- Guided Question:
Ask students to explain the relationship between adjustments and adjusted gross income. (Total income minus adjustments results in adjusted gross income.)
- **Note:** The Military Family Tax Relief Act of 2003 provided for an above-the-line deduction for unreimbursed transportation, meals, and lodging expenses of National Guard and Reserve members. Individuals who must travel more than 100 miles away from home (and stay overnight) to attend Reserve meetings may take an adjustment if they do not itemize.

Taxpayers should use Form 2106 or Form 2106-EZ to figure the deduction and report it on Form 1040, line 24.
- This adjustment is covered in Lesson 4—Military Travel Expenses.
- TaxWise® Tips: Remind students that many of these adjustments are automatically posted if they are tied to income or reporting documents that TaxWise® requires in an earlier part of the return.
- Explain that the worksheets will automatically be completed as amounts are entered on the appropriate line.

Progress to the next slide.

Educator Expenses

- Deduction for Expenses
- Eligible Educator
- Qualified Expenses



- Limit is \$250 per educator. If both spouses are educators they can deduct \$500.
- Taxpayers do not have to itemize to take this deduction.
- Educators must work for a school as defined by state law to be eligible.
- Expenses are for unreimbursed items.
- Expenses are limited by other factors.

Progress to the next slide.

Individual Retirement Accounts

- Contributions to traditional IRAs may result in an adjustment
- Contributions to nontraditional IRAs do not create an adjustment to income and are not covered in this lesson.

Examples include:

- Roth IRAs
- SIMPLE IRAs
- Coverdell ESAs



- Explain what an IRA is and why some are deductible and others are not.
- Explain why some are beyond the scope of VITA/TCE and which ones they are.
- Explain the type of income that is considered as compensation for purposes of determining a contribution to a traditional IRA.

Progress to the next slide.

Contribution Limits for IRAs

- Maximum contribution for 2007 is \$4,000, if the taxpayer is under age 50
- Maximum contribution for 2007 is \$5,000, if the taxpayer is age 50 or over
- Spousal IRAs have the same contribution limits



- Discuss contribution limits and how they are determined.
- Explain Deemed IRAs and their impact on qualifying the IRA for use as an adjustment.
- Have students review Examples 2, 3, 4, 5, and 6.

Progress to the next slide.

Deductible Contributions

- Some of the contributed amount may not be deductible depending on:
 - Coverage by an employer plan (taxpayer or spouse)
 - Modified adjusted gross income
 - Filing status
- Excess contributions are taxed at 6% unless withdrawn by April 15.



- Explain the effect (and penalty) of excess contributions.
- Review Example 7 and have the students complete Exercise 1. Then review their answers.
- Introduce the concept of modified adjusted gross income and explain that this is one of its uses.
- Review Example 8.
- Review “Covered by an Employer Retirement Plan.”
- Review Example 9.
- Review Table 1 and Table 2 in the Publication 4012 Adjustment Tab.
- Review Examples 10 and 11.
- Have the class complete Exercise 2.
- Review Example 12.
- Review Exhibit 1.

Progress to the next slide.

Nondeductible IRA Contributions

- If the taxpayer is covered by an employer's pension plan (as indicated on Form W-2), part of the IRA contribution may **not** be tax deductible
- Use Form 8606 to compute and track the nondeductible portion of the IRA
- Contributions to a Roth IRA are never deductible



- Explain that the purpose of Form 8606 is to report nondeductible contributions so that they will be treated as nondeductible contributions when they are withdrawn, avoiding inappropriate taxation of them. Otherwise, the taxpayer will have to provide evidence that their contributions are nondeductible when they are withdrawn.
- Emphasize that taxpayers should keep Form 8606 for each tax year because this information will become necessary later.
- Review “Additional Taxes and Penalties” before doing the exercises.
- Discuss “Credit for Qualified Retirement Savings Contribution” briefly and remind students that this is *used in addition* to the adjustment.
- Review Example 13.
- Review Exhibits 2 and 3.
- Review Exercise 3.
- **Teaching Tip:** Have an overhead projection of the blank worksheet and have the students complete one.

Progress to the next slide.

IRA Review Questions



■ Guided Questions:

- 1. What is a traditional IRA?** (A traditional IRA is any IRA that is not a Roth IRA, a SIMPLE IRA, or an Education IRA. An IRA is an individual retirement arrangement, a tax-sheltered savings plan set up by the taxpayer.)
- 2. When are earnings on traditional IRA contributions taxed?** (Earnings are taxed when they are withdrawn from the traditional IRA.)
- 3. Who is eligible to contribute to a traditional IRA?** (Anyone who is under 70½ years old by the end of the year and who has taxable compensation can contribute to a traditional IRA.)
- 4. For traditional IRA purposes, what constitutes taxable *compensation*?** (Compensation consists of wages, salaries, commissions, tips, bonuses, professional fees, earnings from self-employment, and alimony or separate maintenance payments that are included in total income.)
- 5. In any one year, what is the maximum contribution a taxpayer can make to all of his or her individual traditional IRAs?** (Usually, the taxpayer's traditional IRA contribution cannot exceed the lesser of either the taxpayer's total taxable compensation or \$4,000 (\$5,000 if the taxpayer is age 50 or older.)

Progress to the next slide.

IRA Review Questions – cont'd



■ Guided Questions continued:

6. **Identify at least two factors that determine whether or not traditional IRA contributions can be deducted from taxable income.** (The taxpayer's modified AGI, filing status, and whether the taxpayer is covered by a retirement plan at work for any part of the year.)
7. **When would a taxpayer complete Form 8606?** (Each year that nondeductible contributions are made.)
8. **When are earnings and gains taxed on nondeductible contributions?** (Earnings and gains are taxed when they are distributed.)
9. **How is an employee's traditional IRA deduction affected if the employee is not covered by a retirement plan at work?** (The taxpayer's deduction is not limited by his or her modified AGI.)
10. **How is an employee's traditional IRA deduction affected if the employee is covered by a retirement plan provided by his or her employer?** (The deduction may be reduced or eliminated depending on the employee's modified adjusted gross income and filing status.)

Progress to the next slide.

Student Loan Interest

- The maximum deduction for 2007 is \$2,500
- If a taxpayer paid \$600 or more, he or she should receive a statement from the lender
- AGI limits apply



- Have students review “Student Loan Interest” and who can claim the deduction.
- Discuss qualified higher education expenses, eligible education institutions, eligible students, and deduction limits.
- Remind students that a taxpayer cannot deduct as interest on a student loan any amount he or she can deduct under any other provision of the tax law.
- Guided Questions:
 1. **Define interest as it pertains to the student loan interest deduction.** (Interest, loan origination fees, capitalized interest, interest on revolving lines of credit, interest on refinanced student loans.)
 2. **Can a taxpayer filing married filing separately take this deduction?** (No.)
 3. **Are there income limitations to this deduction?** (Yes. If the modified AGI is \$70,000 or more for single, head of household, or qualifying widow filers; or \$140,000 or more for married filing jointly filers, this deduction cannot be claimed.)
- Review Example 14.

Progress to the next slide.

Tuition and Fees

- Qualified Expenses
- Eligible Student
- Eligible Educational Institution
- New Form – 8917



- List qualified expenses.
- Discuss nonqualified expenses.
- Indicate who can claim the adjustment.
- Explain which filers cannot claim the adjustment.
- Review what constitutes an eligible institution.
- Review factors that can reduce the adjustment.
- Use new Form 8917 to calculate the adjustment instead of the worksheet.
- Review Example 15.

Progress to the next slide.

Other Adjustments

- One-half Self-Employment Tax
- Penalty for early withdrawal from savings
- Alimony paid
- Jury Duty Pay given to an employer



- Explain that one-half of self-employment tax is calculated from Schedule SE after completing Schedule C-EZ but is taught in Lesson 3.
- Show students that when taxpayers return Jury Duty Pay to their employers, after reporting the Jury Duty Pay as income, they may take the amount returned to the employers as an adjustment to income. On the dotted line next to line 36, write "Jury Pay" and the amount. Add this amount to the adjustments claimed on lines 23 through 35. This adjustment can only be claimed on Form 1040.
- Emphasize to students the importance of entering the social security number of the person who received the alimony or separate maintenance payments on Form 1040, line 31a. Explain that they should inform the taxpayer that failure to do so could result in disallowance of the adjustment and a penalty.
- **Important Note:**
 - Emphasize that child support is not the same as alimony. Child support is not taxable to the recipient and cannot be claimed as a deduction by the payer.

Progress to the next slide.

Other Adjustments – cont'd

Targeted Questions



- Review Guided Questions on penalty for early withdrawal from savings:
 1. **Under what circumstances do depositors suffer penalties for withdrawing funds from a savings account?** (When funds are withdrawn from a time deposit before the maturity date.)
 2. **Can the early withdrawal penalty be reported as an adjustment to income on Form 1040EZ or Form 1040A?** (No. The early withdrawal penalty can only be reported as an adjustment to income on Form 1040.)
 3. **Is the amount of an early withdrawal penalty that can be reported on Form 1040 as an adjustment to income limited by either the amount of interest earned from a time deposit or a taxpayer's adjusted gross income?** (No. The full amount of an early withdrawal penalty can be reported even if the penalty is more than the interest earned.)

Progress to the next slide.

Quality Review

Form 8158 (EN/SP) (Rev. July 2007)	Department of the Treasury – Internal Revenue Service Quality Review Sheet	
--	--	--

Yes <input type="checkbox"/>	No <input type="checkbox"/>	All adjustments, deductions and credits indicated on the intake/interview sheet and supporting documents are included on the return.
--	---------------------------------------	---



- Whether using a designated reviewer, asking a fellow volunteer to review, or completing a self-review, make sure to use Form 8158, Quality Review Sheet, available at your site.

Progress to the next slide.

Lesson Summary

- Income adjustments covered in this lesson
- How do they affect Adjusted Gross Income?
- Where are they claimed?



■ Review adjustments

- Within the scope of VITA/TCE:
 - Educator expense (report on Form 1040, line 23)
 - One-half self-employment tax (report on Form 1040, line 27—see Lesson 3)
 - Penalty for early withdrawal of savings (report on Form 1040, line 30)
 - Alimony paid (report on Form 1040, line 31a, along with recipient's social security number on line 31b)
 - Contributions to a traditional IRA within the scope of VITA/TCE (report on Form 1040, line 32, or on Form 1040A, line 17)
 - Student loan interest deduction (report on Form 1040, line 33, or on Form 1040A, line 18)
 - Tuition and fees (report on Form 1040, line 34)
 - Jury Duty Pay given to an employer (report on Form 1040, line 36, and write "Jury Pay" on dotted line)
- Outside the scope of VITA/TCE:
 - Self-employed SEP, SIMPLE, and qualified plan
 - Self-employed health insurance
 - Moving expenses (covered later in a separate lesson for military personnel)

Progress to the next slide.

TaxWise® Hints Review

- Worksheets are completed as data is entered on Form 1040 or Form 1040A.
- Take advantage of F-9 linking directly from lines on Form 1040 or Form 1040A



- **TaxWise® Tips Review:** TaxWise® will quickly complete any worksheets needed to determine the adjustments.
 1. There is one worksheet for the student loan interest deduction. You can link to this form from Form 1040, Line 33.
 2. For IRAs, you can link to the deductible and nondeductible worksheet from line 32, and it will complete Form 8606 for you.
 3. One-half the self-employment tax will automatically be entered after completing Schedule C-EZ.
 4. The penalty for early withdrawal will automatically be carried over from the Interest Received worksheet, which can be linked through Schedule B.
 5. Jury Duty Pay is reported on Form 1040, line 36.
 6. For alimony, TaxWise® requires an SSN to file the return electronically.

Progress to next lesson, or continue for military module.

Military Course

Moving Expenses



■ **References:**

- Form 3903
- Publication 3, Armed Forces' Tax Guide
- Publication 521, Moving Expenses (includes Armed Forces)
- Publication 552, Recordkeeping for Individuals

Progress to the next slide.

Military Objectives

- Identify qualifying moves by assisting in determining if the move qualifies as a permanent change of station (PCS).
- Determine when allowances and reimbursements must be included in income.
- Identify deductible moving expenses.
- Compute the moving expense deduction using Form 3903.



- Inform students that Form 1040 must be used to claim the moving expense deduction.

Progress to the next slide.

Permanent Change of Station

- Home to Post of Duty
- Post of Duty to Post of Duty
- Post of Duty to home or nearer point in U.S. within one year
- Spouse and Dependent rule



- Emphasize that only a permanent change of station is allowed.
- Review the three types of moves that are considered a permanent change of station.
- Discuss the special rule for Spouse and Dependents when the other spouse died or was imprisoned.
- Review Exercise 1.

Progress to the next slide.

Reimbursements and Allowances

- Any payments received for a do-it-yourself (DITY) permanent change of station (PCS) move must be included in gross income.
- Certain moving and storage services and allowances are not included in gross income.



- Review payments which need to be reported and the five types which do not.
- The service member should not include any of the following in his or her gross income:
 - Moving or storage services furnished to the member.
 - Nontaxable allowances, such as:
 - Dislocation allowance
 - Temporary lodging allowance
 - Mileage allowance in lieu of transportation
 - Per diem allowance
- Review Exercise 2.

Progress to the next slide.

Deductible Moving Expenses

- Cost of moving household goods and personal effects
- The cost of reasonable travel and lodging expense
- Definition of a foreign move
- How to report Deductible Expenses



- Expenses must be reasonable; no side trips or plush accommodations.
- Define:
 - Moving household goods and personal effects
 - Reasonable travel and lodging
 - Foreign moves to or from the U.S., or between foreign countries.
- Review Exercise 3.
- Explain the differences (options) in reporting the deduction on Form 3903 for service members who were not reimbursed and those who were reimbursed.
- Review the example.
- Review Exercise 4.

Progress to the next slide.

Lesson Summary

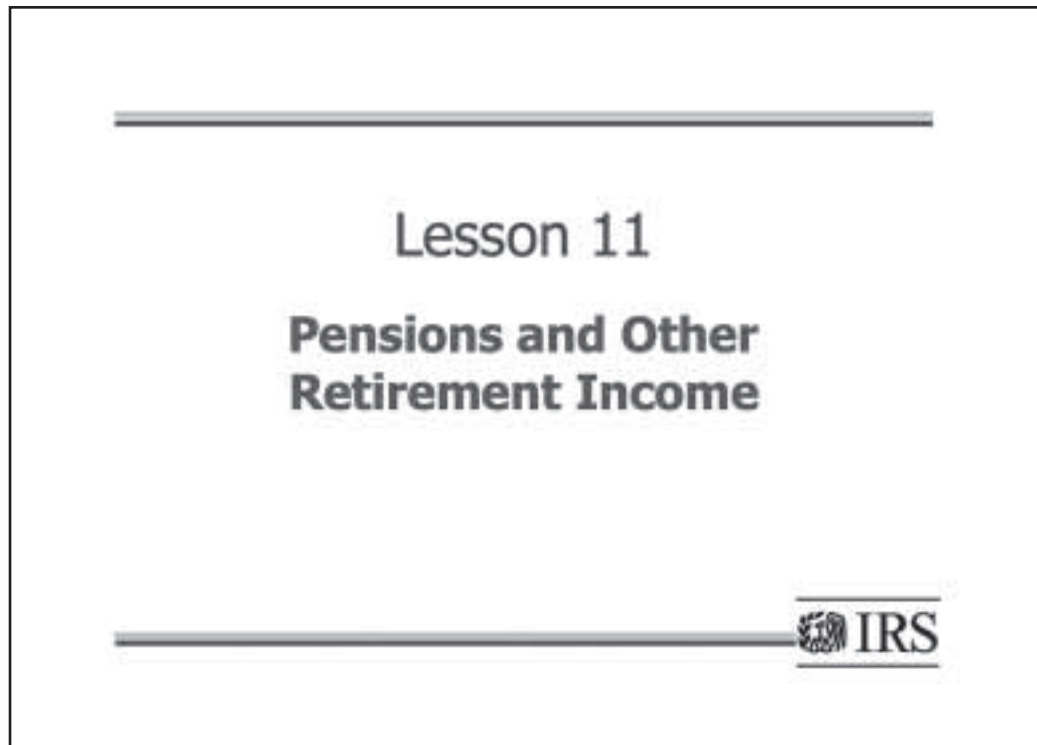
- Qualifications for Moving Expense Deduction
- Deductible Moving Expenses
- Form 3903 – Used to compute Moving Expense Deduction



- Explain that moving expenses are deductible on Form 1040, line 26.

Progress to the next lesson.

FACILITATOR NOTES



This lesson contains information for all courses (except the Basic Course) and has been updated for Tax Year 2007.

■ **References:**

- Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit
- Form SSA-1099, Social Security Benefit Statement
- Form RRB-1099, Payments by the Railroad Retirement Board
- Form RRB-1099-R, Annuities or Pensions by the Railroad Retirement Board
- Simplified Method Worksheet
- Social Security Benefits Worksheet
- Publication 554, Older Americans' Tax Guide
- Publication 575, Pensions and Annuities
- Publication 721, Tax Guide to U.S. Civil Service Retirement Benefits
- Publication 915, Social Security and Equivalent Railroad Retirement Benefits
- Publication 939, General Rule for Pensions and Annuities

Progress to the next slide.

Objectives

- Determine the taxable portion of different types of retirement income
- Determine how to report different types of retirement income on the tax return
- Explain when a minimum distribution is required
- Determine when an adjustment to withholding should be made



- Review the lesson objectives with the class.
- Remind students how important it is to avoid overly complicated returns. This lesson will not cover all of the possible retirement income scenarios. If a volunteer does not feel qualified to deal with a particular retirement income situation, the volunteer should suggest that the taxpayer see a paid tax preparer.
- Optional class activity—Effective interviewing is essential to the completion of an accurate return. If you have the time, ask students to suggest questions that they might need to ask about retirement income. Record their answers on a flipchart.

Progress to the next slide.

Intake/Interview Process

Form 13614 – Intake and Interview Sheet Income Section

Part IV. Income – In 2007, did you (or your spouse) receive:

- | | | |
|------------------------------|-----------------------------|--|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 1. Wages or Salary (include W-2s for all jobs worked during the year) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 2. Disability income |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 3. Interest/Dividends from: checking or savings account, bonds, CDs, or brokerage account |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 4. State tax refund (may be taxable if you itemized last year) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 5. Alimony income |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 6. Tip income |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 7. Pension and/or IRA distribution |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 8. Unemployment (1099-G) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 9. Social Security or Railroad Retirement Benefits (1099-SSA or RRB) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 10. Self Employment Income - business, farm, hobby (1099-Misc or any earned income not reported on W-2) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 11. Other Income such as gambling winnings, awards, prizes and Jury Duty pay, etc. |



- Use Form 13614, Intake and Interview Sheet, to engage the taxpayer in preparing an accurate return.
- Use the Intake and Interview Sheet as a starting point for a comprehensive interaction with the taxpayer, in combination with all the source documents provided by the taxpayer, to ensure quality and accuracy on each return.
- Confirm each item on Form 13614 (or similar tool used at your site) to make sure you and the taxpayer have considered all the necessary information. Ensure that all questions and issues have been addressed. If items are incorrect or incomplete, revisit each issue and make corrections to the return and Form 13614, as needed.
- Pensions and IRA distributions are covered in this lesson. To accurately report this type of income, ask the taxpayer about income or distributions from pensions, annuities, retirement or profit-sharing plans, IRAs, insurance contracts, etc. This income may be fully or partially taxable. Form 1099-R is the most common form used to report this income. Confirm that all income received by the taxpayer has been discussed and shown on the return, if required.
- You will learn more about pensions and IRA distributions later in this lesson.
- Social Security and Railroad Retirement income are also covered in this lesson. To accurately report this type of income, ask the taxpayer about the receipt of either of these benefits. The Social Security Administration issues Form SSA-1099 to social security benefit recipients. The Railroad Retirement Board uses Form RRB-1099 or Form RRB-1099-R to report benefit payments. Confirm that all income received by the taxpayer has been discussed and shown on the return, if required.
- You will learn more about Social Security and Railroad Retirement benefits later in this lesson.

Progress to the next slide.

Pensions and Annuities

- Pension
- Annuity
- Qualified Employee Plan
- 401(k) Plan



- Define the various types of pensions and annuities.
- Inform students that the most common form used to report pension and annuity income is Form 1099-R. Have students review a Form 1099-R.

Progress to the next slide.

Taxable Portion of Retirement Income

- Fully Taxable
 - No basis (employee contribution) in the plan
 - All distributions are included in taxable income
- Partially Taxable
 - Basis or cost in the plan
 - Only the taxable portion of the distribution is included in taxable income



- Remind students that pensions are either fully or partially taxable. The taxability of a pension depends on whether an employee made “after-tax” contributions to the plan. If a taxpayer contributed to a pension plan, part of the benefit received is a return of income that was taxed in earlier years, thus it is not taxable. If a taxpayer did not contribute to the pension plan, the benefits received are fully taxable. Military pensions are noncontributory and are usually fully taxable.

Note: There is an exception for contributions to a Thrift Savings Plan while in a combat zone.

- Review Example 1.
- Complete Exercise 1 with the class.
- If presenting the Advanced Course, progress to the next slide. Otherwise, skip the next slide and progress to the slide titled “Reporting the Income.”

Progress to the next slide.

Determining Taxable Retirement Income

- The General Rule
- The Simplified Method
 - Based on total basis or cost in the plan and total anticipated monthly payments
 - Use Simplified Method Worksheet
 - Tax-free portion of each payment does not change, once computed



- Explain that the payer may or may not compute the taxable portion of the benefits.
- Explain that there are two methods of determining the taxable portion of a pension or annuity. The annuity starting date determines which method to use. The General Rule is used for nonqualified plans and the Simplified Method is used for annuity starting dates after November 18, 1996.
- Remind students that the Simplified Method Worksheet does not have to be completed unless the tax-free portion of the retirement benefit is not known.
- Review a Simplified Method Worksheet.
- Review Example 2.
- Have students complete Exercise 2 and then discuss.

Progress to the next slide.

Reporting the Income

<i>Income Type</i>	<i>1040 Line #</i>	<i>1040A Line #</i>
IRA	15	11
Pension	16	12
Annuity	16	12
Social Security	20	14
Railroad Tier 1	20	14
Railroad Tier 2	16	12



- Review Form 1040 and Form 1040A while pointing out line items for reporting each type of retirement income.
- A fully taxable pension is reported on Form 1040, line 16b, or Form 1040A, line 12b.
- If teaching the Advanced Course, advance to the next slide. Otherwise, skip the next 3 slides and progress to the slide titled “Social Security Benefits and Railroad Retirement SSEB.”

Progress to the next slide.

Disability Pension

- Treat as **wages** until the taxpayer reaches minimum retirement age (report on Form 1040, line 7)
- Treat as **pension** income once minimum retirement age is reached (report on Form 1040, line 16)



- Explain that if a taxpayer retires on disability, taxable disability payments are reported as wages until the minimum retirement age is reached.
- Review Example 3 with the students.
- Show students the proper line numbers on Form 1040 and Form 1040A to report disability pension payments.

Progress to the next slide.

Minimum Distributions

- Distributions must begin by the **required beginning date**
- Must receive entire interest in the plan **or the minimum required distribution**
- Excise tax (50%) imposed on amount not distributed as required



- Explain the required beginning date for minimum distributions.
- Ask the students to define minimum required distribution.
- Remind students that Form 5329 has to be filed if the taxpayer did not receive a required minimum distribution.
- Optional Guided Question:
 - **By what date, and at what age, is a taxpayer required to receive minimum distributions?**
(For traditional IRAs, taxpayers must receive minimum distributions by April 1 of the year following the calendar year in which they turn 70½ years old. Generally, for all other retirement plans discussed in this lesson, a taxpayer who is still working at age 70½ can postpone receiving distributions until April 1 of the year after the year he or she retires.)

Progress to the next slide.

Railroad Retirement

Benefits paid under two categories:

- **Social Security Equivalent Benefits (SSEB)**
 - Reported on **Form RRB-1099**
 - Treat as **social security** benefits
- **Non-Social Security Equivalent Benefits (NSSEB)**
 - Reported on **Form RRB-1099-R**
 - Treat as **pension** benefits



- Explain that railroad retirement benefits are paid out under two categories and on two forms: RRB-1099 and RRB-1099-R.
- Have students reference their copies of each type of form for review. Explain how each type of form is reported on a tax return (reported as social security or pension).
- Review Example 5 from the text.

Progress to the next slide.

Social Security Benefits and Railroad Retirement SSEB

- A portion of Social Security Benefits or Railroad Retirement SSEB **may** be taxable
 - Generally up to 50%
 - Can be up to 85%, if:
 - Income + ½ of benefits exceeds base amount **or**
 - Married filing separately and lived with spouse
- Use the Social Security Benefits Worksheet to calculate the taxable benefits



- Remind students that railroad retirement SSEB are reported on Form RRB-1099 and that regular social security benefits are reported on Form SSA-1099. Have students refer to a copy of Form SSA-1099.
- Explain that, based on how much other income the taxpayer has, a portion of social security and railroad SSEB may be taxable.
- Clarify that social security benefits do not include supplemental security income (SSI), which is **not** taxable.
- Tell students to always input the social security benefits into the software, if a computer is used, or to complete the worksheet, if preparing a manual return. This will help determine if any benefits are taxable. Warn students against assuming that all social security benefits are nontaxable.
- Refer to the Social Security Benefits Worksheet. Remind students to input the Medicare payments and Volunteer Federal Income Tax Withholding shown on Form SSA-1099.
- Review Example 6.

Progress to the next slide.

Lump-Sum Social Security Benefit Payments

- Payment can be for current and prior years
- Do not confuse with nontaxable lump-sum **death** benefits
- Two options to figure taxable portion:
 - Report all in year received – complete Social Security Benefits Worksheet
 - Treat as received in earlier year(s) – refer to paid preparer



- Define lump-sum distribution.
- Tell students that the taxpayer will receive a Form SSA-1099 or Form RRB-1099, with an amount included in box 3. The form will also show the year(s) that payment was for. Warn students not to confuse lump-sum social security benefits with death benefits, which are nontaxable.
- Explain that there are two methods to figure the taxable portion of a lump-sum distribution. Volunteers should only complete returns when the taxpayer chooses the first option. For more information see Publication 915.
- If teaching the Advanced Course, advance to the next slide. Otherwise, skip the next 3 slides and progress to the slide titled "Pension Withholding and Estimated Tax Payments."

Progress to the next slide.

IRA Distributions

- **Traditional** IRA distributions may be
 - fully taxable, or
 - partially taxable.
- **Roth** IRA distributions are not taxed (if all requirements are met).



- Define traditional IRA.
- Define Roth IRA.
- Ask students for examples of IRA issues they have faced in the past.

Progress to the next slide.

Traditional IRA Distributions

- Taxable as ordinary income in year received
- Reported to taxpayer on Form 1099-R
- Fully taxable – only **deductible** contributions
- Partially taxable – **nondeductible** contributions
- Required minimum distribution by April 1 of year following year taxpayer reaches age 70½



- Explain the difference between a fully and partially taxable traditional IRA.
- Warn students that they should not prepare a return with partially taxable IRAs. These taxpayers should be referred to a paid tax preparer.
- Review Example 4.
- Explain that, as with pensions, IRAs have similar required minimum distribution rules. Failure to comply with the minimum distributions rules will result in an excise tax of 50% being imposed on the amount not distributed.

Progress to the next slide.

Roth IRA Distributions

- Qualified distributions are **not** taxable.
- Distributions are qualified if made after 5-taxable-year period after Roth was established, **and**
 - Taxpayer is age 59½, or
 - Taxpayer is disabled, or
 - Distribution was made to a beneficiary/estate after taxpayer's death, or
 - Distribution was used to buy, build, or rebuild a first home.



- Review Roth IRA.
- Explain that qualified distributions are not taxable.
- Go over the rules that make a distribution qualify as nontaxable.
- Inform students that the minimum distribution rules do not apply to Roth IRAs.

Progress to the next slide.

Pension Withholding and Estimated Tax Payments

- Use **Form W-4P** to adjust or change withholding on a pension or annuity.
- Estimated tax payments may be required if:
 - Taxpayer has too little tax withheld, or
 - Taxpayer owes more than \$1,000 in taxes.



- Explain to students that if the taxpayer has too little tax withheld, penalties and interest may be assessed.
- Point out the benefits of the HERO act.
- Have students complete the Summary Exercise.
- Review the Summary Exercise.

Progress to the next slide.

Quality Review (QR)

Form 8158 – Quality Review Sheet Income Section

<input type="checkbox"/>	<input type="checkbox"/>	All income indicated on the intake/interview sheet, taxpayer's interview and/or supporting documents are included on the return.
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- Use Form 8158, Quality Review Sheet, or your site's equivalent form to review all returns prepared.
- Apply the quality review tools, in combination with the Intake and Interview Sheet and all the source documents, to the returns you prepare to ensure quality and accuracy for every taxpayer.
- Consider each box on the Quality Review Sheet that applies to the taxpayer's situation to confirm that all the necessary questions and issues have been addressed. If items are incorrect or incomplete, revisit each issue and make corrections to the return, as needed.
- To accurately report the taxpayer's income, verify that the taxpayer's wages are accurate and that all income from Form(s) W-2 and other income documents, such as Form(s) 1099, has been included.
- Confirm that all income received by the taxpayer has been discussed and shown on the return, if required.

Progress to the next slide.

Lesson Summary

- Pension benefits are fully or partially taxable.
- Use Simplified Method Worksheet to determine taxable portion of pension.
- Social security benefits may be partially taxable.
- Use Social Security Benefits Worksheet to determine taxable portion.



- Review the PowerPoint slide with the students.
- Remind students that disability pensions are treated as wages until the taxpayer reaches minimum retirement age.
- Ask if there are any questions.
- Optional Guided Questions (Advanced Course):
 1. **Reporting Retirement Income: How would you compute taxable pension income for a taxpayer who has more than one pension or annuity?** (The taxable part of each pension or annuity should be computed separately, and only the totals should be entered on the proper lines of Form 1040 or Form 1040A.)
 2. **Lump-Sum Distributions: How can you determine whether a taxpayer has been paid a lump-sum distribution of his or her pension?** (Lump-sum distributions are reported on Form 1099-R. A check in box 2b, Total distribution, indicates that it is a lump-sum distribution.)
 3. **Minimum Distributions: By what date, and at what age, is a taxpayer required to receive minimum distributions?** (For traditional IRAs, taxpayers must receive minimum distributions by April 1 of the year following the calendar year in which they turn 70½ years old. Generally, for all other retirement plans discussed in this lesson, a taxpayer who is still working at age 70½ can postpone receiving distributions until April 1 of the year after he or she retires.)
 4. **IRAs: What is an IRA?** (An IRA is an Individual Retirement Arrangement—any of several kinds of tax-sheltered retirement plans set up by the taxpayer.)

Progress to the next slide.

Lesson Summary – cont'd

- Traditional IRA distributions may be fully taxable or partially taxable.
- Partially taxable IRA distributions are outside the scope of VITA/TCE.
- Qualifying Roth IRA distributions are not taxable.
- Adjust pension withholding with Form W-4P.



- Optional Guided Questions (Intermediate Course):
 1. **What may occur if a taxpayer does not pay enough tax, either through withholding or through estimated tax payments?** (The IRS may charge the taxpayer interest and a penalty.)
 2. **Are social security benefits always nontaxable?** (No. Some taxpayers have to include part of their social security benefits in taxable income.)
 3. **What is the maximum amount of social security benefits that is subject to tax?** (The taxable portion of social security benefits is never more than 85% of the net benefits.)
 4. **If some of a taxpayer's social security benefits are taxable, can he or she have tax withheld on the taxable portion?** (Yes. Taxpayers may elect to have taxes withheld on their social security benefits. To make this choice, taxpayers will have to fill out Form W-4V, Voluntary Withholding Request, or equivalent, and give it to the payer.)
 5. **Which amounts from the Social Security Benefits Worksheet are transferred to Form 1040 or Form 1040A?** (The amounts on lines 1 and 18.)

Progress to Lesson 14 to complete the Intermediate Course; otherwise progress to the next lesson.

FACILITATOR NOTES

Lesson 12

Sale of Stock and Other Investment Property



This lesson contains information for the Advanced, Military and International courses and has been updated for Tax Year 2007.

Lessons in the Advanced Course are more complex. Throughout this lesson, there are a number of situations when taxpayers should be referred to a tax professional.

Reminder: Volunteers should not prepare returns with complex issues that are beyond the scope of VITA/TCE or their certification.

■ **References:**

- Form 1040, Schedule D, Capital Gains & Losses and Instructions
- Qualified Dividends and Capital Gains Tax Worksheet
- Capital Loss Carryover Worksheet
- Form 1099-DIV, Dividends and Distributions
- Form 1099-B, Proceeds from Broker and Barter Exchange Transactions
(These are most often stock sales.)

■ **Additional References:**

- Publication 550, Investment Income and Expenses
- Publication 551, Basis of Assets
- Publication 544, Sales and Other Dispositions of Assets

Progress to the next slide.

Objectives

- Compute adjusted basis of stock or other investment property
- Determine if an assets holding period is long-term or short-term
- Calculate the taxable gain deductible loss using the Schedule D
- Calculate the correct tax liability



- Review the objectives with the class.

Progress to the next slide.

Intake/Interview Process

Form 13614 – Intake and Interview Sheet - Income Section

Part IV. Income – In 2007, did you (or your spouse) receive:

- | | | |
|------------------------------|-----------------------------|--|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 1. Wages or Salary (include W-2s for all jobs worked during the year) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 2. Disability income |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 3. Interest/Dividends from: checking or savings account, bonds, CDs, or brokerage account |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 4. State tax refund (may be taxable if you itemized last year) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 5. Alimony income |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 6. Tip income |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 7. Pension and/or IRA distribution |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 8. Unemployment (1099-G) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 9. Social Security or Railroad Retirement Benefits (1099-SSA or RRB) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 10. Self Employment Income - business, farm, hobby (1099-Misc or any earned income not reported on W-2) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 11. Other Income such as gambling winnings, awards, prizes and Jury Duty pay, etc. |



- Conversation is key. Form 13614, Intake and interview Sheet, cannot capture all types of income so you have to ask some open ended questions to engage the taxpayer in preparing an accurate return.
- Use the Intake/Interview Sheet as a **starting point** in combination with all the source documents provided by the taxpayer.
- The goal is a complete and accurate return with all income correctly reported.
- You might ask if the taxpayer ever owned any stock or ever bought anything to hold for resale. This could jog his or her memory. You might even explain that it could decrease their tax liability if they sold it for less than their investment.
- You can also save the taxpayer time and trouble with correspondence from the IRS. Even if a sale was a break even situation, the IRS gets notice of all sales and they look for evidence of it on the tax return. They don't know the purchase price or adjusted basis, they just know it was sold.
- If something is uncovered through conversation that was not originally disclosed on the Intake Sheet, make note of it on the form for the Quality Reviewer. Assure all questions and issues have been addressed and entered on the return.

Progress to the next slide.

Investment Property

Property that produces investment income:

- **Stocks**
- **Bonds**
- **Mutual Funds**
- **Treasury Bills and Notes**
- **Other**



- Define investment property and give examples.
- Investment property does not necessarily produce income. It could just as well result in a loss. This is how investment property differs from personal property. You report the gain on both but you can not take a loss on the sale of personal property.
- Property held for investment includes property that **produces interest, dividends, annuities or royalties.**
- Property that produces gain or loss (not derived in the ordinary course of a trade or business) when **sold or traded.**
- A tract of land held for resale would be investment property, gold or silver, rare coins, etc.
Remind the students that many investment property transactions will be out of the SCOPE of VITA.
- Go over Example 1 in text.

Progress to the next slide.

Basis of Investment Property

- The **basis** of an asset is usually its **cost**
- The **adjusted basis** is +/- certain costs or expenses
- Adjustments include but are not limited to:
 - **Brokerage commissions paid** (buying and selling)
 - **Stock splits and tax-free stock dividends**
 - **Reinvested dividends**
 - **Reinvested capital gain distributions**



- Explain that before a capital gain or loss can be put on a tax return, the asset's adjusted basis must be determined. It is the taxpayer's responsibility to provide information regarding the asset's basis. If the taxpayer cannot provide the information needed to determine basis, the IRS can deem the basis to be zero. This would result in a higher taxable gain.
- Describe basis and adjusted basis. (cost plus capital improvements, casualty losses, insurance reimbursements, etc.)
- Give examples of adjustments to basis:
 - Commissions/fees paid to brokers for stock transactions increase basis
 - Buying one share of stock for \$10 then having a split two-for-one results in reduced basis of \$5.
- Review **Examples 2 & 3** in the text.
- Explain how to figure the basis of property that was received: **As a gift or by inheritance. Example 4.**
- Remind students that bonds, other tax-exempt obligations, and employee stock option plans more likely than not will require the assistance of a tax professional.
- Explain the **importance of good recordkeeping**. Especially with stock because of splits and reinvestments of dividends, etc.
- Complete **Exercises 1, 2, and 3**. When they are finished with the exercises, review them together.

Progress to the next slide.

Sale of Investment Property

Capital gains or losses are reported when a sale, exchange, or other disposition of investment property occurs.

- **Redemption of Stock or Bonds**
- **Sale or Exchange of Mutual Fund Shares**
- **Worthless Securities**
- **Other Sales and Trades**



- The IRS is notified of the sale of most investment property with a copy of the same notice the taxpayer receives. If the taxpayer fails to report a sale (even if it is a break even sale) there may be inquiry from the IRS. The taxpayer should offset it with their cost by reporting it.
- A change in market value of a mutual fund or IRA is not a reportable transaction, it is the **disposition** of the shares that creates an event that needs to be reported.
- Explain that there are a number of terms that describe the sale of an asset.
- Provide examples for each of the following: redemption of stocks and sale of mutual fund shares.
- Work through **Example 5** and **Exercise 4** with the class.
- Explain what worthless securities are and that losses are only deductible when they are **totally worthless**.
- Review **Example 6**.
- Discuss examples of other sales and trades that are beyond the scope of VITA/TCE: e.g. market-to-market, wash sales, day trading, like kind exchanges, trading investment property for an annuity, etc.
- Review parts of the form. Exhibit 8 – Blank Form 1099-B – Proceeds from Broker and Barter Exchange Transactions, used to report sale of stock.
 - Box 1a—sale date—Used to compute holding period.
 - Box 2—Where broker indicates gross or net proceeds reported.

Progress to the next slide.

Identifying Items Sold

Stocks and mutual funds have separate methods:

- Shares of Stock
 - Specific Identification
 - Identification not possible
- Mutual Funds
 - Cost Basis
 - Average Basis



- It is necessary for the **taxpayer to verify the cost** (hence recordkeeping) of investment property sold as well as specific stock or mutual fund shares.
- Explain that if a taxpayer does not sell his **entire interest** in shares of stock or mutual funds owned, it will be necessary to **identify the particular shares sold** so that the correct adjusted basis can be determined.

Shares of stock:

- Describe how shares of stock would be specifically identified by the taxpayer. **Recordkeeping** is key.
- Review **Example 8**.
- Have the students work **Exercise 5** and review it together when they are finished.
- Discuss that the **FIFO method (first in first out)** will be used if the taxpayer cannot determine specifically what shares were sold.
- Go through **Example 9** with the class.
- Have the students work **Exercise 6** and review it together when they are finished.

Mutual funds:

- Explain that there are **two methods for determining basis for mutual fund shares**: cost basis and average basis. Describe the two methods and explain that once a method is chosen, taxpayers have to use the same method for all the shares sold from the same mutual fund.
- Review **Examples 10 and 11**.

Progress to the next slide.

Holding Period

- **Long term** – held more than 12 months
- **Short term** – held for 1 year or less
- **Inherited property** - always long-term
- **Nontaxable stock dividends or stock splits** - same holding period as the original stock



- Explain that capital gains and losses are classified as either long or short term when reported on Schedule D, depending on how long the taxpayer owned the investment property.
- Describe the definitions of long-term or short-term.
- Explain that the acquisition date is not counted, but the sale date is counted when determining holding period.
- Review **Examples 12 and 13**.
- Share that inherited property is always considered property with a long-term holding period, regardless of how long it is actually held.
- Review **Example 14**.
- Describe reinvested stock dividends and stock splits.
- Explain nontaxable stock dividends and stock splits result in the same holding period as the original stock
- Have students work **Exercises 7 and 8**.

Progress to the next slide.

Determining Gain or Loss

- Amount realized – adjusted basis = gain/loss reported on Schedule D
- What you will need
 - Form 1099-B, Proceeds From Broker and Barter Exchange Transactions or consolidated brokerage statement
 - Date property was acquired
 - Taxpayer's records of basis



- Describe how amount realized and/or gain or loss is computed.
 - Sale price may be \$10,000 but the amount realized is after commissions and fees.
- Have students look at a 1099-B and/or a consolidated brokerage statement and review the elements of the form. (See example of form in **Exhibit 8**)
- It is the **taxpayer's responsibility** to provide an acquisition date and proof of basis.
- Review **Examples 15 and 16**.

Progress to the next slide.

Commissions and Fees

- Commissions paid when investment property is purchased is **added to basis**
- Commissions paid at the time of sale **may** increase basis
 - If 1099-B shows gross proceeds, add the commissions to the basis
 - If 1099-B shows net proceeds, no adjustment to basis is necessary



- Explain that commissions and fees are adjustments that increase basis in investment property.
- When property is purchased, always add the commissions and fees to basis.
- When investment property is sold, only increase adjusted basis for commissions if the 1099-B shows gross proceeds.
- Adjusting basis for commissions on the sale of investment property is often confusing to students. They often want to reduce the proceeds. Explain that this should not be done because the IRS matches the 1099 information received to the information reported on the tax return.
- Review **Examples 17 and 18**.
- Describe wash sales and tell the students they are outside of the scope of the VITA/TCE program and a tax professional should be consulted.
- Have the students work **Exercises 9, 10, and 11**.
- Review Exercises with the class.

Progress to the next slide.

Reporting Transactions on the Tax Return

- Schedule D reflects gains and losses
- Schedule D has three sections
 - Part I - Short-term transactions
 - Part II - Long-term transactions
 - Part III – Summary
- Schedule D-1 is a continuation page.



- Remind students that capital gains and losses are reported on Schedule D of the tax return.
- Have students review a Schedule D. (See **Exhibit 6** for a blank form)
- Show students that Schedule D is divided into three sections:
 - Part I for short-term transactions
 - Part II for long-term transactions, and
 - Part III for summarizing and determining the net taxable gain or net deductible loss.
- Review the line items of Schedule D and show students where they will obtain the information needed to complete Schedule D.
- Taxpayers should include all transactions, even if no 1099-B was received.
- If additional transactions need to be reported, Schedule D-1 is a continuation page for that purpose.

Progress to the next slide.

Reporting Transactions on the Tax Return – cont'd

Combine net short-term capital gain/loss
with net long-term capital gain/loss
(Part III of Schedule D):

- If losses exceed gains, the taxpayer has a **total net capital loss**.
- If gains exceed losses, the taxpayer has a **total net capital gain**.



- Explain that net short-term capital gains/losses are combined with net long-term capital gains/losses in Part III.
- Review Schedule D, Part III, with students.

Progress to the next slide.

Capital Gain Distributions

Reported on Form 1099-DIV, box 2a

- If taxpayer received only capital gain distributions, Schedule D is **not** required.
- If taxpayer sold investment property or had unused capital loss carryovers, report capital gain distributions on line 13 of Schedule D.



- Explain the difference between capital gain distributions and mutual funds.
- Tell students that capital gain distributions are reported on Form 1099-DIV, box 2a.
- Review Form 1099-DIV.
- Explain that a Schedule D is not required if the taxpayer received only capital gain distributions and had no other sales of investment property. The amount should be reported on line 13, Form 1040 and the box should be checked.
 - Ask the students if they know which form the taxpayer has to use if filing a paper return and claiming just a capital gain distribution and which they must use for stock or investment property sales. (1040, 1040A, or 1040EZ).
- Describe how to report capital gain distributions on Schedule D, if it is required.
 - If you have another reason to use Schedule D and also have capital gains distribution it goes on the 'D' and not on front of 1040.

Progress to the next slide.

Total Net Capital Loss

- If the taxpayer has a net capital loss, claim the **lesser** of:
 - The total net loss or
 - \$3,000 (\$1,500 if married filing separately)
- Capital Loss Carryovers
 1. Carryover until used up
 2. Retains character



- Taxpayer may claim capital losses but not personal losses.
- Explain the limitations.
- Describe how capital losses in excess of the limitations may be **carried over indefinitely** to future years.
- Taxpayers should bring prior year tax returns when carrying over a loss
- Review **Examples 19 and 20**.
- Explain that carryover losses retain their character as either short-term or long-term.
- Have students review the Capital Loss Carryover Worksheet – **Exhibit 9**.
- **Guided Questions:**
 - **What happens to a capital loss carryover if a taxpayer dies?** Capital losses cannot be carried over after a taxpayer's death. Losses are deducted on the final income tax return filed for the decedent, but the capital loss limits still apply.
 - **What happens if one year there is no filing requirement?** The loss is reduced by \$3,000 for that year. In other words, you forfeit part of your loss by not filing.

Progress to the next slide.

Total Net Capital Gain

- If taxpayer has a net capital gain, apply **capital gains tax rates**
- Capital gains tax rates: 5% to 28%
- To figure capital gains tax use:
 - Schedule D Tax Worksheet or
 - Qualified Dividends & Capital Gains Tax Worksheet



- If the taxpayer has a net capital gain, capital gains tax rates apply to the gain. Capital Gains tax rates are often more favorable than the regular rate.
- Explain that capital gains tax rates are generally lower than tax rates applied to other income.
- Share that the maximum capital gains tax rates range from 5% to 28%.
- Explain that capital gains tax rates are applied by completing Schedule D Tax Worksheet or the Qualified Dividends & Capital Gains Tax Worksheet. For VITA/TCE, the latter is most common.
- Have students review a sample Qualified Dividends & Capital Gains Tax Worksheet.
- **Paper return preparers should be cautioned to remember this step in computing tax.**

Progress to the next slide.

Quality Review (QR)

Form 8158 – Quality Review Sheet Income Section

Yes	No	Certified Quality Reviewer Check each item as you verify that the review step is complete.
<input type="checkbox"/>	<input type="checkbox"/>	All income indicated on the intake/interview sheet, taxpayer's interview and/or supporting documents are included on the return



- Use the Form 8158, Quality Review Sheet, or your site's approved equivalent form to review all returns prepared.
- Apply the QR tools in combination with the Intake/Interview Sheet and all the source documents to the returns you prepare to assure quality and accuracy for every taxpayer. Remember we are also trying to reduce future burden
- Consider each box on the QR sheet which applies to your taxpayer's situation to confirm that all the necessary questions and issues have been addressed. If items are incorrect or incomplete, revisit the issue and make corrections to the return, as needed.
- To ensure accurate reporting of income, verify that the taxpayer's wages are accurate and that all income from Form(s) W-2 and other income sources, such as Forms 1099, have been included. (There is often income without documentation.)
- Confirm that all income received by the taxpayer has been discussed and shown on the return, if required.

Progress to the next slide.

Lesson Summary

- Basis of investment property is cost
 - Adjusted basis is cost +/- adjustments such as commissions
- Holding period is classified as either
 - Short-term (one year or less) or
 - Long-term (more than one year)



- Review the main points of the lesson with the class.
- Work through **Example 21** with the students.
- Have students work independently on **Exercise 12**.
- Review **Exercise 12** with the students.
- Review and discuss the Frequently Asked Questions (FAQ's) at the end of the chapter.

Progress to the next slide.

Lesson Summary – cont'd

- Capital gain or loss is computed as: **amount realized minus adjusted basis**
- Capital gains/losses are reported on Schedule D, Form 1040
- Net capital losses are deductible up to a yearly limitation, the lesser of:
 - the loss amount or
 - \$3,000 (\$1,500 if married filing separately)



- Review the summary points.

Progress to the next slide.

Lesson Summary – cont'd

- Net capital gains are taxed at a lower, capital gains tax rates computed on
 - Schedule D Tax Worksheet, or
 - Qualified Dividends and Capital Gains Tax Worksheet
- Schedule D is not required if the taxpayer has only capital gain distributions from 1099-DIV to report.



- Review the summary points.

Progress to the next lesson.

FACILITATOR NOTES

Lesson 13

Sale of Home



This lesson contains information for the Advanced and Military and International courses and has been updated for Tax Year 2007.

■ **References:**

- Form 1099-S, Proceeds from Real Estate Transactions
- Publication 523, Selling Your Home
- Publication 3, Armed Forces' Tax Guide
- Schedule D, Capital Gains and Losses

Note: The sale of a main home that was converted into rental property is beyond the scope of the VITA/TCE program, and taxpayers should be referred to a tax professional.

Progress to the next slide.

Objectives

- Determine if the taxpayer meets the **ownership** and **use tests**
- Determine whether a home is the taxpayer's **main** home
- Determine when the ownership and use tests may be suspended
- Determine the amount of gain eligible for exclusion from income



Things to keep in mind:

- There is not always a source document for the sale of a residence.
- There is not a question on Form 13614 that asks if the taxpayer sold a personal residence.
- As in the sale of investment property, it is the taxpayer's responsibility to provide the basis, adjusted basis, sale price, etc.
- Be sure that you are certified to prepare intermediate, advanced, international and military tax returns.
- If a personal residence is used as rental property at any time during the time it is owned by the taxpayer, it becomes an issue that should be referred to a tax professional.

If all documentation is available, these objectives will be used to prepare the tax return.

Progress to the next slide.

Intake/Interview Process

Form 13614 – Intake and Interview Sheet Income Section

Part IV. Income – In 2007, did you (or your spouse) receive:

- | | | |
|------------------------------|-----------------------------|--|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 1. Wages or Salary (include W-2s for all jobs worked during the year) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 2. Disability income |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 3. Interest/Dividends from: checking or savings account, bonds, CDs, or brokerage account |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 4. State tax refund (may be taxable if you itemized last year) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 5. Alimony income |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 6. Tip income |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 7. Pension and/or IRA distribution |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 8. Unemployment (1099-G) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 9. Social Security or Railroad Retirement Benefits (1099-SSA or RRB) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 10. Self Employment Income - business, farm, hobby (1099-Misc or any earned income not reported on W-2) |
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | 11. Other Income such as gambling winnings, awards, prizes and Jury Duty pay, etc. |



- It is important to **ask** the taxpayer all relevant questions to determine if anything was sold during the previous year. An address change from the previous year may indicate the sale of a home.
- Explain that the person responsible for closing the transaction is generally required to file and furnish Form 1099-S. A list of transactions that are not reportable are covered in the instructions for Form 1099-S.
- Reinforce that if a taxpayer sold a home that was used as rental property or partly for business, he or she must report the taxable gain on the sale of the home on his or her tax return. A taxpayer with this situation should seek the assistance of a tax professional.
- Remind students that it is important to avoid overly complicated returns. If the volunteer does not feel qualified to deal with a particular sale-of-home situation, or if the taxpayer is only eligible for a partial gain exclusion, the volunteer should suggest the taxpayer see a tax professional.
- It is important to note on Form 13614 (or approved alternative used at your site) that a sale occurred. It will be added to the tax return only if there was gain above the exclusion.

Progress to the next slide.

Requirements for Exclusion

Exclude up to \$250,000 (\$500,000 if married filing jointly) of gain on the sale of main home if the following requirements are met:

- Ownership Test (either spouse, if married)
- Use Test (both spouses, if married)
- Did not exclude gain in the past 2 years (neither spouse, if married)
- File a joint return, if married



- Explain that this is the amount that may be excludable.
- Explain that these are the tests that must be met, and that each is discussed in detail later.

Progress to the next slide.

Ownership and Use Tests

During the **5-year period** before sale:

- The taxpayer owned the home for at least 2 years, and
- The taxpayer lived in the home (as a main home) for at least 2 years.



- **Both** the ownership and use tests **have to be met**.
- The 5-year period, for the purposes of these tests, **ends on the date of sale**.
- The required 2 years of ownership and use during the 5-year test period do not have to be continuous. Short, temporary absences count as periods of use.
- Taxpayers can meet the ownership and use tests during different 2-year periods.
- Review Example 1.
- Military has special consideration for these tests. See slide 9.

Progress to the next slide.

Main Home

- The home a taxpayer lives in most of the time is considered a **main home**.
- A main home can be a:
 - House
 - Boat
 - Mobile home
 - Cooperative apartment
 - Condominium



- Define main home.
- Explain that a main home doesn't have to be a "traditional house," and give examples.
- Taxpayers owning more than one home may not designate a main home.
- Review Examples 2 and 3 in the text.
- Remind students that it is important to **ask** the taxpayer relevant questions to determine if the home is a main home.
 - Review the list of other factors on page 13-4, and ask the students' opinion of which items may carry more weight.

Progress to the next slide.

Reporting the Exclusion

- Eligible taxpayers do not report the sale of a main home on a tax return unless:
 - The gain **exceeds** the exclusion amount, or
 - The taxpayer chooses not to exclude it.
- Report taxable gains on the sale of a main home on Schedule D, Form 1040.



- Taxpayers (within the scope of the VITA/TCE) will rarely have to report gain from the sale of a main residence.
 - Example—If the selling price of a home is \$400,000 for a married couple and they meet the use and ownership tests, there is no reporting on the return because even if they have no basis they are entitled to exclude up to \$500,000.
- If any portion of the gain is taxable, the transaction should be reported on Schedule D.
- Ask your students if they might guess why anyone would want to include the gain on the sale of a home. Reason: they could have two homes they want to sell and the gain will be much bigger on the second home. They want to sell the other home soon but they can only exclude this type of gain every two years.

Progress to the next slide.

Reporting Losses

Loss on the sale of a main home is not deductible!



- Because the class has already had the lesson on the Sale of Stock, which allows a loss, it may be important to point out once again the difference in the sale of personal property and investment property.

Progress to the next slide.

Test Period Extended

Members of the Armed Forces can extend the 5-year test period of the ownership and use tests if:

- They are serving on "qualified official extended duty,"
- The period of suspension doesn't exceed 10 years, and
- Not more than one property at a time is being suspended.



- The Military Families Tax Relief Act of 2003 contains special provisions for Armed Forces members who sell their main home. The 5-year test period for members of the Armed Services can be suspended for up to 10 years.
- Define Qualified Official Extended Duty:
 - Called or ordered to active duty for more than 90 days (or an indefinite period)
 - Serve at a duty station at least 50 miles from their main home or live in government quarters under government order
 - Only one property at a time qualifies for this time extension
- Exclusion amounts may be reduced if there are unforeseen circumstances causing the home to be sold.
 - Refer volunteers to Pub 523, Selling Your Home, for examples of unforeseen circumstances.
 - This is beyond the scope of VITA/TCE and the taxpayer should seek a tax professional.
- Review Example 4.

Progress to the next slide.

Gain on Sale of Main Home

Gain = Amount Realized — Adjusted Basis

- Amount Realized
 - Total selling price, minus:
 - Selling expenses (commissions, fees, advertising)
- Adjusted Basis
 - Basis (usually cost), plus or minus:
 - Capital improvements or losses



- Explain how to determine the gain or loss. (This is very similar to the previous chapter on sale of investment property.)
- Remember that if the selling price is below the exclusion, no calculations have to be made. For example, a single person who meets the use and ownership tests and sells a house for \$250,000 wouldn't have any gain. Basis has to be something.
- Review Example 5.
- Have students review Form 1099-S, Proceeds from Real Estate Transactions.
- Go over Review Example 6.
- Have students review Schedule D. Show how to enter the exclusion amount if the proceeds are more than the exclusion.
- Inform students that if the home was used to produce rental income, part of the gain will have to be reported on Form 4797. **However, this is beyond the scope of the volunteer program and the taxpayer should seek a tax professional.**
- Have students complete all exercises.

Progress to the next slide.

Quality Review (QR)

Form 8158 – Quality Review Sheet Income Section

Yes	No	
<input type="checkbox"/>	<input type="checkbox"/>	All income indicated on the intake/interview sheet, taxpayer's interview and/or supporting documents are included on the return.



- Use Form 8158, Quality Review Sheet, or your site's approved equivalent form, to review all returns prepared.
- Apply the quality review tools, in combination with the Intake and Interview Sheet and all the source documents, to the returns you prepare to ensure quality and accuracy for every taxpayer.
- Consider each box on the Quality Review Sheet that applies to the taxpayer's situation to confirm that all the necessary questions and issues have been addressed. If items are incorrect or incomplete, revisit each issue and make corrections to the return, and **note any changes you made to the return on the Intake Sheet** as needed.
- To ensure accurate reporting of income, verify that the taxpayer's wages are accurate and that all income from Form(s) W-2 and other income documents, such as Form(s) 1099, has been included.
- Confirm that all income received by the taxpayer has been discussed and shown on the return, if required.

Progress to the next slide.

Lesson Summary

- Eligible taxpayers may exclude up to \$250,000 (\$500,000, if married filing jointly) gain on the sale of their main home.
- Taxpayers must meet the ownership and use tests to qualify for exclusion.
- A main home is the home the taxpayer lives in most of the time.
- Do not report gains that qualify for exclusion.
- Losses are not deductible.



- Review summary points.
- Ask students if they have any questions.

Progress to the next lesson.

Lesson 14

Finishing the Return



This lesson contains information for all courses and has been updated for Tax Year 2007.

Military information is at the end of the lesson.

■ **References:**

- Form 1040-ES, Estimated Taxes for Individuals
- Form 8158, Quality Review Sheet
- Form W-2, Wage and Tax Statement
- Form 1099-INT, Interest Income
- Form 1099-R Distributions From Pensions, Annuities, Retirement or Profit Sharing Plans, IRAs, Insurance Contracts, etc.
- Form 1099-DIV, Dividends and Distributions
- Form W-4, Employee's Withholding Allowance Certificate
- Form W-4P, Withholding Certificate for Pension or Annuity
- Form 8888, Direct Deposit of Refund

Progress to the next slide.

Objectives

- Calculate and report federal income taxes withheld from all sources
- Calculate and report estimated tax payments
- Calculate the refund or amount due
- Determine if estimated taxes should be paid
- Determine who qualifies for an extension of time to file
- Determine if changes to Form W-4 or Form W-4P should be suggested



- Review the objectives with the class.

Progress to the next slide.

Checklist for Finishing the Return

- Withholdings, Payments, and Other Credits
- Paying Taxes or Adjusting Withholding
- Advance Earned Income Tax Credit
- Name, Address, and Taxpayer Identification Section



- Have students read the student text section “Sheet for Finishing the Return.”
- Ask students to explain where to find the amount of federal income tax withheld (Form(s) W-2 and some Form(s) 1099).
- **Explain that all payment options are available for paper returns, except the electronic funds withdrawal which is available only for electronic returns.**
- Ask for a volunteer to give an example of when someone may need to make estimated payments (If they expect to owe more than \$1,000 in 2008 after subtracting withholdings and credits.)
- Stress the importance of properly completing the name and address information.
- Guided Questions:
 1. **When should the taxpayer identification section be completed?** (After the rest of the return has been completed for a hand-prepared return.)
 2. **Is it important to have the taxpayer sign the return?** (Yes. An unsigned return is not considered valid and cannot be processed.)

Progress to the next slide.

Checklist for Finishing the Return – cont'd

- Return Assembly and Copy
- Site Identification Number
- Quality Review
- Signing the Return
 - **Self-Select PIN**
 - **Practitioner PIN**
- Taxpayer Question
- Where to Mail Paper Returns



- Make sure that students know their Site Identification Number and where to place it on the return. Explain to the students that this does not cause the return to have a higher chance of being audited. Instead, it allows the IRS to track how many people are assisted through the VITA/TCE program.
- Tell the students that the IRS does not provide VITA/TCE sites with envelopes for mailing paper returns. Some sites may choose to provide pre-addressed envelopes at their own expense.
- Remind students that a quality review must be conducted on every return prepared at the site. Form 8158, Quality Review Sheet, or approved alternative should be executed for all returns to assure completeness and accuracy.
- The 100% quality review of all returns is in addition to diagnostics run on any software program to check math and missing information on the return.
- Discuss the Personal Identification Number (PIN) Guidelines for Self-Select PIN and Practitioner PIN.
- Remind students that taxpayers who e-file will not receive a tax package in the mail the following year. Forms can be obtained by calling the toll-free forms number (800-829-3676) or on the Internet at www.irs.gov.

Progress to the next slide.

Federal Tax Withholding

- Add all federal withheld income tax together
- Withheld income tax can appear in:
 - Form W-2, box 2
 - Form 1099-R, box 4
 - Form 1099-INT, box 4
 - Form 1099-DIV, box 4
 - Form W-2G, box 2
 - Form 1099-G, box 4
 - Form 1099-MISC, box 4
 - Form SSA-1099



- Review where to find the amount of federal income tax withheld.
- Remind students that they should not include the amount withheld for social security and Medicare with the federal withholding.
- Point out that more social security recipients are requesting that federal income tax be withheld from their social security payments.
- Have the students read Examples 1 and 2 and then ask if there are any questions.

Progress to the next slide.

Estimated Tax Payments

- Verify all federal estimated tax payments
- Be sure to include:
 - An overpayment from the 2006 return that was applied to 2007 tax payments
 - Payments made using Form 1040-ES, including the payment made in January 2008



- Tell students that most people who make estimated tax payments make four payments per year. The payments are due on April 15, June 15, September 15, and January 15 of the following year. Some taxpayers choose to make estimated payments more frequently, but they are not required to do so.
- Explain to students where to look on the 2006 return to see if the refund was applied to the 2007 tax year. (It is the amount on Form 1040, line 75, or Form 1040A, line 46.)
- Optional Group Activity:
 - To review students' understanding of estimated tax payment or underpayment of estimated tax, tax withheld, and refund or amount owed, divide the class into groups of four or five. Have each group write five questions that review the material covered in this lesson. Allow five to seven minutes for this part of the activity. When all groups have finished writing their questions, have students from each group read their questions to the class and have the other groups answer the questions.
- Review any points that the students found difficult.

Progress to the next slide.

Refund or Balance Due

- If the total payments exceed the total tax, this is an overpayment
- Overpayments are refunded unless applied to other accounts or tax years
- If the total tax exceeds the total payments, this is a balance due to be paid with the return



- Review the points on the slide.
- Remind students that if a taxpayer (or volunteer) has not rounded the amounts reported on a tax return, it is possible that the amounts overpaid or owed are less than \$1. Students may wonder if a taxpayer must send a check or money order to the IRS for that amount. The answer is no. Conversely, a taxpayer who has overpaid by less than \$1 will not receive a refund unless the taxpayer sends a written request asking for the refund.
- Discuss direct deposits and required routing and account numbers of checking or savings accounts.
- Discuss Form 8888. Remind volunteers to double check account and routing numbers. The IRS is not responsible for refunds that are deposited into an incorrect account.
- Discuss the various payment options if there is a balance due on the return. Note that an estimated tax penalty may be applicable.

Progress to the next slide.

Extensions

- Within the United States
- Outside the United States and Puerto Rico



- Discuss e-file and paper options to obtain an extension to file.
- Remind students the extension to file is not an extension to pay.
- Review the automatic 2-month extension for those who reside outside the United States or Puerto Rico.

Progress to the next slide.

Figuring Estimated Tax for 2008

- If it is expected that \$1,000 or more will be owed on the 2007 return **and**
 - Withholding and credits to be less than the smaller of 90% of 2008 tax or 100% of 2007 tax**
- Use Form 1040-ES to calculate estimated tax payments
- All checks or money orders should be made payable to: United States Treasury



- Have the students read the “Figuring Estimated Tax for Next Year” section of the student text.
- **Mention the exception for farmers or fishermen.
- Discuss Example 4.
- Ask the students to name some instances when taxpayers need to make estimated tax payments. Allow several students to answer.
- Review Form 1040-ES. (You will need to provide this for your students. The most current version is available at www.irs.gov.)

Progress to the next slide.

Form W-4 and Form W-4P

- These forms are used to tell payers how many withholding allowances the taxpayer is claiming
- If there is a balance due on the 2007 return, the withholding may need to be adjusted
- To change the withholding, a new Form W-4 or Form W-4P should be completed and presented to the payer



- Discuss with the students when a taxpayer needs to consider changing his or her withholding. (When the taxpayer has a large refund or large balance due.)
- Remind students that there is no penalty for having too much withheld. In fact, many taxpayers request excess withholding so that they will receive a large refund.
- Tell students that if they are working with someone who has been struggling to get by and that person is due a large refund, they may suggest that the person decrease his or her withholding. This would allow the taxpayer to receive more money in each paycheck and not have such a large refund.

Progress to the next slide.

Completing and Assembling the Return

- Confirm SSNs or ITINs on return
- Paper returns must be assembled by sequence number
- Form W-2 and/or Form(s) 1099 (federal copy) must be attached to Form 1040 for paper returns
- Site Identification Number—very important
 - Assigned by Territory Office
 - Proper location is in the Paid Preparer section



- For a paper return, the best time to complete the taxpayer identification section is after the return is complete.
- Verify that SSNs and taxpayer(s) names are correct and follow the same order as the previous year's return.
- Form W-2 must be attached to paper Form 1040 on the left margin along with any Form 1099 that shows federal income tax withheld.
- Form 8453 is used to transmit certain forms that cannot be filed electronically. This form has been revised and no longer requires a signature.
- Emphasize the importance of the site identification number (SIDN).

Progress to the next slide.

Quality Review

- Accuracy and quality of return preparation are cornerstones of VITA/TCE programs.
- Every site must have a Quality Review process.



- For the 2008 filing season, quality review efforts at VITA/TCE sites are ongoing.
- All tax returns prepared at the site must be reviewed for quality using Form 8158, Quality Review Sheet or your site's equivalent form.
- This quality review is in addition to diagnostic checks made by any software program. Generally diagnostic checks only confirm math errors or missing data.
- A comprehensive quality review confirms with the taxpayer, using the supporting documentation provided, that the return is a complete and accurate statement of the client's tax responsibility for the year.

Progress to the next slide.

Quality Initiatives

- Pre-tax preparation includes volunteer certification and Standards of Conduct
- Form 13614—Intake and Interview Sheet or your site's equivalent form completed with every return
- Form 8158, Quality Review Sheet, or your site's equivalent form, completed for every return



- Volunteers can only prepare returns or perform quality reviews at the level for which they are certified.
- Use the Intake and Interview Sheet (or your site's equivalent form) to complete a probing and comprehensive interview with the taxpayer.
- Form 8158, Quality Review Sheet, has been revised. Consider each item on the form to ensure quality and accuracy for every taxpayer.
- If an item is incorrect, make the needed corrections to the return.

Progress to the next slide.

Decedents

- "Deceased" on the top of return, name and date of death
- Married Filing Jointly – surviving spouse enters "Filing as surviving spouse" in signature area on Form 1040.
- Single return – Personal representative signs and submits Form 1310 to claim a refund
- Power of Attorney – attach to Form 1040



- Discuss the requirements for filing a return for a deceased taxpayer based on how the return is being filed.

Military and International students, progress to the next slide; others go to the Lesson Summary slide and proceed.

Combat Zone Provisions

- Determine who qualifies for an extension of deadline
- Identify special tax benefits that are available to persons who die in a combat zone or from a terrorist or military action.
- Explain how to file claims of forgiveness



- Review the objectives with the class.

Progress to the next slide.

Extension of Deadline

- Actions extended
- Length of extension
- Requirements for the extension



- Have the students read the “Extension of Deadline” section in the student text.
- Discuss Examples 1, 2, and 3.
- Ask the students if they have any questions. If they are having trouble calculating the extension, rework the examples until they understand the calculation.

Progress to the next slide.

Decedents

- Filing a return
- Combat Zone Forgiveness
- Military or Terrorist Actions



- Have students read the remainder of the lesson and complete Exercises 1–4.
- Review the answers to the exercises with the class. Ask if they have any questions.

Progress to the next slide.

Lesson Summary

- Establish a Quality Review process
- Execute a Quality Review for every return
- If you are not already filing returns electronically, please consider this option
- SIDN on all returns



- Stress again privacy and quality.

Progress to the next slide.

Comprehensive Course Problems and Exercises

Application of Tax Law (Publication 678-W)

- Basic Course
- Intermediate Course
- Advanced Course
- Military Course
- International Course



- Refer the students to Publication 678-W.
- Complete the applicable course problems with the student.
- Encourage the students to complete the applicable exercises.

FACILITATOR NOTES

Appendix A–Suggested Class Schedule–Integrated Training

The schedules are designed for two to four days (based on the course for which the student would like to certify), with an additional day for state returns, completing exercises or other training. Military and International students will follow the Advanced Schedule and complete the Military or International Problem and Exercises on Day 4.

Basic Course

Day 1	Topic	Suggested Teaching Times
	Welcome & Introductions	
	Administrative	15 minutes
	e-file Background	
	Introduction to TaxWise®	15 minutes
	<i>Review Basic Comprehensive Problem A – Bennett and input entity data</i>	15 minutes
	Lesson 1 Taxpayer Identification Numbers and Exemptions	45 minutes
	<i>Open Problem A and input exemptions and dependents</i>	15 minutes
	<u>Break</u>	15 minutes
	Lesson 2 Filing Status	45 minutes
	<i>Open Problem A and input filing status</i>	15 minutes
	Lesson 2 Filing Requirements	15 minutes
	Lesson 3 Wages	30 minutes
	<i>Open Problem A and input Forms W-2</i>	15 minutes
	<u>Lunch</u>	45 minutes
	Lesson 3 Interest and Dividends	30 minutes
	<i>Open Problem A and input interest income</i>	15 minutes
	Lesson 3 Unemployment Compensation	
	<i>Open Problem A and input Form 1099-G</i>	15 minutes
	Lesson 3 Gambling Winnings	
	<i>Open Problem A and input Form W-2 G</i>	15 minutes
	Lesson 4 Deductions & Tax Compensation	30 minutes
	<u>Break</u>	15 minutes
	Lesson 7 Child and Dependent Care	
	<i>Open Problem A and input daycare expenses</i>	30 minutes
	Lesson 8 Education Credit	
	<i>Open Problem A and input tuition expenses</i>	30 minutes

Basic Course

Day 2	Topic	Suggested Teaching Times
	Lesson 9 Miscellaneous Credits	30 minutes
	<i>Open Problem A and complete Form 8880</i>	15 minutes
	<i>Complete Practice Exercise 1 – Madison</i>	30 minutes
	Lesson 6 Child Tax Credit	15 minutes
	<i>Open Problem A and discuss the automatic calculation for CTC</i>	15 minutes
	<u>Break</u>	15 minutes
	Lesson 5 Earned Income Credit	1 hour
	<i>Open Problem A and complete EIC Worksheet</i>	15 minutes
	Lesson 14 Finishing the Return	
	Discuss Diagnostic, Printing, Signing the Return	15 minutes
	<u>Break</u>	15 minutes
	<i>Complete Practice Exercise 2 – Parks</i>	30 minutes
	<i>Complete Practice Exercise 3 – Bates</i>	30 minutes
	<i>Complete Practice Exercise 4 – Clark</i>	30 minutes
	Summary & Review Changes to Tax Law, TaxWise® 2007 Updates, Common Errors, Questions	30 minutes

Intermediate Course

Day 1	Topic	Suggested Teaching Times
	Welcome & Introductions	
	Administrative	15 minutes
	e-file Background	
	Introduction to TaxWise®	15 minutes
	<i>Review Basic Comprehensive Problem B – Yale and input entity data</i>	15 minutes
	Lesson 1 Taxpayer Identification Numbers and Exemptions	45 minutes
	<i>Open Problem B and input exemptions and dependents</i>	15 minutes
	<u>Break</u>	15 minutes
	Lesson 2 Filing Status	45 minutes
	<i>Open Problem B and input filing status</i>	15 minutes
	Lesson 2 Filing Requirements	15 minutes
	Lesson 3 Wages	30 minutes
	<i>Open Problem B and input Forms W-2</i>	15 minutes
	<u>Lunch</u>	45 minutes
	Lesson 3 Interest and Dividends	30 minutes
	<i>Open Problem B and input interest and dividend income</i>	15 minutes
	Lesson 3 Unemployment Compensation	
	<i>Open Problem B and input Form 1099-G</i>	15 minutes
	Lesson 3 Gambling Winnings	
	<i>Open Problem B and input Form W-2 G</i>	15 minutes
	<u>Break</u>	15 minutes
	Lesson 3 Self Employment	30 minutes
	<i>Open Problem B and input 1099 MISC</i>	30 minutes
	<i>Complete Intermediate Exercise 5 – Wright</i>	30 minutes

Intermediate Course

Day 2	Topic	Suggested Teaching Times
	Lesson 11 Pensions—IRA Distribution	30 minutes
	<i>Open Problem B and input 1099 R</i>	30 minutes
	Lesson 11 Pensions—Pensions and Annuities	30 minutes
	<i>Open Problem B and input 1099 R</i>	30 minutes
	<u>Break</u>	15 minutes
	Lesson 11 Pensions—Social Security Benefits	15 minutes
	<i>Open Problem B and input SSA 1099 R</i>	15 minutes
	Lesson 10 Adjustments Student Loan Interest, Tuition and Alimony Paid Deductions	30 minutes
	<u>Lunch</u>	45 minutes
	Lesson 10 Adjustments IRA Deductions	30 minutes
	<i>Open Problem B and input Educator Expense, IRA Deduction, and Student Loan Interest</i>	30 minutes
	Lesson 4 Deductions & Tax Compensation	30 minutes
	<i>Open Problem B and input Itemized Deductions</i>	30 minutes
	<u>Break</u>	15 minutes
	Lesson 5 Earned Income Credit	1 hour

Intermediate Course

Day 3	Topic	Suggested Teaching Times
	Lesson 6 Child Tax Credit	15 minutes
	<i>Open Problem B and discuss the automatic calculation for CTC</i>	15 minutes
	Lesson 7 Child and Dependent Care	30 minutes
	<i>Open Problem B and input Child and Dependent Care Information</i>	15 minutes
	Lesson 8 Education Credit	15 minutes
	<i>Open Problem B and input Education Credit Information</i>	
	<u>Break</u>	15 minutes
	Lesson 9 Miscellaneous Credits	30 minutes
	<i>Open Problem B and complete F 8880</i>	
	Lesson 14 Finishing the Return	15 minutes
	Discuss Diagnostic, Printing, Signing	
	<i>Intermediate Practice Exercise 6 – Austin</i>	30 minutes
	<i>Intermediate Practice Exercise 7 – Ellsworth</i>	30 minutes
	<i>Intermediate Practice Exercise 8 – Highland</i>	30 minutes
	Summary & Review Changes to Tax Law, TaxWise® 2007 Updates, Common Errors, Questions	30 minutes

Advanced Course

Day 1	Topic	Suggested Teaching Times
	Welcome & Introductions	
	Administrative	15 minutes
	e-file Background	
	Introduction to TaxWise®	15 minutes
	<i>Enter Basic Comprehensive Problem C – Dalhart and input entity data</i>	15 minutes
	Lesson 1 Taxpayer Identification Numbers and Exemptions	45 minutes
	<i>Open Problem C and input exemptions and dependents</i>	15 minutes
	<u>Break</u>	15 minutes
	Lesson 2 Filing Status	45 minutes
	<i>Open Problem C and input filing status</i>	15 minutes
	Lesson 2 Filing Requirements	15 minutes
	Lesson 3 Wages	30 minutes
	<i>Open Problem C and input Forms W-2</i>	15 minutes
	<u>Lunch</u>	45 minutes
	Lesson 3 Interest and Dividends	30 minutes
	<i>Open Problem C and input interest income</i>	15 minutes
	<u>Break</u>	15 minutes
	<i>Complete Exercise 1 – Madison</i>	30 minutes
	<i>Complete Exercise 4 – Clark</i>	15 minutes
	<i>Using Exercise 4, get the red out, run diagnostics, create e-file, print</i>	30 minutes

Notes:

After teaching basic tax law on wages, interest, and dividends, you may find it easier to wrap up each of the subjects with TaxWise® open to the applicable TaxWise® forms. New volunteers may find this less confusing.

Depending on the experience level of the students, you may need to shift the individual exercises to Day 2. Inexperienced volunteers need as much time as possible to walk through TaxWise® and input the data for the comprehensive training exercise.

Advanced Course

Day 2	Topic	Suggested Teaching Times
	Lesson 3 Tax Refund and Alimony	15 minutes
	<i>Open Problem C and input Form 1099-G and alimony</i>	15 minutes
	Lesson 3 Self Employment	30 minutes
	<i>Open Problem C and input Form 1099 MISC</i>	30 minutes
	<i>Complete Supplemental Exercise 1-1 – Bates</i>	15 minutes
	<u>Break</u>	15 minutes
	Lesson 12 Sale of Stock	45 minutes
	<i>Open Problem C and input stock transactions</i>	30 minutes
	Lesson 13 Sale of Home	15 minutes
	<u>Lunch</u>	45 minutes
	<i>Complete Advanced Supplemental Exercise 3-2</i>	30 minutes
	Lesson 11 Pensions—IRA Distributions	30 minutes
	<i>Open Problem C and input 1099 R for IRA distribution</i>	30 minutes
	Lesson 11 Pensions—Pensions and Annuities	30 minutes
	<i>Open Problem C and input Forms 1099-R for pension</i>	30 minutes
	<u>Break</u>	15 minutes
	Lesson 3 Unemployment Compensation	15 minutes
	<i>Open Problem C and input Form 1099-G</i>	15 minutes

Advanced Course

Day 3	Topic	Suggested Teaching Times
	Lesson 11 Pensions—Social Security Benefits	15 minutes
	<i>Open Problem C and input SSA 1099 R</i>	15 Minutes
	Lesson 3 Other Income	15 minutes
	<i>Open Problem C and input Form W-2G</i>	15 minutes
	<i>Complete Practice Exercise 6 – Austin</i>	30 minutes
	<u>Break</u>	15 minutes
	Lesson 10 Adjustments—IRA Deductions	30 minutes
	<i>Open Problem C and input traditional IRA deduction</i>	15 minutes
	Lunch	45 minutes
	Lesson 10 Adjustments Student Loan Interest, Tuition and Alimony Paid Deductions	30 minutes
	<i>Open Problem C and input Educator Expense, Student Loan Interest, and Alimony paid</i>	30 minutes
	<u>Lunch</u>	45 minutes
	Lesson 4 Deductions & Tax Compensation	30 minutes
	<i>Open Problem C and input Itemized Deductions</i>	30 minutes
	<i>Complete Exercise 9 – McCook</i>	30 minutes
	<u>Break</u>	15 minutes
	Lesson 9 Miscellaneous Tax Credits	30 minutes
	Discuss the effect of these tax credits on TaxWise®	
	Lesson 7 Child and Dependent Care Expenses	30 minutes
	<i>Open Problem C and input daycare expenses</i>	
	Lesson 8 Education Credit	30 minutes
	<i>Open Problem C and input the tuition expenses</i>	
	Lesson 6 Child Tax Credit	15 minutes
	Discuss the automatic calculation for CTC	15 minutes

Advanced Course

Day 4	Topic	Suggested Teaching Times
	Lesson 5 Earned Income Credit	1 hour
	<i>Complete Exercise 2 – Parks</i>	45 minutes
	<i>Complete Exercise 10 – Reed</i>	30 minutes
	<u>Break</u>	15 minutes
	Lesson 14 Finishing the Return	45 minutes
	<i>Open Problem C, add Estimated Tax Payments and finish return</i>	30 minutes
	Discuss Diagnostic, Printing, Signing	30 minutes
	<u>Lunch</u>	45 minutes
	Sign return using Self Select PIN	15 minutes
	<i>Optional Supplemental Exercise 3-1</i>	(15 minutes)
	<i>Optional Supplemental Exercise 3-1</i>	(15 minutes)
	Summary & Review	30 minutes
	Changes to Tax Law, TaxWise® 2007 Updates, Common Errors, Questions	30 minutes
	<u>Break</u>	15 minutes
	<i>Complete Exercise 11 – Rosemont</i>	30 minutes
	<i>Complete Exercise 12 – Sterling</i>	30 minutes

Notes:

Teaching times for the optional exercises are shown. Depending on the experience level of your volunteers, you may not be able to complete these exercises. However, you may want to assign them as homework.

Exercise 11 and Exercise 12 are comprehensive exercises. Students should use these exercises to practice and hone their skills in completing tax returns using tax preparation software.

Day 5	Topic	Suggested Teaching Times
	Welcome returning experienced volunteers	15 minutes
	Summary and review of tax law and TaxWise®, common errors, and questions	45 minutes
	<u>Break</u>	15 minutes
	State Returns	2 hours
	<u>Lunch</u>	45 minutes
	Optional review Test: Complete any remaining exercises and/or practice	2 hours

Notes:

Day 5 is an optional day for returning volunteers and to teach any specific state tax issues.

Military Course

Volunteers completing the Military Course will follow the Advanced Course schedule through Day 4. The schedule for Day 5 is shown below.

Day 5	Topic	Suggested Teaching Times
	<i>Complete Military Comprehensive Problem D</i>	1 hour
	<u>Break</u>	15 minutes
	Complete Practice Exercises 13–15	90 minutes
	<u>Lunch</u>	45 minutes
	State Return	2 hours
	Optional: Review Test/Complete any remaining exercises and/or practice	90 minutes

International Course

Volunteers completing the International Course will follow the Advanced Course schedule through Day 4. The schedule for Day 5 is shown below.

Day 5	Topic	Suggested Teaching Times
	<i>Complete International Comprehensive Problem E</i>	2 hours
	<u>Break</u>	15 minutes
	Complete Practice Exercises 16–17	90 minutes
	<u>Lunch</u>	45 minutes
	State Return	2 hours
	Optional: Review Test/Complete any remaining exercises and/or practice	90 minutes

Appendix B—Class Schedules—Traditional Training

Basic Course

Day 1

9:00	Welcome, Introduction and Administrative Guidelines
10:00	Break
10:15	Lesson 1 – Taxpayer Identification Numbers (TINs) and Exemptions
10:45	Lesson 2 – Filing Status and Filing Requirement
11:15	Break
11:25	Lesson 3 – Income
12:00	Lunch
1:00	Lesson 3 – Income continued
1:30	Lesson 4 – Deductions and Tax Computations
2:00	Break
2:15	Lesson 5 – Earned Income Credit
4:15	Review and Questions
4:30	Class Dismissed

Day 2

9:00	Lesson 6 – Child Tax Credit
10:00	Break
10:15	Lesson 7 – Child and Dependent Care Credit
11:15	Lesson 8 – Education Credits
12:00	Lunch
1:00	Lesson 9 – Miscellaneous Credits
1:30	Lesson 14 – Finishing the Return
2:30	Break
2:45	State and Local Tax Presentation (Optional)
4:15	Class wrap-up (See Note below)

Notes:

Have the students complete the Basic Comprehensive Problem in Publication 678-W and discuss their results.

Intermediate Course

Day 1

9:00	Welcome, Introductions and Administrative Guidelines
10:00	Break
10:15	Lesson 1 – TINs and Exemptions
10:45	Lesson 2 – Filing Status and Filing Requirements
11:15	Break
11:25	Lesson 3 – Income
Noon	Lunch
1:00	Lesson 3 – Income continued
2:00	Break
2:15	Lesson 4 – Deductions and Tax Computations
3:15	Break
3:25	Lesson 5 – Earned Income Credit
4:15	Wrap up and Review
4:30	Class dismiss

Day 2

9:00	Lesson 5 – Earned Income Credit continues
10:00	Break
10:15	Lesson 6 – Child Tax Credit
11:15	Break
11:25	Lesson 7 – Child and Dependent Care Credit
Noon	Lunch
1:00	Lesson 7 – Child and Dependent Care Credit continued
1:30	Lesson 8 – Education Credits
2:30	Break
2:45	Lesson 9 – Miscellaneous Credits
3:15	Break
3:25	Lesson 10 – Adjustments to Income
4:15	Wrap up and Review
4:30	Class dismiss

Day 3

9:00	Lesson 11 – Pensions and Other Retirement Income
10:00	Break
10:15	Lesson 14 – Finishing the Return
11:15	Wrap Up and Review (See Note below)
Noon	Lunch
1:00	State and Local Tax Presentation (Optional)
2:30	Class Dismiss

Notes:
Have the students complete the Intermediate Comprehensive Problem in Publication 678-W and discuss their results.

Advanced Course

Day 1

9:00	Welcome, Introductions and Administrative Guidelines
10:00	Break
10:15	Lesson 1 – TINs and Exemptions
10:45	Lesson 2 – Filing Status and Filing Requirements
11:15	Break
11:25	Lesson 3 – Income
Noon	Lunch
1:00	Lesson 3 – Income continued
2:00	Break
2:15	Lesson 3 – Income continued
2:45	Lesson 4 – Deductions and Tax Computations
3:45	Lesson 5 – Earned Income Credit
4:15	Wrap up and Review
4:30	Class dismiss

Day 2

9:00	Lesson 5 – Earned Income Credit continued
10:00	Break
10:15	Lesson 6 – Child Tax Credit
11:15	Break
11:25	Lesson 7 – Child and Dependent Care Credit
12:00	Lunch
1:00	Lesson 7 – Child and Dependent Care Credit continued
1:30	Lesson 8 – Education Credits
2:30	Break
2:45	Lesson 9 – Miscellaneous Credits
3:15	Lesson 10 – Adjustments to Income
4:15	Wrap up and Review
4:30	Class dismiss

Day 3

9:00	Lesson 11 – Pensions and Other Retirement Income
10:00	Break
10:15	Lesson 11 – Pensions continued
11:15	Lesson 12 – Sale of Stock
Noon	Lunch
1:00	Lesson 12 – Sale of Stock continued
2:00	Break
2:15	Lesson 13 – Sale of Home
2:45	Break
2:50	Lesson 14 – Finishing the Return
4:00	Wrap up and Review (See Note below)
4:30	Class dismiss

Note:

Have the students complete the Advanced Comprehensive Problem in Publication 678-W and discuss their results.

Military and International Courses

Day 1

9:00	Welcome, Introductions and Administrative Guidelines
10:00	Break
10:15	Lesson 1 – TINs and Exemptions
10:45	Lesson 2 – Filing Status and Filing Requirements
11:15	Break
11:25	Lesson 3 – Income
Noon	Lunch
1:00	Lesson 3 – Income continued
2:00	Break
2:15	Lesson 3 – Income continued
2:45	Lesson 4 – Deductions and Tax Computations
3:45	Lesson 5 – Earned Income Credit
4:15	Wrap up and Review
4:30	Class dismiss

Day 2

9:00	Lesson 5 – Earned Income Credit continued
10:00	Break
10:15	Lesson 6 – Child Tax Credit
11:15	Break
11:25	Lesson 7 – Child and Dependent Care Credit
12:00	Lunch
1:00	Lesson 7 – Child and Dependent Care Credit continued
1:30	Lesson 8 – Education Credits
2:30	Break
2:45	Lesson 9 – Miscellaneous Credits
3:15	Lesson 10 – Adjustments to Income
4:15	Wrap up and Review
4:30	Class dismiss

Day 3

9:00	Lesson 11 – Pensions and Other Retirement Income
10:00	Break
10:15	Lesson 11 – Pensions continued
11:15	Lesson 12 – Sale of Stock
Noon	Lunch
1:00	Lesson 12 – Sale of Stock continued
2:00	Break
2:15	Lesson 13 – Sale of Home
2:45	Break
2:50	Lesson 14 – Finishing the Return
4:00	Wrap up and Review (See Note below)
4:30	Class dismiss

Note:

Have the students complete the applicable Military or International Comprehensive Problem in Publication 678-W and discuss their results.

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