

2005 FACILITATOR'S GUIDE



FOR USE IN IRS VOLUNTEER RETURN PREPARATION PROGRAMS

- **Volunteer Income Tax Assistance (VITA)**
- **Tax Counseling for the Elderly (TCE)**
- **Military Volunteer Income Tax Assistance (M-VITA)**
- **Volunteer Embassy and Consulate Tax Assistance (VECTA)**

For the most up-to-date tax products and information visit www.irs.gov.



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Internal Revenue Service
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Course Number 3004 P (VITA/TCE)
Course Number 3004 M (Military/International)



Pending Legislation

At the time this publication went to print, legislation providing relief for persons impacted by recent natural disasters was in the process of being passed and implemented. The training material includes draft tax forms that did not take the proposed legislation into account. Therefore, the legislation will cause various forms, tables, and worksheets to change. Additional guidance will be issued in the form of a supplement.

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 you receive from taxpayers in your VOLUNTEER capacity is strictly confidential and should not, under any circumstances, be disclosed to unauthorized individuals.

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DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

WAGE AND INVESTMENT DIVISION

NOV 04 2005

Welcome Volunteers!

Thank you for being a critical part of the Volunteer Return Preparation Program (VRPP) of the Internal Revenue Service and its partners. Free programs such as Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) provide important services for over two million low-income and elderly people who need tax preparation assistance. I appreciate the time you have chosen to commit to help others with this complex task.

In this training and reference package, you will find tools that enhance your interaction with taxpayers. Of note are the updated Publication 4012, *Volunteer Resource Guide*, and the new Publication 678-W, *Comprehensive Problems and Exercises Workbook*. These tools combined with the lessons in the training material will help you provide high-quality tax preparation for the taxpayers who seek your assistance. Available separately this year is a new video offering interview tips and techniques to use as you engage taxpayers.

In addition to improving quality service, we continue to expand the training options available to you. This year, the material is available as four courses that stand on their own—Basic, Intermediate, Advanced and Military. **Link & Learn Taxes** is the web-based volunteer training program, which covers the same tax law theory and application as the paper-based training courses. This year a kit has been designed to aid students who use **Link & Learn Taxes**. Publication 4480, *Link and Learn Taxes Kit*, will consist of Publications 4012 and 678-W, as well as Form 6744, Test.

I urge you to electronically file (e-file) the returns you prepare. E-filing uses automation to quickly check for errors or missing information. Consequently, e-filed returns have a higher accuracy rate than paper-prepared returns.

I appreciate your efforts to protect the privacy of the taxpayers you assist by safeguarding the confidential information they share with you. Your site manager will discuss with you the steps you should take to guard the information provided to you. The protection of taxpayer information and quality service are the keys to the integrity of the program.

If you have any questions or recommendations about our training materials, please see your facilitator or site coordinator. They can take your suggestions, or you can write to us at the following address:

Internal Revenue Service
Stakeholder Partnerships, Education and Communication
SE:W:CAR:SPEC:PPD:E, Stop 45-W
401 W. Peachtree St., NW
Atlanta, GA 30308

Thank you for being a part of this valuable public service for your neighbors and community.

Sincerely,

Ellie Cimaglia
Director, Stakeholder Partnerships,
Education and Communication

Where has the time gone? To our returning facilitators—welcome back, to our new facilitators—welcome. Your personal efforts and those of over 100,000 other volunteers are invaluable to those with low to moderate income, including persons with disabilities, limited English proficiency, and the elderly.

We welcome your comments and suggestions for improving our products and encourage you to respond to the course evaluation in this kit.

This course is designed to allow you the flexibility you need to facilitate a class to meet the needs of the taxpayers the students will be assisting. This year, the lessons have been renumbered and in a few cases merged to satisfy the need to focus on the complexity of returns volunteers prepared—Basic, Intermediate, Advanced, and Military/International. More information about the curriculum changes are explained below.

Tax Year 2005 Product Changes and Enhancements

New Facilitator’s Guide—Publication. 1155 The revamped Publication 1155 facilitates the presentation of the tax law in the student text (Publication 678) using PowerPoint slides with notes/comments for facilitating discussions, conveying key points, etc. We welcome your comments on this change. The actual PowerPoint presentation must be downloaded from the Internet at www.irs.gov.

New comprehensive exercises and problems workbook (Publication 678-W). Included in your kit is as well as the student’s kit (Publication 678) is a Publication 678W, Comprehensive Problems and Exercises for paper and e-file volunteer tax preparers. The wage earner, pension earner and integrated training comprehensive problems are extracted from Publication 678 and presented in the new workbook. A military problem was added while others were enhanced to align with the new curriculums based on tax complexity—Basic, Intermediate, Advanced and Military/International.

Four Standalone Curriculums—Greater Flexibility. This year, the material is divided into four curriculums—Basic, Intermediate, Advanced and Military/International. You may customize the material to meet the needs of your students. Military/International tax law is included in the Publication 678, VRPP Student Guide and no longer available in Publication 678M, Military Student Text.

Tax Tables and EIC Tables. The Tax Tables and EIC Tables are included as Appendix A and Appendix B in Publication 678-W.

Test, Retest and e-learning application “Link and Learn Taxes” Restacked. The lessons in Link & Learn Taxes (L<) and Publication 678 have been renumbered and/or merged to satisfy the need to focus on the complexity of returns volunteers prepare (Basic, Intermediate, Advanced and Military/International) instead of taxpayer segments (Basic, Wage Earner, and Pension Earner). The test and retest will also be presented based on tax law complexity.

New Link and Learn Taxes Student Kit (Publication 4480). Link and Learn Taxes is the web based volunteer training applications. The L< kit addresses concerns raised by volunteers regarding printing of the L< test scenarios and the availability of the Reference Guide (Publication 4012) to L< students. The kit will consist of Publication 4012 and the test (Form 6744) and the new student workbook (Publication 678-W).

Obsolescing of Publications 3922, 3922SP, 3888, 3888SP (C-VITA). The Condensed VITA (C-VITA) training publications are no longer available. The new Basic curriculum in the Publication 678 is the quality alternative for former C-VITA users. It focuses on tax law, the interview process, the intake sheet and the quality assurance process.

Course Numbers. All classes have been assigned a course number. These numbers can be found at the end of this section. Please use these numbers on the course evaluation sheets.

Volunteer Return Preparation Program. Last year, we started referring to the Volunteer Return Preparation Program (VRPP). This title is all inclusive of the Volunteer Income Tax Assistance (VITA) program, Tax Counseling for the Elderly (TCE) program, Military Volunteer Income Tax Assistance (M-VITA) and Volunteer Embassy and Consulate Tax Assistance (VECTA) program. Anytime that you see the VRPP acronym remember that it includes you.

You Have a New Title. To more properly reflect the role that you play, we have changed your title. In previous years, you were called an instructor. Now, you are a facilitator. Regardless of the title, you are a vital component of the VRPP.

Curriculums and Certification

The volunteer training strategies are changing this year to more effectively prepare the VRPP participants to serve taxpayers worldwide. The volunteer training options will include four courses. **Each course is a complete certification track.** The courses are Basic, Intermediate, Advanced and Military/International. The course outlines are detailed below.

Each of the four training courses may be delivered using the traditional, Integrated, self-study or **Link & Learn Taxes** method.

- **Traditional Instruction** – topics are taught using a concept (definitions and rules) approach in a classroom setting with students working exercises and comprehensive problems.
- **Integrated Instruction** – topics are taught using a combination of concept and application incorporating a tax return preparation software in a classroom setting. As an example, students would learn the Filing Status definitions and apply the rules to a sample taxpayer scenario in TaxWise®.
- **Self-Study** – tax law topics are presented in a Student Guide with an associated Workbook.
- **Link & Learn Taxes** (Online E-Learning) – topics are taught using a concept (definitions and rules) approach online with students working exercises and comprehensive problems.

Basic Curriculum

Introduction and Administrative Guidelines

- Lesson 1 – Getting Started
- Lesson 2 – Filing Status and Filing Requirement
- Lesson 3 – Income (i.e. Wages, Interest, Dividends, Unemployment & Gambling)
- Lesson 4 – Deductions and Tax Computation—Standard Deduction
- Lesson 5 – Earned Income Credit
- Lesson 6 – Child Tax Credit
- Lesson 7 – Child and Dependent Care Credit
- Lesson 8 – Education Credits
- Lesson 9 – Miscellaneous Credits
- Lesson 14 – Finishing the Return

Prospective students for the Basic Course: partnerships or coalitions targeting wage earning individuals and families. This course, delivered using the Integrated method, would be a comprehensive C-VITA replacement.

Intermediate Curriculum

Introduction and Administrative Guidelines

- Lesson 1 – Getting Started
- Lesson 2 – Filing Status and Filing Requirement
- Lesson 3 – Income (i.e. Wages, Interest, Dividends, Unemployment & Gambling, State and/or Local Tax Refunds, Premature Pension or Deferred Compensation Distribution, Alimony, Social Security Income and Schedule C-EZ.)
- Lesson 4 – Deductions and Tax Computation—Standard and Itemized Deduction
- Lesson 5 – Earned Income Credit
- Lesson 6 – Child Tax Credit
- Lesson 7 – Child and Dependent Care Credit
- Lesson 8 – Education Credits
- Lesson 9 – Miscellaneous Credits
- Lesson 10 – Adjustments to Income
- Lesson 11 – Pensions—Taxable amount determined
- Lesson 14 – Finishing the Return

Prospective students for the Intermediate Course: partnerships, coalitions and sites who serve a customer base with more diverse return preparation needs including wage and pension earners.

Advanced Curriculum

Introduction and Administrative Guidelines

- Lesson 1 – Getting Started
- Lesson 2 – Filing Status and Filing Requirement
- Lesson 3 – Income (i.e. Wages, Interest, Dividends, Unemployment & Gambling, State and/or Local Tax Refunds, Premature Pension or Deferred Compensation Distribution, Alimony, Social Security Income and Schedule C-EZ.)
- Lesson 4 – Deductions and Tax Computation—Standard and Itemized Deduction
- Lesson 5 – Earned Income Credit
- Lesson 6 – Child Tax Credit
- Lesson 7 – Child and Dependent Care Credit
- Lesson 8 – Education Credits

- Lesson 9 – Miscellaneous Credits
- Lesson 10 – Adjustments to Income
- Lesson 11 – Pensions—(i.e. Taxable Amount Determined, Railroad Retirement Board Tier 2, Taxable Amount not Determined, Annuities, IRAs, etc.
- Lesson 12 – Sale of Stock
- Lesson 13 – Sale of Home
- Lesson 14 – Finishing the Return

Prospective students for the Advanced Course: partnerships, coalitions and sites which have an experienced volunteer corps who serve customers with return preparation needs across the full spectrum of the VRPP.

Military/International Curriculum

Introduction and Administrative Guidelines

- Lesson 1 – Getting Started
 - Getting Started—Military
- Lesson 2 – Filing Status and Filing Requirement
 - Filing Status—Military/International
- Lesson 3 – Income
 - Income—Military
 - Other Income—Military
 - Foreign Income Exclusion—Military
 - World Wide Income—International
 - Self-Employment Tax—International
 - Rental Income & Expenses—International
- Lesson 4 – Deductions and Tax Computation
 - Travel Expenses—Military
 - Other Miscellaneous Deductions—Military
 - Business Travel Expenses—International
- Lesson 5 – Earned Income Credit
- Lesson 6 – Child Tax Credit
- Lesson 7 – Child and Dependent Care Credit
- Lesson 8 – Education Credits
- Lesson 9 – Miscellaneous Credits
 - Foreign Tax Credit—International
- Lesson 10 – Adjustments to Income
 - Moving Expenses—Military
- Lesson 11 – Pensions
- Lesson 12 – Sale of Stock
- Lesson 13 – Sale of Home
- Lesson 14 – Finishing the Return
 - Finishing the Return—Military

The Military Course has been developed in collaboration with the Armed Forces Tax Council to train personnel to assist at military installation tax centers. These students train to the full scope of the VRPP except with minimal pension income instruction.

Certification

All tax return preparers and quality reviewers must be certified to volunteer in the VRPP. Certification is available for all curriculums. 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. Volunteers may use any reference materials available to them as a volunteer to complete this test.

The Test (Publication 6744)

The test consists of three segments. Segments 1 and 2 are universal for all volunteers. The third segment (return preparation) is chosen based on the training course completed by the volunteer. All volunteers must answer 30 narrative questions and prepare two tax returns at a 70% proficiency to acquire VRPP certification.

Segment 1 (30 points)

30 True/False, Multiple Choice and Objective Questions covering tax law and administrative procedures.

Segment 2 (35 points)

5 questions based on the completion of the VRPP Universal Tax Return and 5 questions based on the quality review of a completed return.

Segment 3 (35 points)

10 application questions based on the volunteer's curriculum as follows:

- **Basic course problem** will certify the completion of wage earner type returns such as Forms 1040EZ, 1040A and simple Form 1040.
- **Intermediate course problem** will certify completion of wage and pension earner type returns and more complex Form 1040.
- **Advanced course problem** will certify the completion of the full scope of returns prepared by the Volunteer Return Preparation Program.
- **Military course problem** will certify the completion of the full scope of returns presented by members of the Armed Forces, Reserve and National Guard.
- **International course problem** will certify the compilation of returns for non-Military taxpayers living outside the United States assisted by VECTA volunteers.

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

Lesson/Segment	Basic	Intermediate	Advanced	Refresher	Military/ International
Introduction and Administrative Guidelines					
Lesson 1—Getting Started	1–2	1–2	1–2	1	1–2
Lesson 2—Filing Status and Filing Requirements	1–2	1–2	1–2	1	1–2
Lesson 3—Income – Basic	1	1–2	1–2	1	1–2
Lesson 4—Deductions and Tax Computation	1	2	2	1	2.5
Lesson 5—Earned Income Credit	2	2	2	½	2
Lesson 6—Child Tax Credit	¾	¾	¾	¾	1
Lesson 7—Child and Dependent Care Credit	1	1	1	½	1
Lesson 8—Education Credits	1	1	1	½	1
Lesson 9—Miscellaneous Credits	¾	¾	¾	1/2	½
Lesson 10—Adjustments to Income	n/a	1	1	¼	1
Lesson 11—Pensions	n/a	1–2	1–2	¼	1–2
Lesson 12—Sale of Stock	n/a	n/a	2	½	2
Lesson 13—Sale of Home	n/a	n/a	1/2	¼	1
Lesson 14—Finishing the Return	1	1	1	1	1.5
Problem and Exercises (Publication 678W)	1–2	1–2	1–2	1–2	1–2

Basic Curriculum Sample Class Syllabus

Day 1

9:00	Welcome, Introduction and Administrative Guidelines
10:00	Break
10:15	Lesson 1 – Getting Started
10:45	Lesson 2 – Filing Status and Filing Requirement
11:15	Brief Break
11:25	Lesson 3 – Income
12:00	Lunch
1:00	Lesson 3 – Income continued
1:30	Lesson 4 – Deductions and Tax Computation
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	Short break
2:45	State and Local Tax Presentation (Optional)
4:15	Class wrap-up

Intermediate Curriculum Sample Class Syllabus

Day 1

9:00	Welcome, Introductions and Administrative Guidelines
10:00	Break
10:15	Lesson 1 – Getting Started
10:45	Lesson 2 – Filing Status and Filing Requirements
11:15	Brief 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	Brief 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	Brief 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	Brief 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
10:00	Break
10:15	Lesson 14 – Finishing the Return
11:15	Wrap Up and Review
Noon	Lunch
1:00	State and Local Tax Presentation (Optional)
2:30	Class Dismiss

Advanced Curriculum Sample Class Syllabus

Day 1

9:00	Welcome, Introductions and Administrative Guidelines
10:00	Break
10:15	Lesson 1 – Getting Started
10:45	Lesson 2 – Filing Status and Filing Requirements
11:15	Brief 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	Brief 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
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	Short Break
2:50	Lesson 14 – Finishing the Return
4:00	Wrap up and Review
4:30	Class dismiss

Refresher Curriculum Sample Class Syllabus

Day 1

8:30	Welcome, Introductions and Administrative Guidelines
9:30	Lesson 1 – Getting Started
10:00	Break
10:15	Lesson 2 – Filing Status and Filing Requirements
10:30	Lesson 3 – Income
11:00	Lesson 4 – Deductions and Tax Computation
11:30	Lesson 5 – Earned Income Credit
Noon	Lunch
1:00	Lesson 6 – Child Tax Credit
1:15	Lesson 7 – Child and Dependent Care Credit
1:30	Lesson 8 – Education Credits
1:45	Lesson 9 – Miscellaneous Credits
2:00	Lesson 10 – Adjustments to Income
2:15	Lesson 11 – Pensions
2:30	Break
2:45	Lesson 12 – Sale of Stock
3:15	Lesson 13 – Sale of Home
3:30	Lesson 14 – Finishing the Return
4:30	Wrap up and Dismiss

Note: This syllabus does not include a time for a State and/or Local Tax presentation.

Military Curriculum Sample Class Syllabus

Day 1

8:30	Welcome, Introductions and Administrative Guidelines
9:30	Lesson 1 – Getting Started
10:00	Break
10:15	Lesson 1 – Getting Started continued
10:45	Lesson 2 – Filing Status and Filing Requirements
11:45	Lunch
12:45	Lesson 3 – Income
2:00	Break
2:15	Lesson 3 – Income continued
3:15	Break
3:30	Lesson 4 – Deductions and Tax Computation
4:00	Wrap Up and Review
4:30	Class Dismiss

Day 2

8:30	Lesson 4 – Deductions and Tax Computation continued
9:30	Short break
9:40	Lesson 5 – Earned Income Credit
10:40	Short break
10:50	Lesson 5 – Earned Income Credit continued
12:00	Lunch
1:00	Lesson 6 – Child Tax Credit
2:00	Short break
2:10	Lesson 7 – Child and Dependent Care Credit
3:10	Short break
3:20	Lesson 8 – Education Credits
4:15	Wrap Up and Review
4:30	Class Dismiss

Day 3

8:30	Lesson 9 – Miscellaneous Credits
9:30	Short Break
9:40	Lesson 10 – Adjustments to Income
10:40	Short Break
10:50	Lesson 10 – Adjustments to Income continued
11:20	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	Short Break
2:50	Lesson 14 – Finishing the Return
4:15	Wrap Up and Review
4:30	Dismiss

Day 4

8:30	Software training
10:30	State and Local Tax Presentation (Optional)
Noon	Dismiss

**Table 1:
VITA/TCE Class Numbers (for Use with Form 12466 and Form 12462)**

SPEC Office	Class Number	SPEC Office	Class Number
Area 1 Greensboro North Carolina			
Albany NY	WI-2006-14	Baltimore MD	WI-2006-15
Boston MA	WI-2006-16	Buffalo NY	WI-2006-17
Burlington VT	WI-2006-18	Charleston WV	WI-2006-19
Charlotte NC	WI-2006-20	Columbia SC	WI-2006-21
Greensboro NC	WI-2006-22	Hartford CT	WI-2006-23
Manchester NH	WI-2006-24	Newark NJ	WI-2006-25
New York City NY	WI-2006-26	Norfolk VA	WI-2006-27
Philadelphia PA	WI-2006-28	Pittsburgh PA	WI-2006-29
Portland ME	WI-2006-30	Providence RI	WI-2006-31
Raleigh NC	WI-2006-32	Richmond VA	WI-2006-33
Washington DC	WI-2006-34	Wilmington DE	WI-2006-35
Area 2 Indianapolis Indiana			
Atlanta GA	WI-2006-36	Chicago IL	WI-2006-37
Cincinnati OH	WI-2006-38	Cleveland OH	WI-2006-39
Columbus OH	WI-2006-41	Detroit MI	WI-2006-42
Guaynabo PR	WI-2006-44	Indianapolis IN	WI-2006-58
Jacksonville FL	WI-2006-60	Louisville KY	WI-2006-62
Maitland FL	WI-2006-63	Memphis TN	WI-2006-64
Miami FL	WI-2006-65	Milwaukee WI	WI-2006-66
Nashville TN	WI-2006-67	Panama City FL	WI-2006-68
Plantation FL	WI-2006-69	Tampa FL	WI-2006-70
W Palm Beach FL	WI-2006-71		
Area 3 Dallas Texas			
Austin TX	WI-2006-72	Birmingham AL	WI-2006-73
Dallas TX	WI-2006-74	Des Moines IA	WI-2006-75
El Paso TX	WI-2006-76	Fargo ND	WI-2006-77
Houston TX	WI-2006-78	Jackson MS	WI-2006-79
Kansas City MO	WI-2006-80	Little Rock AR	WI-2006-81
Lubbock TX	WI-2006-82	New Orleans LA	WI-2006-83
Oklahoma City OK	WI-2006-84	Omaha NE	WI-2006-85
San Antonio TX	WI-2006-86	Sioux Falls ND	WI-2006-87
St. Louis MO	WI-2006-88	St. Paul MN	WI-2006-89
Wichita KS	WI-2006-90		
Area 4 Phoenix Arizona			
Albuquerque NM	WI-2006-92	Anchorage AK	WI-2006-93
Boise ID	WI-2006-94	Cheyenne ND	WI-2006-95
Denver CO	WI-2006-96	Helena MT	WI-2006-97
Honolulu HI	WI-2006-98	Las Vegas NV	WI-2006-99
Los Angeles CA	WI-2006-100	Phoenix AZ	WI-2006-101
Portland OR	WI-2006-102	Sacramento CA	WI-2006-103
Salt Lake City UT	WI-2006-104	San Diego CA	WI-2006-105
San Francisco CA	WI-2006-106	San Jose CA	WI-2006-107
Seattle WA	WI-2006-108		
Other			
Overseas VITA	WI-2006-109		

**Table 1:
M-VITA Class Numbers (for Use with Form 12466 and Form 12462)**

SPEC Office	Class Number	SPEC Office	Class Number
Area 1 Greensboro North Carolina			
Albany NY	WI-2006-9	Baltimore MD	WI-2006-10
Boston MA	WI-2006-11	Buffalo NY	WI-2006-12
Burlington VT	WI-2006-13	Charleston WV	WI-2006-40
Charlotte NC	WI-2006-43	Columbia SC	WI-2006-45
Greensboro NC	WI-2006-46	Hartford CT	WI-2006-47
Manchester NH	WI-2006-48	Newark NJ	WI-2006-49
New York City NY	WI-2006-50	Norfolk VA	WI-2006-51
Philadelphia PA	WI-2006-52	Pittsburgh PA	WI-2006-53
Portland ME	WI-2006-54	Providence RI	WI-2006-55
Raleigh NC	WI-2006-56	Richmond VA	WI-2006-57
Washington DC	WI-2006-59	Wilmington DE	WI-2006-61
Area 2 Indianapolis Indiana			
Atlanta GA	WI-2006-110	Chicago IL	WI-2006-111
Cincinnati OH	WI-2006-112	Cleveland OH	WI-2006-113
Columbus OH	WI-2006-114	Detroit MI	WI-2006-115
Guaynabo PR	WI-2006-116	Indianapolis IN	WI-2006-117
Jacksonville FL	WI-2006-118	Louisville KY	WI-2006-119
Maitland FL	WI-2006-120	Memphis TN	WI-2006-121
Miami FL	WI-2006-122	Milwaukee WI	WI-2006-123
Nashville TN	WI-2006-124	Panama City FL	WI-2006-125
Plantation FL	WI-2006-126	Tampa FL	WI-2006-127
W Palm Beach FL	WI-2006-128		
Area 3 Dallas Texas			
Austin TX	WI-2006-129	Birmingham AL	WI-2006-130
Dallas TX	WI-2006-131	Des Moines IA	WI-2006-132
El Paso TX	WI-2006-133	Fargo ND	WI-2006-134
Houston TX	WI-2006-135	Jackson MS	WI-2006-136
Kansas City MO	WI-2006-137	Little Rock AR	WI-2006-138
Lubbock TX	WI-2006-139	New Orleans LA	WI-2006-140
Oklahoma City OK	WI-2006-141	Omaha NE	WI-2006-142
San Antonio TX	WI-2006-143	Sioux Falls ND	WI-2006-144
St. Louis MO	WI-2006-145	St. Paul MN	WI-2006-146
Wichita KS	WI-2006-147		
Area 4 Phoenix Arizona			
Albuquerque NM	WI-2006-148	Anchorage AK	WI-2006-149
Boise ID	WI-2006-150	Cheyenne ND	WI-2006-151
Denver CO	WI-2006-152	Helena MT	WI-2006-153
Honolulu HI	WI-2006-154	Las Vegas NV	WI-2006-155
Los Angeles CA	WI-2006-156	Phoenix AZ	WI-2006-157
Portland OR	WI-2006-158	Sacramento CA	WI-2006-159
Salt Lake City UT	WI-2006-160	San Diego CA	WI-2006-161
San Francisco CA	WI-2006-162	San Jose CA	WI-2006-163
Seattle WA	WI-2006-164		
Other			
Overseas Military	WI-2006-165		

FACILITATOR NOTES

Volunteer Return Preparation Program (VRPP) Training TY 2005

Welcome

Sponsoring Organization or Agency
Facilitator(s)
Contact information



Welcome to the Tax Year 2005 VRPP Training

- Complete this slide.
- Conduct an icebreaker (if desired).
- Have facilitators and students introduce themselves.
- Welcome new and/or returning students.
- Provide scope of program and objectives.
 - VRPP boasts over 14,000 sites and 70,000 volunteers
 - “To provide free, top-quality service to eligible taxpayers.”
 - Define the four programs under the VRPP umbrella on the cover of this publication.
- Discuss common acronyms.
 - Provide an overview of the VRPP.
 - Provide an overview of IRS-SPEC and 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.
- Ask to locate their student text (Publication 678).
- Share your course outline with the students.

Progress to the next slide.

e-learning Options



& Understanding Taxes Website

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



- Discuss key components of L< which is featured on the bag (Publication 1278) in the student kit and on the cover of this publication.
 - L< is IRS' VRPP e-learning application.
 - L< is available 24/7 on www.irs.gov Keyword: Link and Learn Taxes.
 - 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 or Military/International on L<.

Progress to the next slide.

Evaluations

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



- Complete 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.

Progress to the next slide.

FACILITATOR NOTES

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

Important Changes

- Uniform Definition of a Qualifying Child
 - Dependency
 - Head of Household
 - Earned Income Credit
 - Child Tax Credit
 - Child and Dependent Care Credit



These slides contain information for all courses and has been updated for Tax Year 2005.

- Have students turn to the Important Tax Law Changes for 2005 in the beginning of the student text (Publication 678).
- Tell the students that you will take a few moments to review some of the changes.
- Assure new students that this section is just for awareness. The changes will be explained further in the appropriate lessons.
- Inform students that the uniform definition of a qualifying child is a major change that will impact the tax benefits on the slide. The intent behind the change was to eliminate the multiple definitions of a qualifying child.

Progress to the next slide.

Important Changes

- **These will be covered in more depth in the appropriate lesson:**
 - Standard deduction
 - Exemption amount
 - Standard mileage rate
 - Medical and move-related mileage
 - Charitable contributions of cars, boats, and aircrafts



- Remind the students that the amounts for 2005 will be covered in the appropriate lesson.
- 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 to not be discouraged. The meaning of these terms will be fully explained in later lessons.
- Tell students that Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes is used for auto donations in excess of \$500.

Progress to the next slide.

Important Changes

- EIC maximum credits for tax year 2005
- Maximum income a taxpayer can earn to qualify for EIC
- Investment income limitations



- Tell students that the Earned Income Credit is covered in a separate lesson.
- Have the students glance at the amounts that are listed in the Important Tax Law Changes For 2005 section of the student text under the heading EIC Income and Investment Limitations.

Progress to the next slide.

Important Changes

- Other Changes
 - Maximum social security wages
 - Self-Employment Tax
 - IRA Contribution Limits
 - Education Credits
 - Child and Dependent Care Credit



- Inform students that they will probably not have to be concerned about the social security wage limit because the income level is outside of the traditional VRPP customer.
- Point out the change to Child and Dependent Care and tell the students there is a lesson dedicated to this credit.

Progress to the next slide.

EITC Assistant

–EITC Assistant:

- online tool for determining EITC eligibility.
- in English and Spanish.
- at www.irs.gov, 24 hours a day 7 days a week.

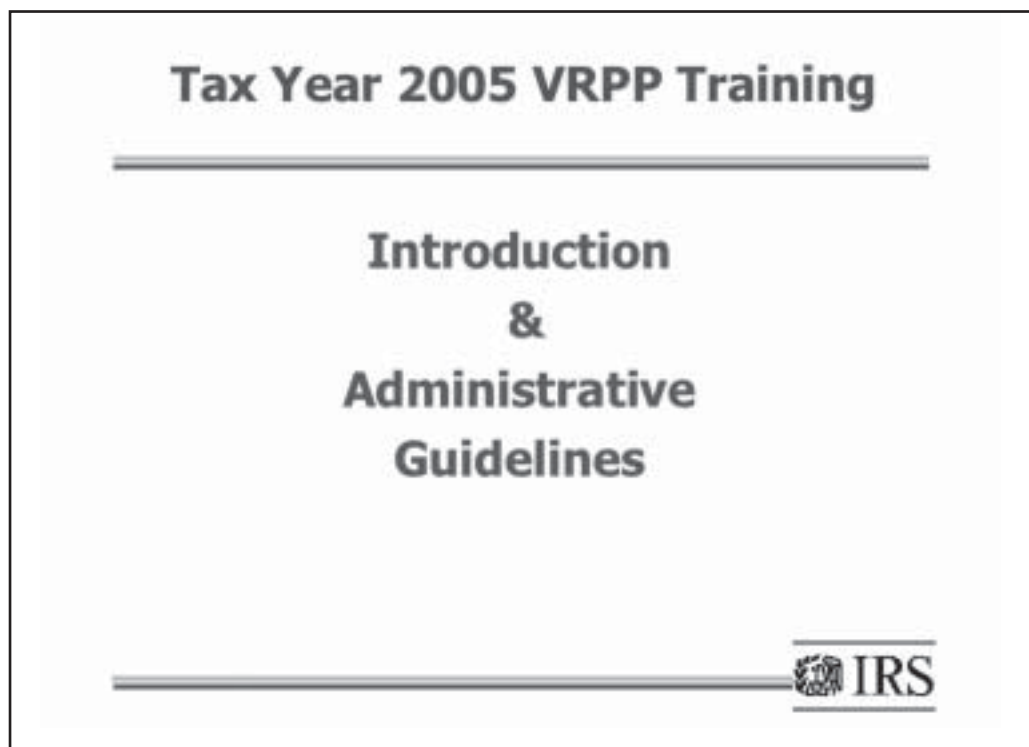


- Read the slide.
- Advise the students that this resource is available to help taxpayers determine EITC eligibility.

Progress to Introduction & Administrative Guidelines.

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 2005.

■ **References:**

- Publication 678, Student Kit (content)
- Form 13614, Interview and Intake Sheet
- Form 13615, Volunteer Agreement/Standards of Conduct
- Form 13645, Wallet Card
- Publications 17, Guide to Federal Taxes for Individuals
- Publication 4012, Volunteer Quick Reference Guide
- Volunteer Protection Act
- Forms and Instructions for 1040, 1040A and 1040EZ
- Table of Contents (Publication 678)
- DVD – Interview Techniques (An AICPA and IRS 2005 Production)
- Publication 4299, Privacy & Confidentiality Brochure
- Publication 1915, Understanding Your IRS ITIN

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

- Their rights under the Volunteer Protection Act
- The Ethical Standards of the VRPP Program
- How VRPP Returns are Identified by the IRS
- The Type of Returns they Will Prepare
- Resources and Other Tools Available from the IRS
- An Introduction to the course and lesson features
- Screening and Probing Interviews and the Four Step Interview Process

Progress to the next slide.

Administrative Matters

- **Volunteer Protection Act**
- **Standards of Conduct**
- **Wallet Card**



- Introduce topics on the slide.
- Refer to page 2.
- General comments:
 - Caution the students to gracefully decline any token of appreciation offered by a taxpayer while acknowledging the generous intention.
 - Discuss the standards of conduct in detail (see next slide).
 - **NOTE:** Be sure to discuss the ramifications of the action taken by the VRPP volunteer in the alert on page 2.
 - Discuss the wallet cards.
- Explain to the students the provisions/scope of the Volunteer Protection Act.

Progress to the next slide.

Standards of Conduct

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



- Refer the students to page 2 of the student text and the Form 13615 in the test (Form 6744 in the kit).
- Introduce the Volunteer Agreement/Standards of Conduct in Form 6744.
- Explain to students that all volunteers must sign Form 13615 (even those that do not prepare returns).
- Discuss each standard and seek comments and understanding from the class.
- Advise students no one (volunteers or taxpayers) can be subject to discrimination or denied services because of race, color, sex, national origin, disability, reprisal, or age.
- Refer students with questions to Publication 4299, Privacy and Confidentiality.
- Seek comments regarding the potential ramifications of the action taken by the VRPP volunteer in the alert.

Progress to the next slide.

Administrative Matters

- **Site Identification Number**
- **Scope of the VRPP Program**
- **Help from the IRS**



- Highlight key points for the first two topics on the slide using information on Pages 3 & 4
- Using the 1040 exhibits on the last pages of this lesson, show students where the SIDN is entered on the return and inform students that overprinted forms are available from IRS as explained in Equipment and Supplies on page 6.

Progress to the next slide.

Help From the IRS

- **E-File software - TaxWise**
- **Publications 4012 & 17**
- **Intake and Interview Sheet**
- **Volunteer Hotline & Quality Alerts**
- **Instruction Booklets & worksheets**
- **Equipment & Supplies**



- Elaborate on the topics on this slide using the text.
- Provide the following information (at a minimum)
 - Content of each item and purpose
 - How and why to use them
 - Advantages/information they provide
 - How to obtain them
- Advise students to consult their coordinator at the tax preparation site for immediate on-site assistance.
- Show students the self-assessment in Publication 4012 (Page 1) and tell them to complete the assessment before they start working at the VRPP Site.
- Discuss the intake and interview sheet (Form 13614) and it or an equivalent product should be used.

Note: The TaxWise® Main Information Screen and Form 13614 contain the same information.
- Remind volunteers that Government computers, equipment, and supplies are VRPP purposes and not commercial use.

Progress to the next slide.

VRPP Course Objectives

- Determine if the taxpayer need/should file a return
- Accurately complete and file returns (including worksheets and schedules) in the scope of the VRPP
- Accurately response to taxpayer inquiries
- Use the resources to find technical and non-technical answers
- Use available resource to solicit "appropriate" information from taxpayers
- Test and become a certified VRPP return preparer



- State the objectives listed on the slide.

Progress to the next slide.

Course Introduction

- **The Lessons & The Return Forms**
- **The Four VRPP Courses**
 1. Basic Course
 2. Intermediate Course
 3. Advanced Course
 4. Military/International Course



- Teach from pages 9 through 11.

Progress to the next slide.

Course Introduction

- Lesson Features

- Alerts
- Summarizes
- Sidebars
- Interview Tips
- Proof Copies of Forms
- Problems, Exercises and Exhibits



- Refer to page 10 and 11.
- Discuss the Interview Tips and how they should be used at the site (Refer to Publication 4012).
- Explain that the forms in the lessons are proofs as of the date shown and that the official products are available on www.irs.gov.
- Reintroduce the students to Publication 678W in their student kit.
- Explain how you will approach the problems and exercises in Publication 678W. The text recommends that you complete the applicable problem along with the students (either on paper or electronically) and encourage the students to complete the applicable exercises on their own.
- You may allow time in class to complete the exercises (if desired).

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 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 preparer.
- Explain that “trained and certified” means they have met the training requirements to be a volunteer return preparer, passed the required test and their sponsor/site coordinator has the required signed certification—Form 13615.
- Introduce the students to the on-line pretest and posttest options on Link & Learn Taxes.
- Share your plans for administrating the test at this time.

Progress to the next slide.

Screening & Probing Interviews

- Interview & Intake Sheet
- Four Step-Interview Process
- Critical Intake Documents



- Reintroduce Form 13614 in Publication 4012 or the exhibit in the lesson.
- Discuss the 4-Step Interview Process.
- Explain and demonstrate how the information in Publication 4012 and Form 13614 contribute to a successful interview and accurate returns.
- Show the Interviewing Techniques DVD. (Contact your IRS-SPEC coordinate for information about this video produced by the AICPA and IRS-SPEC).
- Summarize the interview and intake process using the information in the text.
- Give students time to complete the exercise on page 14.
NOTE: You may do your own role-play activity.
- Discuss the students responses to the exercise.

Progress to the next slide.

Screening & Probing Interview

- **FAQs of Taxpayers**
- **Help from the IRS**
- **On-Site Resources**



- 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.
- Refer student to and briefly discuss some of the “Frequent Taxpayer Inquiries”
- Reintroduce some of the key technical sources of information at the site. (i.e. the Coordinator, Returning Volunteers, Publications 17, 4012, etc.)

Progress to the next slide.

Summary

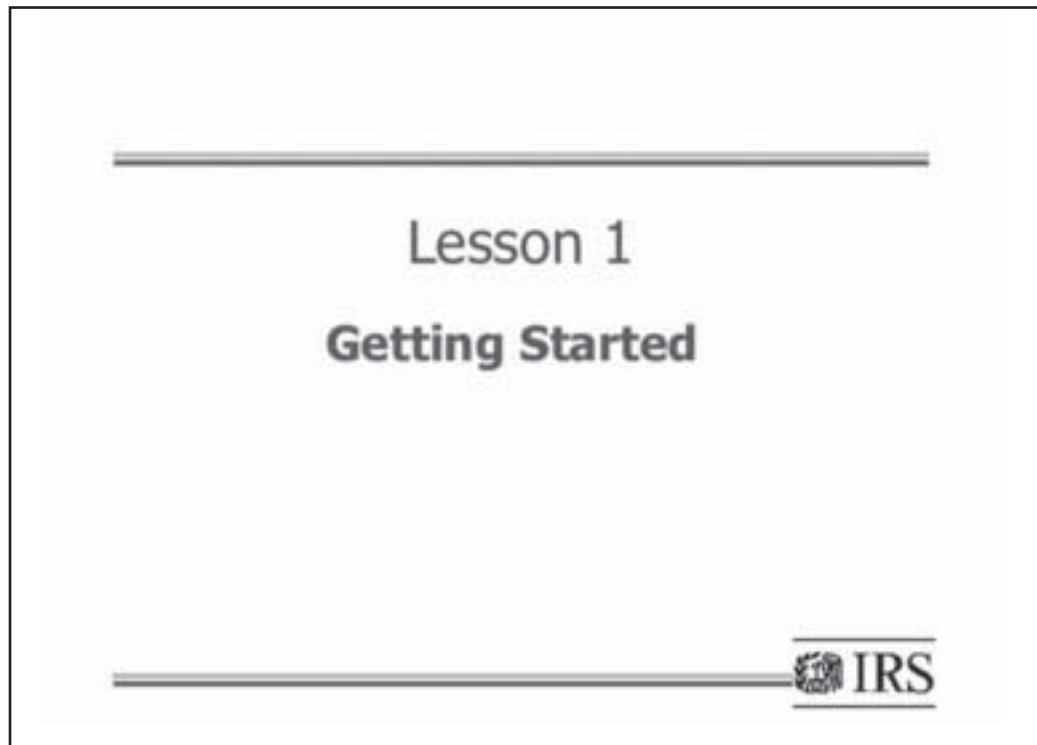
- Your rights and responsibilities
- Taxpayers' rights & responsibilities
- Don't Assume –

"Always interview the taxpayer"



- Refer to page 21.
- **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 VRPP volunteer.
- Discuss all point in the summary of this lesson.

Progress to the next lesson.



This lesson contains information for all courses and has been updated for Tax Year 2005.

■ **References:**

- Form 1040, Form 1040A and Form 1040EZ and applicable instructions
- Forms W-7 and 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, Dependents and Filing Status
- Publication 555, Community Property

Progress to the next slide.

Objectives

- Explain the importance of the taxpayer identification number (TIN)
- Identify the 3 types of Taxpayer Identification Numbers (TINS)
- Define the terms personal and dependency exemption
- Apply the new 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 TIN(s) 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 that each allowable exemption reduces taxpayer’s taxable income by \$3200 this year.
 - **Dependency tests.** Advise the students that new tax law changes in 2004 are being implemented this year (in 2005) and advise returning students to make sure they apply the new rules.
- Show the students a completed Form 13614 in Publication 678W and discuss the information in the text.
- Tell the students that worksheets are available to assist them in applying the new dependency tax law.

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 power point; and test the students' knowledge by seeking their responses to the questions. For Example:
 - **The Taxpayer Will Need.** Restate the critical documents that the 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 an ITIN and ATIN?
- Teach from page 1-2 to 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, their social security card(s) from the SSA and ITIN/ATIN documents from the IRS.

Progress to the next slide.

Individual Taxpayer Identification Numbers

- Who Needs an ITIN?
- Assisting Taxpayers with No ITIN
- Assisting Taxpayers with an ITIN



- Teach from pages 1-3 through 1-4.
- Test the students' knowledge—Ask them the purpose of the ITIN?
- Discuss critical points on page 1-3.
 - A tax return is required regardless of immigration status.
 - Proof of identify for ITIN.
 - IRS is the source of ITINs.
- Discuss critical points on page 1-4.
 - Do not electronically file returns that require ITINs.
 - You may assist taxpayers with their return.
 - ITINs are 9-digit numbers.
 - Temporary ITIN numbers are required for TaxWise.
 - ITIN Acceptance Agents
 - Returns with proper ITINs may be mailed or electronically filed.
- Summarize by having students read the Alerts and Potential Pitfalls aloud on pages 1-1 through 1-4. You may provide additional insights.
- Use the potential pitfall on page 1-4 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 1-5.
- Read the slide.
- Ask the students to name some of the reporting documents that contain ITIN/SSN information.
- Discuss the ITIN/SSN mismatch information on page 1-4.
- 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.

Subject Summary

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



- Summary this topic by recapping critical points.
- Refer to page 1-5.

Progress to the next slide.

Exemptions

- Personal exemptions
- Dependency exemptions
- Major Tax Law Changes in 2005
- \$3,200 each for Tax Year 2005



- 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 2005, each exemption is worth \$3200. You may refer to the phase out for certain adjusted gross incomes (if you like).
- Discuss the meaning of the potential pitfall on page 1-6.
- Explain that this is one of the key areas where tax law is applied incorrectly.
- Define the two types of exemptions—personal and dependency.
- Caution students that there are major changes to the dependency tax law. The changes, as they were known at the time this publication went to print, are discussed in this lesson.

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 1-6 through 1-7.
- Go over the interview tips for personal exemptions and ask the students if they have any questions. Key points:
 - Establish if the taxpayer was considered married on 12/31/2005.
 - 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 12/31/2005; the taxpayer can generally claim the deceased spouse's personal exemption.

Progress to the next slide.

Dependency Exemptions

- Major Tax Law Change
- Qualifying Child
- Qualifying Relative



- Read the information on this slide and emphasize the following under each topic:
 - **Major Tax Law Change.** The Uniform Definition of a Child changes the dependency tax law this year.
 - A dependent is either a **qualifying child or qualifying relative.**
Note: Obtain a copy of the latest official tax year 2005 Publications 501 or 17 containing information on this topic (if possible). The interpretation of the tax law may have changed after this material was published.
- Inform students that a taxpayer's spouse is never the taxpayer's dependent (even if they have no income or do not provide family support).
- Ask the students – How do exemptions impact the taxpayer's taxable income?
- Read and discuss the Alert on page 1-8.

Progress to the next slide.

Tax Year 2005 Dependency Tests

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



- Ask the students to turn to page 1-8 through 1-9.
Note: All of the tests will be discussed in detail.
- Introduce the tests on page 1-8 – Qualifying Child Dependency Tests and the critical narrative points.
- Discuss the tie-breaker rule.
- Introduce the Qualifying Relative Dependency Tests on page 1-9 and the critical narrative points.
- Introduce all three pages of Exhibit 1-1 on pages 1-10 through 10-12.
Note: The “Definitions and Special Rules” are in alphabetical order.
- Read the **title of each Step** in the Exhibit (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 Exhibit is a draft of the worksheet from the Form 1040 instruction booklet. They should use the worksheets in the applicable Form 1040 or 1040A instruction booklet at their tax preparation site. Dependents are not claimed on Form 1040EZ.
- Make sure you explain the significance of the words “AND” and “OR” used in the worksheet.

Progress to the next slide.

Tax Year 2005 Dependency Tests Qualifying Child

- Qualifying Child
- Age Test
- Support Test
- Residence Test
- Citizen or Resident Test



- Ask the students to look at Step 1 - Page 1-10.
- 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 to obtain the Tax Year 2005 copy of Publication 501 for more details about the new tax law (especially returning students).
- 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.

Progress to the next slide.

Tax Year 2005 Dependency Test Qualifying Relative

- Relationship or Member of Household
- Not a Qualifying Child
- Gross Income
- Support
- Citizen or Resident



- Refer to page 1-11.
- 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 “OR” and “AND” are used in the worksheet.
- Discuss each test in detail using the information in the exhibit.
- Gross income is discussed on page 1-13.

Progress to the next slide.

Tax Year 2005 Dependency Tests Summary of the Rules

- Dependents on more than 1 return
- Joint Returns and Dependents
- Residency Requirement
- Dependent - Qualifying Child
- Dependent - Qualifying Relative



- Refer to page 1-13.
- Read the information on this slide.
- Discuss the information in detail using the chart and exhibit 1-1.
- Close by discussing gross income information on page 1-13.

Progress to the next slide.

Tax Year 2005 Dependency Support Test

- A qualifying child must not have provided more than half of his/her own support
- The taxpayer must provide more than half of the support of a qualifying relative
- Exceptions to the Support Test



- Refer to page 1-13 and 1-14.
- Read the information on the slide.
- Introduce the expenses included in support.
- Introduce the exceptions to the support test.

Progress to the next slide.

Support Test

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



- Teach from page 1-14.
- 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 1-2, 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.
- Let students complete the exercises.

Progress to the next slide.

Support Exceptions

- Multiple Support
- Custodial and Non-Custodial Parents



- Teach from pages 1-17 through 1-19.
- Read the slide and define the terms.
- Teach from the text.
- Go over the examples with the class.
- Discuss the tie-breaker rule again: If more than one person claims the same qualifying child on their return the IRS will apply “The Tie-Breaker Rule.”
- 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.

Tax Year 2005 Tools for Determining Dependency

- Tools for Determining Personal and Dependency Exemptions
- Claiming the Exemption on the return
- Apply What You've Learn



- Refer to page 1-20 – 1-23.
- 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 1-24 - Exemption Section of the Return.
- Allow the students time to complete and discuss the exercises on page 1-24.
- 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.

Lesson Summary

- Exemptions impact taxable income
- New exemption tax law this year—old rules modified; new rules exist
- Use the Dependency Tools



- Summarize this lesson using the information on page 1-27.

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

Military Considerations

- 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. Non-Resident 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 all dependents 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 page 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 time to complete Exercise 1.
- Discuss the answer.

Progress to the next slide.

Exceptions to the Substantial Presence Test

- Commuter
- Short stay
- Medical condition
- Exempt Individual



- Refer to page M-1-5.
- 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 – 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 Separate



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

Dependents – Armed Forces Members

- New Tax Law
- Claiming a Dependent
- Citizen and Residency Test



- Refer to page M-1-10.
- Teach from the text.

Progress to the next slide.

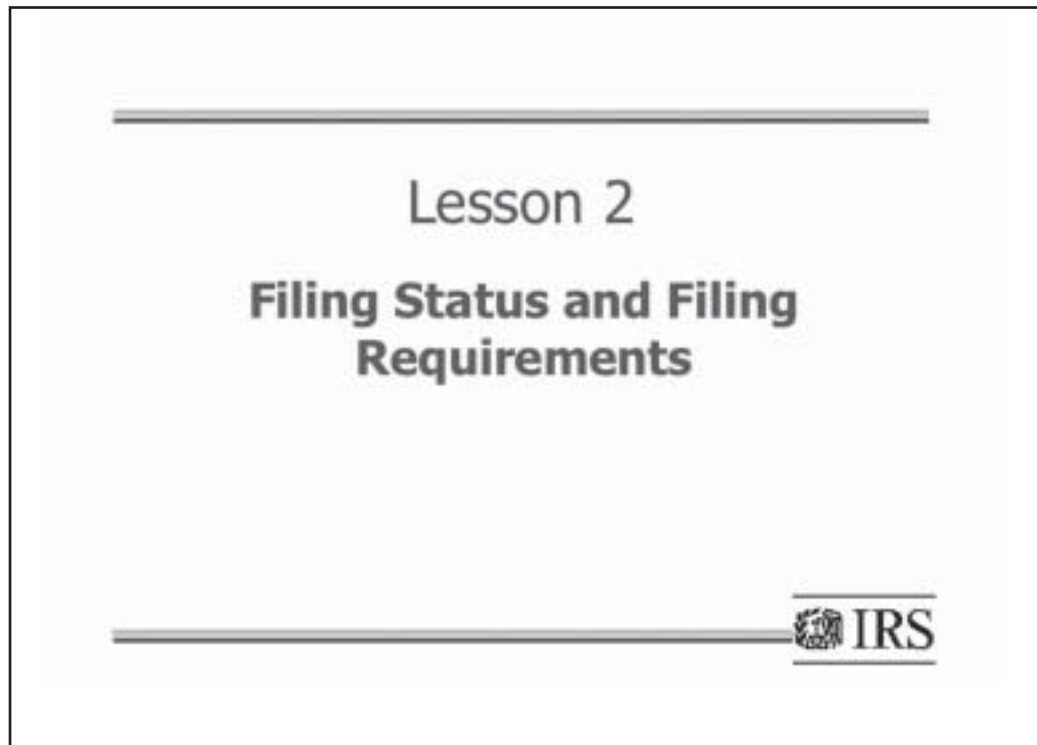
Military/International Summary

- Resident or nonresident
- Personal exemptions
- Dependents



- Refer to page M-1-12.
- 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 2005.

■ **References:**

- Form 1040
- Form 1040A
- Publication 501, Exemptions, Dependents And Filing Status
- 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 the Publication 4012.

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 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 the example 1 (Darlisa) page 2-6 with the class.
- 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 1/2 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, does the taxpayer have 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 the Publication 4012 and/or text.
- 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 2-11.
- Have the students work the exercises on pages 2-12 and 2-13. The answers are on page 2-14.
- 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



- Have the students read the Who Must File/Who Should File section of this lesson.
- Review the “Who Must File” charts with the class. Stress that caution should be used in determining which chart applies.
- Have students work the 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?

- 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 taxpayer's 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.

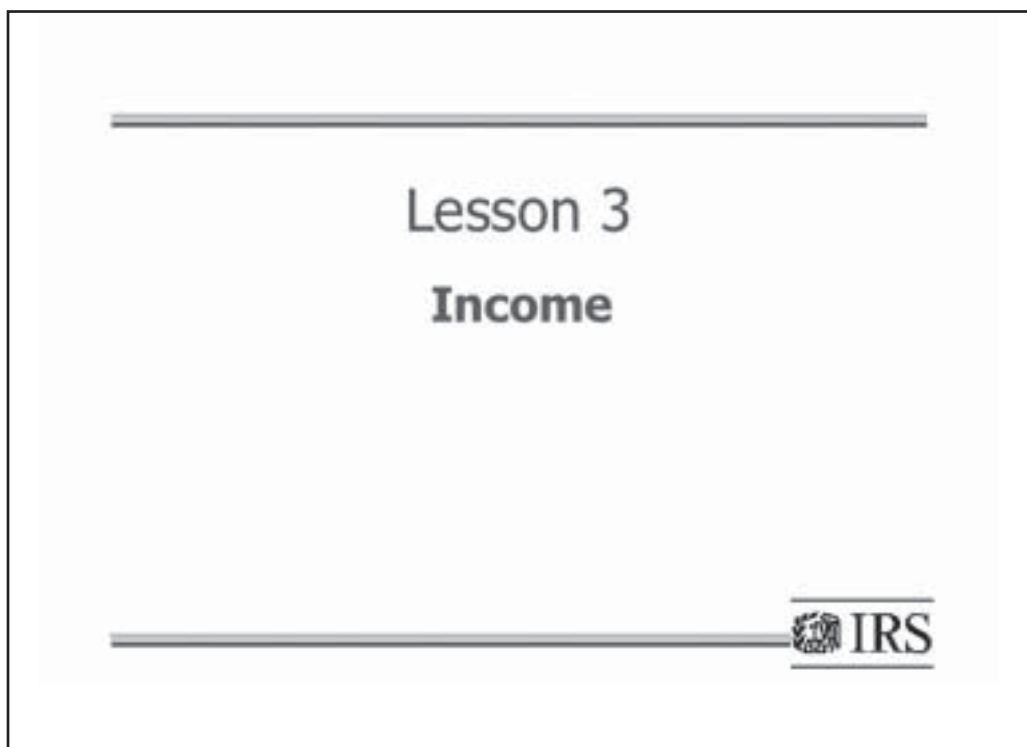
Lesson Summary

- 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.
 - Head of Household requirements changed beginning in tax year 2005 due to the "Uniform Definition of a Child."
 - Review the "Determination of Filing Status" chart, Exhibit 4 on page 2-10.
 - Always use the tax form that will accommodate the taxpayer's income and expenses. Summarize using the chart in Publication 4012

Progress to the next lesson.



This lesson contains information for all courses and has been updated for Tax Year 2005.

- A Military Course follows that has a section on rental income, the foreign earned income exclusion and overseas income issues. Slides and issues will be identified by course.
- **References:**
 - Form 1040EZ
 - Form 1040A, Schedule 1
 - Form W-2
 - Forms 1099INT, 1099DIV, 1099G, 1099R, 1099MISC
 - Form 1040, Schedule B
 - Schedules C-EZ, and SE for Self-Employed Income
 - Form 4137, Tax on Allocated Tips
 - Form 4852, Substitute Form W-2
- **Additional References:**
 - Publication 4012, Volunteer Resource Guide
 - Publication 17, Your Federal Income Tax
 - Publication 525, Taxable and Nontaxable Income

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 1040EZ, 1040A, or 1040, 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 lists of taxable and nontaxable income. Point out that the exceptions to taxable interest income are listed under nontaxable income both in this lesson and Publication 4012.

Progress to the next slide.

Taxable Income

- Wages, salaries, commissions, tips
- Interest, dividends, pensions, capital gains
- Alimony, business income, hobby income
- Rents, royalties, estate or trust income
- Unemployment benefits, jury duty pay
- Other items of income unless they are designated as nontaxable



- Show students where income is reported.
- Wages etc. from box 1 of Form W-2 are reported on line 7 Form 1040 & 1040A (line 1 on Form 1040-EZ). Tips, if not included on Form W-2, are added into line 7 total.
- Use Form 4137, Social Security and Medicare Tax on Unreported Tip Income, to figure Social Security on Tips (Not VITA Issue).
- Interest Form 1099-INT—line 8a Form 1040 and 1040A (line 2 on Form 1040EZ), and if over \$1500 attach Schedule B to Form 1040 or Schedule 1 to Form 1040A (cannot use 1040-EZ).
- **Intermediate/Advanced/Military/International**—Pensions & 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.**
- **Intermediate/Advanced/Military/International**—Business income from box 7 of Form 1099-MISC reported on Schedule C-EZ and social security is figured on net profit of \$400 or more on Schedule SE.
- **Intermediate/Advanced/Military/International**—Hobby income (other income) is reported on line 21 of 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; 1040A—line 13; 1040EZ—line 3.
- Ask if received jury pay 1040—line 21.

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 Gifts & inheritances may generate taxable interest or dividends.
- Explain that Interest paid from states or local governments is shown on Forms 1040 & 1040A line 8b, or Form 1040-EZ 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 lesson and Publication 4012.
- 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 13 of the W-2, coded Q. While nontaxable, combat pay may affect credits.

Progress to the next slide.

Earned Income

- Wages and Salaries
- Tip Income
- Scholarships and Fellowships



- Read Example 2
- Work Exercise 2. The answers are in the back of the lesson.
- Stress potential fraud possibility.
 - Forms W-2 that are typed, handwritten or have noticeable corrections
 - Form W-2 from a firm in the area that is different from other Forms W-2 issued by the same firm
 - Suspicious person accompanying the taxpayer and observed on other occasions
 - Multiple refunds directed to the same address or P.O. Box
 - Employment or earnings, that are a basis for refundable credits, that are not well documented
 - Similar returns (e.g. same amount of refund, or same number of dependents, or same number of Forms W-2)
- Point out what happens when tips are received. Taxpayer must file Form 1040 when individuals who 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 have an amount entered in box 8, Allocated tips, must report these tips as income. For more information, see Publication 531.

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.
- Savings Certificates, Money Market Certificates, and Other Deferred Interest Accounts—Review Examples 4, 5, & 6.
- Go over 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 Form 1040 or 1040A or 1040EZ.
- Review Exhibit 4, Form 1099-INT.
- Explain interest on Form 1099-OID is usually beyond VRPP scope. See examples.
- Cover Reporting Interest Income. Read Example 7.
- Work Exercise 3.

Progress to the next slide.

Dividend Income

- Reporting 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 \$1500, 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/Advance/Military/International courses, progress to next slide. Others, skip the next four slides.

Other Income

- State and Local Tax Refunds
- Alimony
- Income From Business



- Describe that state refund is only taxable if taxpayer itemized in the previous year to the extent a tax benefit was received.
- Point out that alimony received is taxable.
- Reminder that **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 2 slides.

Progress to the next slide.

Who Can File Schedule C-EZ?

- Business expenses do not exceed \$5,000
- Use the cash method of accounting
- Did not maintain an inventory
- Did not have a net loss
- Had no employees
- Does not claim depreciation
- Does not deduct expenses for use of home



- Point out that taxpayer 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.
- Go over points when taxpayer can use a Schedule C-EZ.

Progress to the next slide.

Completing Schedule C-EZ and Schedule SE

- Be sure to include the Principal Business Code on the Schedule C-EZ
- You do **not** have to provide details on the type of expenses included
- Complete Schedule SE if the net profit exceeds \$400
- Remember to deduct, as an adjustment to income, ½ of the amount calculated on the SE



- Show where to find principal business codes. (1040 instructions to Schedule C, pages C-7 to C-9. Try to fit the code as close as possible to the business.)
- Caution taxpayers to save records to back up 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 Social Security.
- Explain that self-employment tax (Social Security for the self-employed) is reported on Form 1040 line 58. Half of the tax is taken as an adjustment (subtraction) from income on Form 1040, line 27.

Progress to the next slide.

Other Income

- Capital Gains and Losses
- Sale of Business Property
- Pension and Annuity Income
- Rents, Royalties, Partnerships, Estates, and Trusts
- Farm Income
- Unemployment Compensation



- Go over types of other income
- **Intermediate** Capital Gains and Losses
- Sale of Business Property (refer to a professional preparer)
- **Intermediate** Pension and Annuity Income
- Rents, Royalties, Partnerships, Estates, and Trusts (refer to a professional preparer)
- Farm Income (refer to a professional preparer)
- Unemployment Compensation
- Review TaxWise Hints
- Review summary at end of lesson

Progress to Military course on next slide or proceed to next lesson.

Lesson Summary

Review of types of income



- Review “Summing Up This Lesson” on page 3-32 and 3-33.

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 medical separation 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

Note: In preparing tax returns for Armed Forces members there are a variety of pay and allowances that are taxable or excludible income. Refer to charts in this course for help. The W-2 from DFAS (Defense Financial Accounting Services) is usually very accurate. Refer taxpayer back to unit accounting 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

- Medical Separation Pay
- Combat Zone Exclusion
- Exclusion
- Combat Zones



- Know how to calculate the taxable wages for a member of the Armed Forces who receives medical separation pay.
- **Note:** Veterans Administration (VA) determines percentage.
- Use Anita Bennett, Example 1, to show separation pay.
- Discuss combat zone pay exclusions.
- Point out 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% 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.
- Do Exercises 1 and 2.
- Sum up the lesson.

Progress to the next slide.

Military/Special Issues

Objectives

- Determine whether the taxpayer qualifies for the foreign earned income exclusion.
- Calculate the foreign earned income exclusion.



- Turn to Foreign Earned Income Exclusion Section.
- Go over objectives.
- **Note:** As an optional election, a taxpayer living overseas may be eligible to exclude up to \$80,000 in earned income.
- References
 - Form 2555 and Form 2555 EZ, with instructions, Foreign Earned Income Exclusion.

Progress to the next slide.

Military/Special 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 taxpayer how long job is expected to last.
- Go over Exercise 1, Example 1, and Exercise 2.

Progress to the next slide.

Military/Special Issues

Foreign Earned Income Exclusion

- Period of Stay
- Physical Presence Test



- Explain two way to qualify for period of stay.
- Explain Physical Presence.
- Both use entire year or 330 days
- Discuss examples 1 thru 3.
- Do Exercises 3 and 4.

Progress to the next slide.

Military/Special 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 US or any instrumentality of the US is not eligible for this exclusion. A military spouse might be eligible.

Progress to the next slide.

Military/Special Issues

Foreign Earned Income Exclusion

- Must have Earned Income
- Can exclude up to \$80,000
- Voluntary
- Use Form 2555 or 2555 EZ



- Explain income that qualifies.
- Discuss Examples 5 and 6.
- Ask students to do Exercises 5 thru 7.
- Remind students that the exclusion from income is voluntary.
- Complete Form 2555 or 2555 EZ
- Discuss Example 7.
- Go over 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.

International Issues, progress to the next slide. Military Course, proceed to next lesson.

Military Summary

Review Military Income
issues



- Review Summing up this segments on Page M-3-10, M-3-14, and M-3-30.

Progress to the next slide.

International Issues

- Worldwide Income
- Self-employment Tax
- Rental Income & Expenses



- Explain that a taxpayer is taxed on worldwide income.
- Point out that income must be converted to U.S. dollars
- Show, Who is responsible for determining how much income has been received when a person is self-employed?
- Point out that a self-employed individual is responsible and should keep good permanent records to record the income and expenses
- Use Schedule E to report the income and expenses from rental property activity.

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



- Go over objectives and Example 1.
- Have students work Exercises 1 through 5.

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
- Compute the deduction for self-employment tax



- Go over objectives.
- Go over Examples 1 and 2.
- Have students complete the Summary Exercises.

Progress to the next slide.

International Issues

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 objectives.

Progress to the next slide.

International Issues

Objectives – Rental Income and Expenses (cont.)

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



- Continue to cover objectives.
- Cover all examples and exercise.

Progress to the next slide.

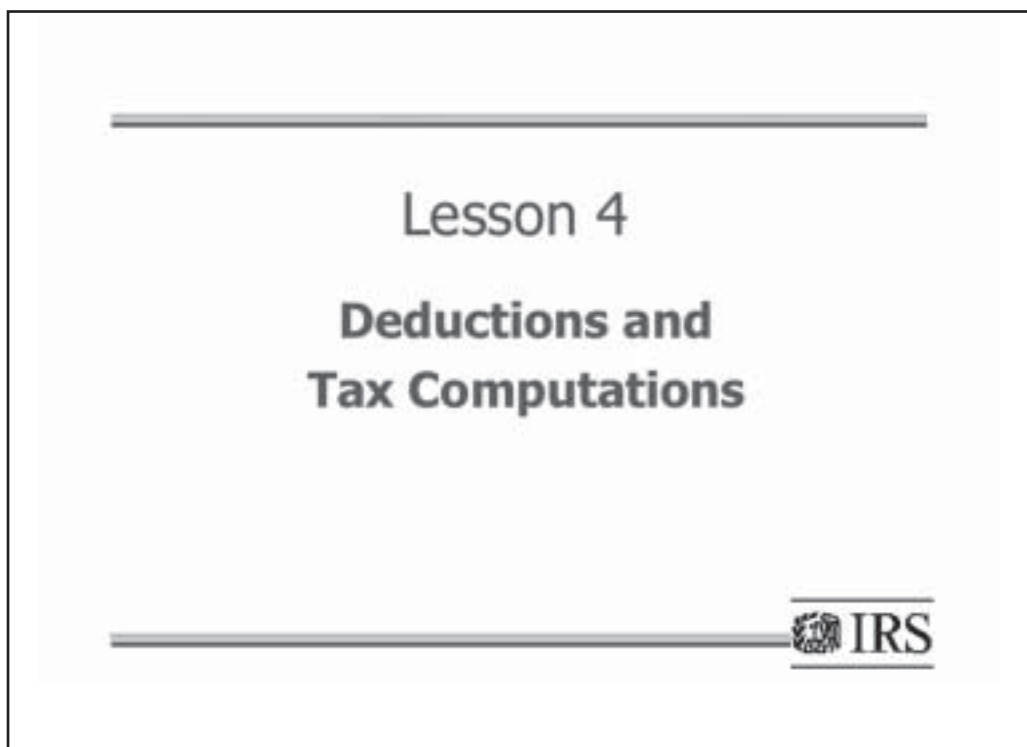
International Summary

Review International Income issues



- Review Summing up this segments on Page I-3-4, I-3-11, and I-3-27.

Progress to next lesson.



This lesson contains information for all courses and has been updated for Tax Year 2005.

- 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
 - 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 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 600, Optional State Sales Tax Tables

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, line 27.
- 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 objective.
- 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.

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 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 work Exercise 1. Review the answers with the students.
- Optional – Ask Guided Questions
 - **Name at least three factors that determine the taxpayer's standard deduction.** (Filing status, age, blindness and whether 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 Finding the Tax topic in this course.
- Explain to student that taxable income less than \$100,000 can be filed on all three forms: 1040, 1040A, & 1040EZ.
- Ask the students to turn to the tax charts in the 678W.
- 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 MFS 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 MFS taxpayer must itemize deductions if his/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 15 cents a mile for 1/1/05 to 8/31/05 and to 22 cents a mile for 9/1/05 to 12/31/05.**
- **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 5.
- Ask the students if they have any questions about what types of expenses are includible.
- Have the students work 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 Taxes vs State and Local General Sales Taxes
- Real Estate Tax
- Personal Property Tax



- Have class read the student text on Taxes.
- Discuss with the students the difference between State and Local Income Taxes and State and Local General Sales Taxes.
NOTE: Remind the student that the taxpayer may elect which tax to deduct.
- Review Example 4.
- Review what types of taxes are not deductible.
- Optional Guided Questions:
 1. **What are the three conditions that 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
- 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.
- Inform the students that the investment interest deduction is generally outside of the scope of the VRPP.
- 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 work 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 2005.
- 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 work 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, 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 record keeping. Taxpayers should keep an accurate record of gambling activity.
- Have the students work Exercise 5 and then discuss.

Progress to the next slide.

Total Itemized Deductions

- Work Exercise 6



- Have the students work 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 charts in the Appendix.
- 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.

Lesson Summary

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



- Review the Summing Up This Lesson section with the students.
- Remind the students that for 2005 the standard medical mileage rate increased to 15 cents a mile from 1/1/05 to 8/31/05 and 22 cents a mile from 9/1/05 to 12/31/05.
- 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 class read 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.
- Have the students review the section of the student text that is labeled *Form 2106*.
- Explain that once the deductible expenses have been calculated on the Form 2106, the total is transferred over to the Schedule A, Itemized Deductions. The 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 work Exercises 1 and 2. Then discuss the answers.
- Explain to the students that expenses that were eligible for reimbursement are not deductible. If the taxpayer did not apply for the reimbursement, they are 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.

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 the Form 2106 would be used to calculate the deduction and that it would be a part of Miscellaneous deductions on the 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

- 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.
- Ask the Guided Question:
 - **What are the criteria for taking military uniforms and their upkeep as a deduction?** (It must state in the military policy that the uniform cannot be worn off-duty and the amount must be reduced by the amount of any clothing allowance the military member receives.)
- Have the students work 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 work 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 student 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 thru 4.
- Discuss with students Completing Form 2106 and review Example 5.
- Ask students to work Exercise 1 and review it.

Progress to the next slide.

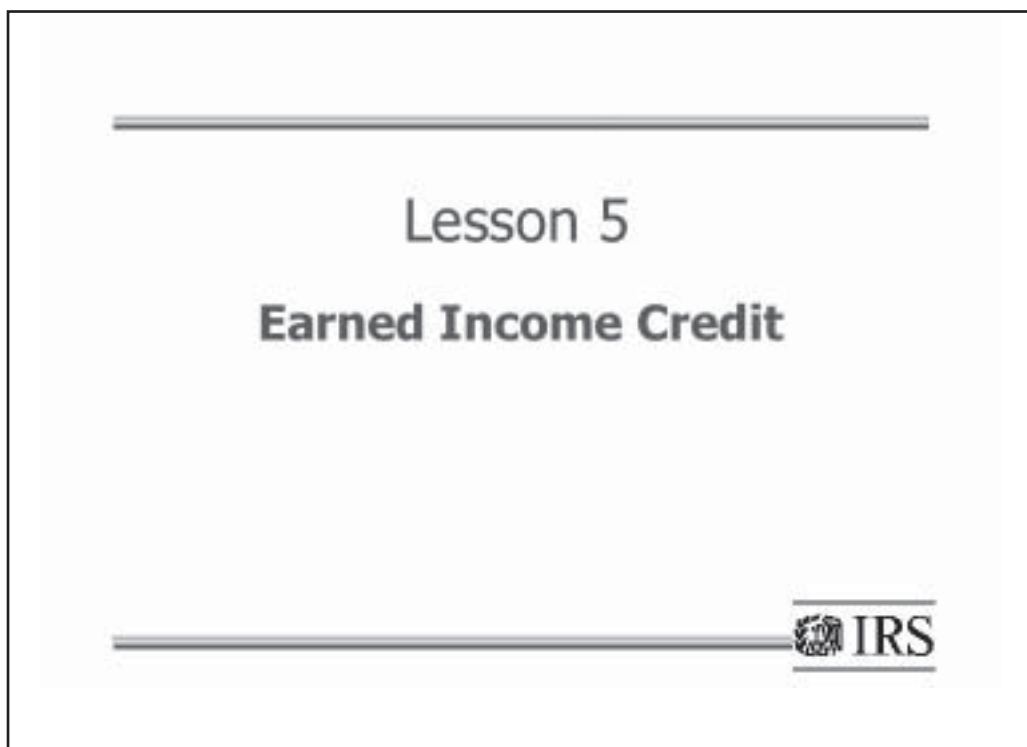
Military/International Summary

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



- Review the Travel Expense, Uniforms, Professional dues, Education expenses, and Home Leave as they relate to members of the Armed Forces.
- Ask if there are any additional questions.

Progress to the next lesson.



This lesson contains information for all courses and has been updated for Tax Year 2005.

Slide 3 has issues specific to the **Military/International** courses.

■ **References:**

- EIC Worksheets (Form 1040 Instructions)
- EIC Eligibility Questions (Form 1040, 1040A, and 1040EZ)
- Schedule EIC, Earned Income Credit
- Publication 4012, Volunteer Resource Guide

■ **Additional References:**

- Publication 17, Your Federal Income Tax
- Form W-5, Earned Income Credit Advance Payment Certificate
- Publication 596, Earned Income Credit
- EIC Tables (Included Publication 678W)
- **EITC Assistant**—An online tool to assist taxpayers in determining if they qualify for the EITC. It is available in English and Spanish. The EITC Assistant is available on www.irs.gov, 24 hours a day 7 days a week.

Progress to the next slide.

Objectives

- Determine which taxpayers are eligible for the earned income credit
- Determine when a taxpayer has a qualifying child for the EIC
- Calculate and report the credit using the EIC worksheet
- Explain how to request advance earned income credit (AEIC) payments
- Report AEIC payments on the tax return



- Review the objectives with the class.
- Explain that the Earned Income Credit (EIC) is a refundable credit. An eligible taxpayer can receive a refund even if they owe no tax and no income tax is withheld.
- Introduce the requirements that taxpayers must meet to claim the Earned Income Credit.
- Point out that the taxpayer must file a tax return, even if they did not earn enough money to be obligated to file a tax return.
- Give maximum EIC for **2005**:
 - Two or more qualifying children \$4,400
 - One qualifying child \$2,662
 - No children \$399
- Don't guess whether the taxpayer qualifies for the EIC. **Know.**
- Stress to students: The IRS wants all eligible taxpayers to receive the EIC. IRS' 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.

Progress to next slide.

Military Combat Pay

Inclusion of combat pay as earned income



- Review **Military combat pay**. Military personnel may elect to include their nontaxable combat pay as earned income for purposes of the Earned Income Credit. Electing to include nontaxable combat pay may increase or decrease their EIC but it does not change the exclusion from taxable income. If the military member makes this election, they must include all nontaxable combat pay, not just a portion of it. Form 1040 and Form 1040A were revised to add line 66b and line 41b to include nontaxable combat pay. To help the military member make this decision, figure the credit with and without the nontaxable combat pay. Provide both refund amounts to the military member and allow them to make the decision. This does NOT make combat pay subject to income tax.
- Military W-2 will show combat pay in box 14 with code Q.
- **TaxWise® Note:** TaxWise® automatically figures the best credit for you.
- Overseas: If a member of the military is living overseas on military orders, it counts as maintaining a home in USA for EITC purposes.
- **Note:** Claiming a foreign earned income exclusion, if eligible, means taxpayer is not eligible for EITC.

Progress to the next slide.

Who Can Claim The EIC General Eligibility Rules

- Earned income and adjusted gross income limited
- Have valid SSN
- No MFS filing status
- A US citizen or resident alien
- Not file Form 2555 or 2555-EZ
- Investment income limitation



- Discuss general EIC requirements and who can claim the Earned Income Credit under general eligibility rules.

Progress to the next slide.

Who Can Claim The EIC

General Requirements - continued

- Have earned income
- Cannot be qualifying child of another person



- Explain that earned income and adjusted gross income (AGI) must each be less than:
 - \$35,263 (\$37,263 married filing jointly) with two or more qualifying children,
 - \$31,030 (\$33,030 married filing jointly) with one qualifying child,
 - \$11,750 (\$13,750 married filing jointly) with no qualifying children.
- Describe earned income as basically W-2 and self-employment income. If married and filing jointly, at least one spouse must work and have earned income.

Progress to the next slide.

Investment Income

Includes:

- Taxable interest
- Tax-exempt interest
- Ordinary dividends
- Capital gain net income
- Certain net income from rents and royalties
- Net income from passive activities



- Point out that investment income greater than \$2,700 disqualifies taxpayer from claiming earned income credit.
- Give examples of investment income.

Progress to the next slide.

Earned Income

- Review notes
 - While an inmate
 - While a household employee
 - Disability benefits
 - Disability insurance payments
- Examples of Earned Income



- Discuss Table 5-1, What is earned income, and what is not earned income.
- Note that adjusted gross income (AGI) and taxable earned income must be under certain limits.
- Review the Notes on pages 5-4 and 5-5.
- Discuss with students types of income. For examples of Earned Income for the EIC, see chart on page 5-5.

Progress to the next slide.

EIC Interview Tips

EIC General Eligibility Rules



- Summarize this topic by discussing the interview in Exhibit 1.
- Tell students that Publication 4012 contains the EIC General Eligibility Rules Interview Tips chart. Ask the students to find these tips in the Publication 4012 and use it when assisting taxpayers.
- Clarify for students what is meant when a taxpayer received a SSN that has “**Not Valid for Employment**” to obtain a federally funded benefit, such as Medicaid.
- **Note:** A valid SSN is issued by the Social Security Administration (SSA). Most SSNs are issued to U.S. citizens and to persons who have permission from the Immigration and Naturalization Service (INS) to work in the United States. Persons who are not permitted to work in the United States but are entitled to receive a SSN, receive a Social Security card with the legend **Not Valid for Employment**. If a Social Security card contains this legend and the cardholder obtained the SSN to get a federally funded benefit, such as Medicaid, the SSN is not valid for EIC purposes.

Progress to the next slide.

Who Can Claim The Credit With A Qualifying Child

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.
- Remind students that the EIC could be as much as \$2,662 with one qualifying child and \$4,400 with 2 or more qualifying children.

Progress to the next slide.

Definitions

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



- Using pages 5-7 and 5-8 in the student text as a guide, discuss who is:
 - an eligible foster child
 - an adopted child
 - permanently and totally disabled
 - a child who was kidnapped

Progress to the next slide.

Qualifying Child of More than One Taxpayer

- Cannot be used by more than one person
- EIC Tie-Breaker Rule



- If two or more children are qualifying children of the same taxpayers (not filing a joint return together), the taxpayers may agree that one will claim the credit on the basis of one child and the other will claim the credit on the basis of the other child.
- Inform students that **new this year**, if the child is the qualifying child of more than one person, only one person can claim the child as a qualifying child for all of the following:
 - Dependency exemption,
 - Child tax credit,
 - Head of Household filing status,
 - Credit for child and dependent care expenses, and
 - Earned income credit.
- Review the EIC Tie-Breaker Rule table.
- Read Examples 1 and 2 and discuss.
- Review the rule for Divorced or Separated Parents.
- Tell the class that Publication 4012, Volunteer Resource Guide has the EIC Tie-Breaker Rule chart. Ask the students to find this chart in the Publication 4012 and use the chart to assist with probing techniques for EIC Tie-Breaker.

Progress to the next slide.

Interview Tips

EIC With A Qualifying Child



- Discuss rules for claiming EIC with a qualifying child. Refer to and summarize this topic by reviewing the interview tips.
- Point out that Publication 4012 has the EIC With A Qualifying Child Interview Tips. Ask the students to find the tips in Publication 4012 and use them to assist taxpayers.

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.
- Not qualify as the dependent of another person.



- Explain the “Who Can Claim the EIC Without a Child” topic.
- Review the Interview tips for EIC Without A Qualifying Child.

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 on page 5-12.
 - 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
- Have the students work Exercise 1.
- Review the exercise.

Progress to the next slide.

Determining Eligibility and Figuring the Credit

- EIC Worksheets
- EIC Tables



- Review the EIC Worksheets and Example 6.
- Have the students work Exercise 2.
- Review the exercise.

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.
- Read Example 7 and discuss.
- Have the students work Exercise 3—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)



- Complete the revised Exercise 4—Advance EIC and review.
- 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.
- Don't guess, use Publication 4012, the EIC worksheets, Publication 596, and other tools when assisting taxpayers in claiming the EIC.

Progress to the next slide.

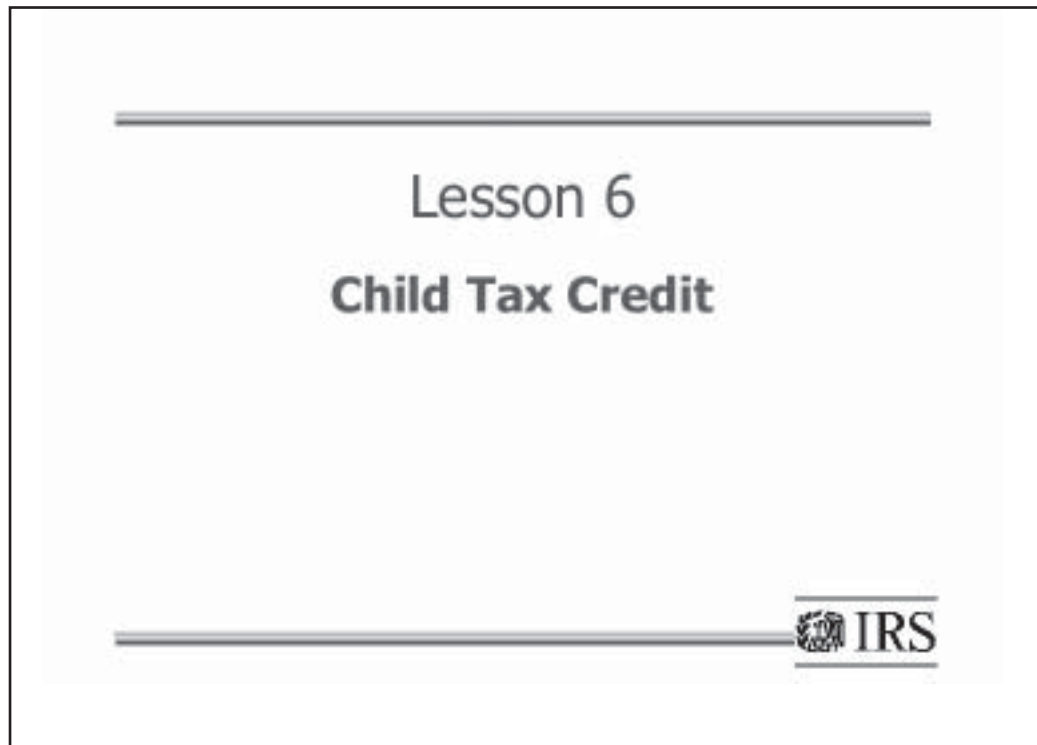
Lesson Summary

- 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.**

Progress to the next lesson.



This lesson contains information for all courses and has been updated for Tax Year 2005.

■ **References:**

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

■ **Additional References:**

- 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)
- Publication 4012, Volunteer Resource Guide

Progress to the next slide.

Objectives

- Calculate the Child Tax Credit using the child tax credit worksheet
- Calculate the Additional Child Tax Credit by using Form 8812, *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.

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 the qualifying child must be under 17 at the end of the year. There are also differences in requirements for a “qualifying child” between the Child Tax Credit and Earned Income Credit.

Progress to the next slide.

Child Tax Credit

- Exception to “Time-Lived-With-You” Requirement
 - Child born/died in 2005
 - 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 hit upon one of these instances during their interview, they should give the taxpayer 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, Form 8901, Information on Qualifying Children Who Are Not Dependents (For Child Tax Credit Only), will be completed and attached to Form 1040 or 1040 A.

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. Use the questions in the tax form instructions (shown in Example 1) to see if the taxpayer must use the Publication 972 worksheet. If he or she doesn’t, he or she can use the shorter worksheets in the Form 1040 and 1040 A Instructions.
- Read Example 1, and discuss the example 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.
- Ask the class to inform 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 withholding allowances currently claimed.
- Optional Guided Question: **If the taxpayer is having too much tax withheld, and he or she prefers to have the money during the year, how does he or she claim more withholding allowances?** (He or she should file a new 2006 Form W-4 with his or her employer so that less income tax is withheld from his or her wages. Advise him or her 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 taxpayers 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 \$11,000.
- **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 paid 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 \$90,000), or
 - Social Security and Medicare tax on unreported tip income.
- Read and discuss Example 2, pages 6-6 to 6-10.

Progress to the next slide.

Lesson Summary

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

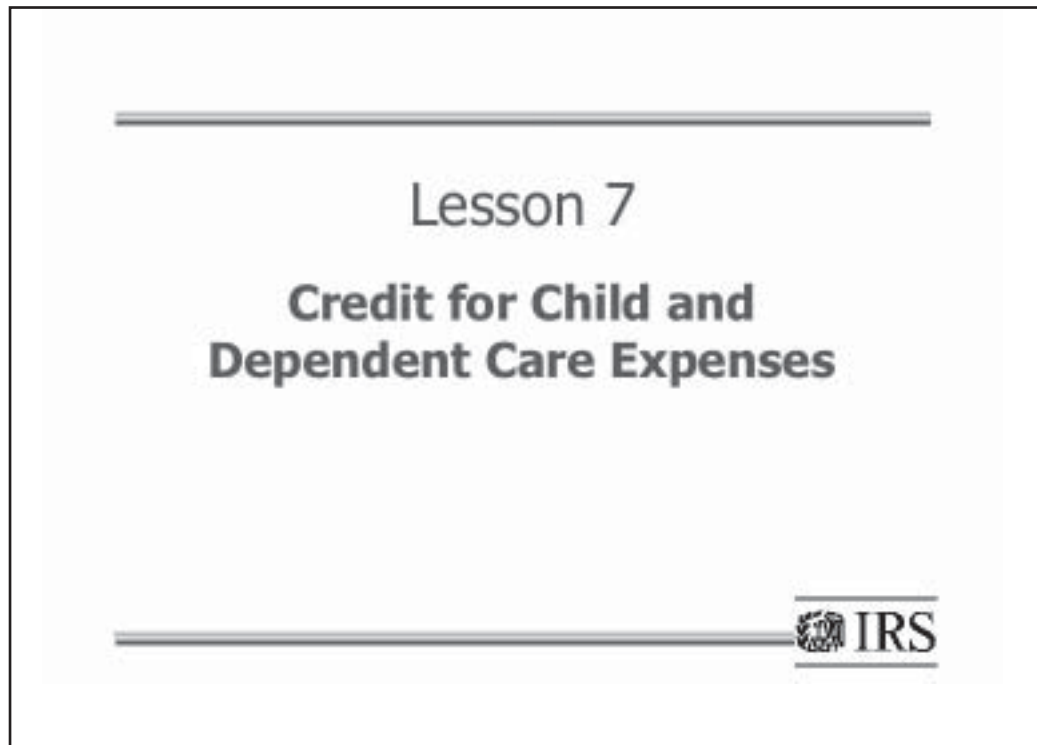


- Review the Interview Tips (Page 6-11 of the student guide) and discuss. These interview tips are also in Publication 4012 (**Suggestion: Ask the students to find the chart in Publication 4012 as you discuss it**).
- Remember to apply the Interview Tips sheet steps for each child.
- Work Exercise 1, pages 6-12 to 6-16 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

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 2005.

■ **References:**

- Form 2441, Child and Dependent Care Expenses

■ **Additional References:**

- Publication 4012, Volunteer Resource Guide
- Publication 503, Child and Dependent Care Expenses
- 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
- Form 13614, Interview and Intake Sheet

Progress to the next slide.

Objectives

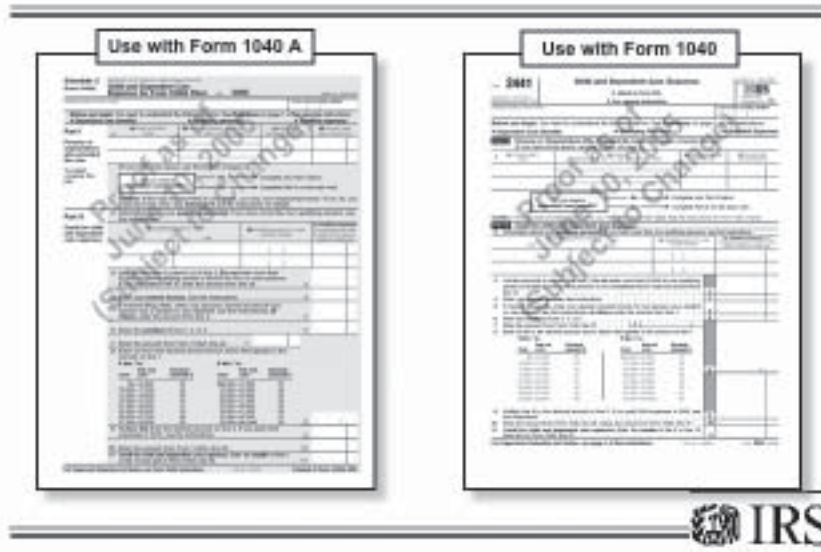
- Determine who is eligible for the Credit for Child and Dependent Care Expenses
- Calculate the credit, the exclusion, and report the expenses on the correct form



- 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



- 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.

Five Qualifying Tests

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



- In order to qualify for this credit, the taxpayer must satisfy all five tests of eligibility.
- Refer students to the “Can You Claim the Credit?” flowchart in Publication 4012.
- Explain that there used to be a sixth test—the “Keeping up a Home” test.
NOTE: While the “Keeping up a Home” test is no longer one of the qualifying tests, it is part of the requirements for an exclusion to the Joint Return Test. Review the “Joint Return Test” section on Page 7-4.

Progress to the next slide.

Five Qualifying Tests (Continued)

- **Qualifying Person Test**

- Qualifying Child
- Disabled Dependent
- Disabled Spouse



- Read and discuss the “Qualifying Person Test” section and discuss.
- Ask for a volunteer to read Example 1, then discuss.
- Ask for a volunteer to read Example 2, then discuss.
- Read and discuss the “Children of Divorced or Separated Parents” section and discuss.
- Ask for a volunteer to read Example 3, 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?** (13, which is different from the age of an EIC qualifying child.)
 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 custodial parents can claim this credit for his or her qualifying children.)
- Refer to Publication 4012 for a flowchart to assist with determining who qualifies for this credit.

Progress to the next slide.

Five Qualifying Tests (Continued)

- **Earned Income Test**

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



- Read the “Earned Income Test” section and discuss.
- Read the “Potential Pitfalls” box at the top of Page 7-3 in the student guide.

Progress to the next slide.

Five Qualifying Tests (Continued)

- **Earned Income Test (Continued)**

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

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



- Ask for a volunteer to read Example 4 and discuss.

Progress to the next slide.

Five Qualifying Tests (Continued)

- **Work-Related Expense Test**
 - Allows the taxpayer to work or look for work
 - Kindergarten expenses no longer qualify
- **Joint Return Test**
- **Provider Identification Test**
 - Due Diligence
 - Provider Refusal



- Read the “Work-Related Expense Test” section and discuss.
- Review the Potential Pitfalls box at the bottom of Page 7-3, Publication 678, and discuss.
- Note that for Tax Year 2005, kindergarten expenses no longer qualify as expenses for care.
- 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. Review the exceptions.
- Read the “Provider Identification Test” section and discuss.
- Read the Alert box on Page 7-5 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.

NOTE: the taxpayer will not be able to e-file their return).

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 always has 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.
- Work Exercise 1 and then discuss the answer (The answers to Exercise 1 are listed on page 7-13 of Publication 678).

Progress to the next slide.

Figuring the Credit

- Use Schedule 2 for Form 1040A
- 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.
- 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 can complete Part II.
Note: If there are NO Dependent Care Benefits paid by the employer, they can complete the front of Form 2441 only (Parts I & 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.
- Work Exercise 2 and discuss the answer. (The answers are on pages 7-14 and 7-15 of Publication 678.)
- Advise the 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 2005, and did not have an 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.

Progress to the next slide.

Lesson Summary

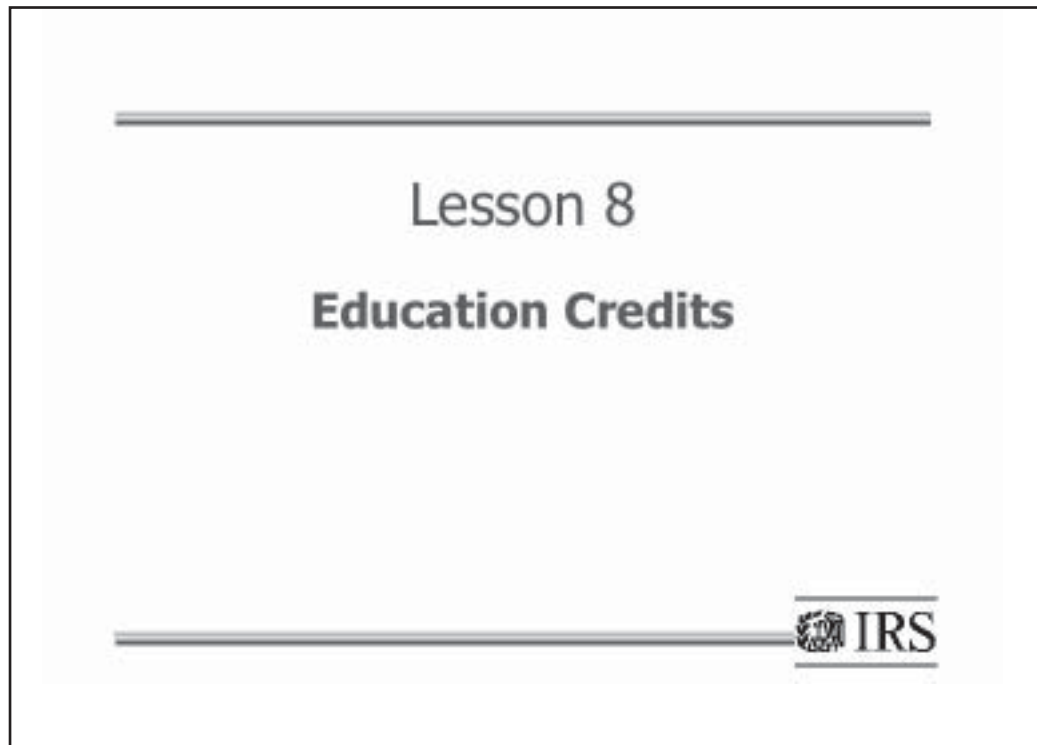
- The Five Tests
- *VRPP Site Resource*



- Review TaxWise Hints.
- Read the “Summing Up This Lesson” box.
- Optional Guided Question:
 - **Ask the students to name the Five Qualifying Tests.** (Answer: Qualifying Person Test, Earned Income Test, Work-related Expense Test, Joint Return Test, and Provider Identification Test.)
- 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 2005.

■ **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.

Objectives

- Calculate the Hope Credit on Form 8863
- Calculate the Lifetime Learning Credit on Form 8863



- 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 scholarship credit**, the **Lifetime Learning credit**, and an adjustment to income for **Tuition and fees deduction** are separate options that can be claimed. Depending on the taxpayer's income and corresponding tax bracket, it may be more beneficial to take the adjustment to income rather than the nonrefundable tax credit.

Progress to the next slide.

General Requirements

- The taxpayer can not file Married Filing Separate
- Have qualified expenses
- Have an eligible student
- Eligible student must attend eligible institution
- Phase Out:
 - \$87,000-\$107,000 Married Filing Joint (MFJ)
 - \$43,000-\$53,000 Others



- Explain general requirements, qualifying expenses, and who is an eligible student.
- 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.
- 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 acceptable substitute) to each enrolled student by January 31, 2006.
- Read Example 1 and discuss.
- Review the chart : "Who can claim expenses?"
- Read Example 2 and discuss.

Progress to the next slide.

Hope Credit

- Can be claimed for each eligible student
- Maximum is \$1,500 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



- Remind students that there is a maximum credit amount.
- Read Example 3 and discuss.

Progress to the next slide.

Lifetime Learning Credit

- 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



- Have the students read the Lifetime Learning section of the student text.
- Read Examples 4 and 5 and discuss.
- Read Example 6 and discuss.
- Remind students that there are no double benefits.
- Remind students that the taxpayer may take maximum advantage of the deduction or credit, but not both.
- Tell students that the Comparison of Education Credits table is in Publication 4012.
- Read Example 7 and discuss.
- Explain to students what happens when a refund of qualified tuition and related expenses are received.
- Read Example 8 and discuss.
- Have students to work Exercise 1 and discuss the answer.

Progress to the next slide.

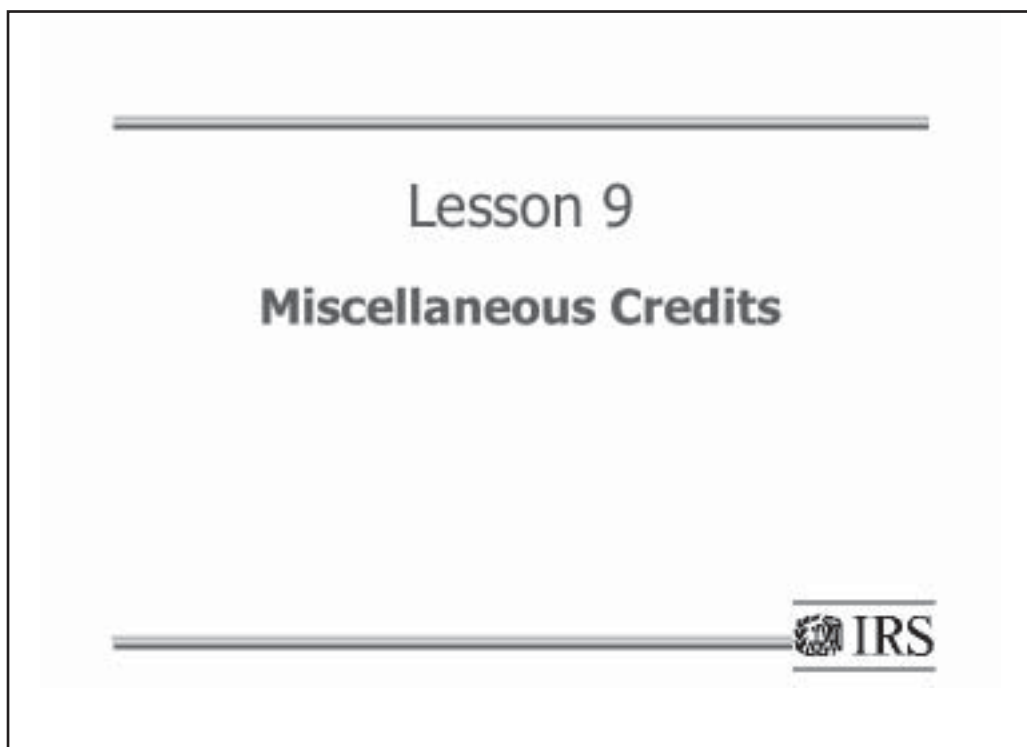
Lesson Summary

- 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.



- Read **TaxWise® Hint:** To input qualified tuition expenses and prepare a Form 8863 using TaxWise®, link from Form 1040, line 50, 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 the Form 1040.
- 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 2005.

■ **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

■ **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 have certain requirements which 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/Disabled
- Calculate the Credit for Qualified Retirement Savings Contributions - Form 8880
- 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 the Mortgage Interest Credit is outside of the scope of the volunteer program but 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.

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 \$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 charts to determine if a person qualifies for this credit and for the income limits for each Filing Status.
- Point out that chart is in Publication 4012.
- 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 \$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 you 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 to Line 49 (1040) or Line 30 (1040A). If you are using TaxWise®, much of the information will flow to the schedule.
- Turn to Example 1 and turn to Schedule R.
- Review the Example and Schedule R.
- 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
- 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.
- Discuss eligibility for - To be eligible for this saver's credit:
 - 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.
- See Table for 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 the 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.
- Caution 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 Example 1.
- Work Exercise 1 and 2. Then review.

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 paid tax preparer to determine if the tax paid is eligible for the foreign tax credit.



- Refer to Foreign Tax Credit:
- U.S. taxpayers are taxed on their world-wide income. This tax credit can be used to avoid double taxation if all the requirements are met.
- Restricted countries—A taxpayer cannot claim the foreign tax credit paid to certain restricted countries.
- **Caution** students that 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 47 (\$300 or \$600).

Progress to the next slide.

Foreign Tax Credit

- 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.



- 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 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 exclude income from sources within Puerto Rico, they can enter the credit directly on the Form 1040 Line 47.
- Review Example 2.
- Work Exercise 3.

Progress to the next slide.

Mortgage Interest Credit

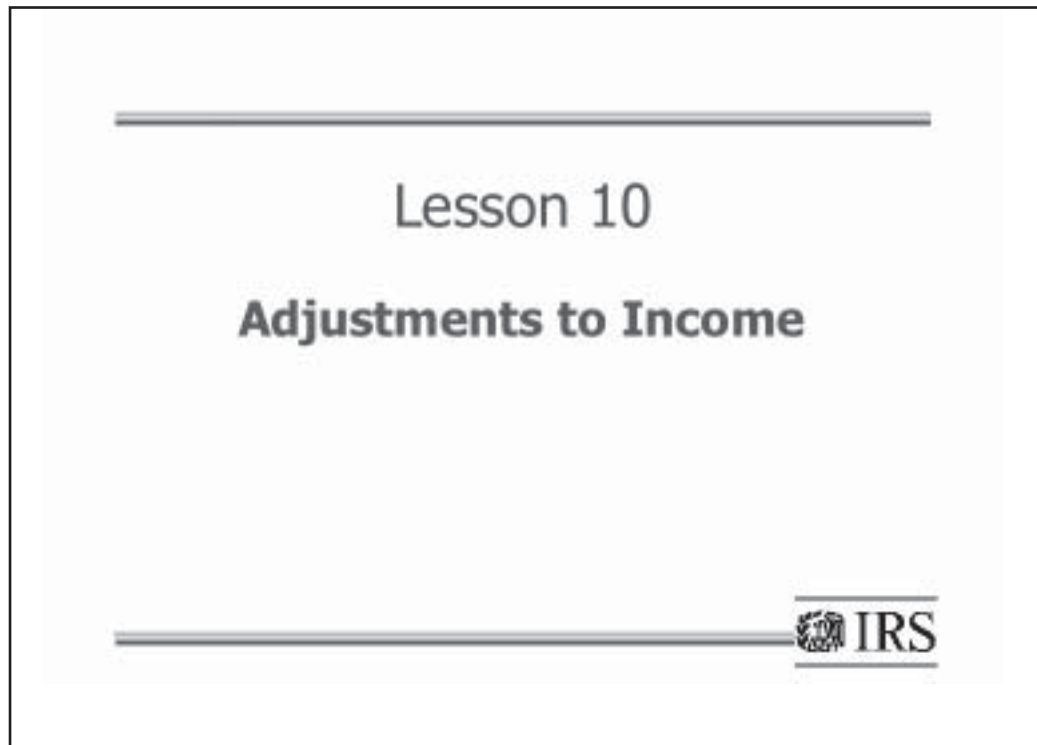
- Hold a qualified Mortgage Interest Credit Certificate on main home
- Must reduce mortgage interest deduction on Schedule A (if itemizing)
- Use Form 8396 to figure credit on mortgage interest paid
- May carry forward unused credit for up to three years



- Read Mortgage Interest Credit.
- **This credit does not fall within the scope of VRPP.** 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. The taxpayer might want to seek the assistance of a paid tax preparer.

Progress to Lesson 14 to complete the basic course; otherwise proceed to Lesson 10.

FACILITATOR NOTES



This lesson contains information for all courses (except the basic course) and has been updated for Tax Year 2005.

■ **References:**

- Form 8606, Nondeductible IRAs
- Traditional IRA Deduction Worksheet
- Tuition and Fees 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

- Calculate and accurately report adjustments to income
- Identify which IRA contributions are within the scope of the VRPP
- Identify contribution limits for IRAs



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

Progress to the next slide.

Adjustments to Income

- Educator Expenses
- Contributions to traditional IRAs
- Student Loan interest deduction
- Tuition and Fees Deduction
- One-half of the self-employment tax paid



- Emphasize with 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 VRPP.
- Explain that there are other deductions outside of the scope of the VRPP 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, & Qualified Plan Deductions
 - Domestic Production Activities Deduction
- Remember the above deductions are outside of the scope of the program and should be referred to a Paid Tax Preparer.

Progress to the next slide.

Adjustments to Income - continued

- Penalty for early withdrawal of savings
- Alimony paid
- Jury duty pay given to employer
- 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 2106-EZ to figure the deduction amount 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 the adjustments we discuss automatically post themselves if tied to income or reporting documents which TaxWise® requires that you enter in an earlier part of the return.
- Explain that you will also find that the worksheets will automatically be completed as you enter in the amounts on the appropriate line.

Progress to the next slide.

Educator Expenses

- Who is a qualified educator?
- Maximum credit is \$250
- What are qualified expenses?



- Explain who is an eligible educator. A kindergarten through grade 12 teacher, instructor, counselor, principal, or aide who works at least 900 hours during the school year.
- Show the deduction for Educator Expenses up to \$500 on Joint Return. Many students are confused when the taxpayer and spouse are both eligible educators.
Remind them that the deduction can be as high as \$500 when both taxpayers qualify and up to \$250 for single and married filing separately.
- Show how to report educator expenses.
- Review with students the importance that supplies, in most cases, must be used in the classroom (see athletic uses) and not in the home.
- Have students review Example 1.

Progress to the next slide.

Individual Retirement Accounts

- Contributions to traditional IRAs may result in an adjustment
- Contributions to non-traditional 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 the Volunteer Programs and which ones they are.
- Explain the type of Income 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 2005 is \$4,000 if the taxpayer is under age 50
- Maximum contribution for 2005 is \$4,500 if the taxpayer is age 50 or over
- Spousal IRAs have the same contribution limits



- Discuss contribution limits and how these are determined.
- Explain deemed IRAs and their impact on qualifying the IRA for using it as an adjustment.
- Have students review Examples 3, 4, 5, and 6.

Progress to the next slide.

Deductible Contributions

- Some of the contributed amount may not be deductible depending on:
 - Covered by an employer plan (yourself or spouse)
 - Modified Adjusted Gross Income
 - Filing Status
- Excess contributions are taxed at 6% unless withdrawn by April 15th.



- 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 showing 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.
- Review Example 9, 10, and 11.
- Have the class work Exercise 2.
- Review Example 12.
- Review Exhibit 1.

Progress to the next slide.

Non-Deductible IRA Contributions

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



- Point out to the volunteers that the purpose of the Form 8606 is to report nondeductible contributions so that they will be treated as such at a later date when they are withdrawn, avoiding inappropriate taxation of them. Otherwise, the taxpayer will have to provide evidence to the contrary at that time.
- Emphasize that taxpayers should keep the Form 8606 for each tax year because this information will become necessary at a later time.
- Review Additional Taxes and Penalties before doing Exercises.
- Discuss Credit for Qualified Retirement Savings Contribution briefly and note to students that this is *used in addition* to the adjustment.
- Review Example 13.
- Review Exhibits 2 and 3.
- Review Exercise 3.
- **Teaching Tip:** Have overhead of the blank worksheet and have a student fill one out.

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?** (When they are withdrawn from the traditional IRA.)
3. **Who is eligible to contribute to a traditional IRA?** (Anyone who is under 70 1/2 years of age 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 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 (\$4,500 if the taxpayer is age 50 or older).)

Progress to the next slide.

IRA Review Questions (Continued)



- 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 non-deductible contributions are made.)
 8. **When are earnings and gains taxed on non-deductible contributions?** (Earnings and gains are not taxed until 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 the employer?** (The deduction may be reduced or eliminated depending on the modified adjusted gross income and the filing status.)

Progress to the next slide.

Student Loan Interest

- The maximum deduction for 2005 is \$2,500
- If taxpayer paid \$600 or more should receive a statement from 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 modified AGI is \$65,000 or more for single, head of household and qualifying widow; or \$130,000 or more for married filing jointly, you cannot claim this deduction.)
- Review Example 14.

Progress to the next slide.

Tuition and Fees Deduction

- Tuition and related expenses can now be taken as an adjustment to income
- The maximum deduction for 2005 is \$4,000
- AGI limits apply
- Not available to Married Filing Separate taxpayers



- Point out that the amount of qualified education expenses that can be used in figuring the tuition and fees deduction is \$4,000 if modified adjusted gross income (MAGI) is not more than \$65,000 (\$130,000 if married filing jointly). If MAGI is larger than \$65,000 (\$130,000 if married filing joint), but is not more than \$80,000 (\$160,000 if married filing jointly), the maximum tuition and fees deduction is \$2,000. No tuition and fees deduction is allowed if MAGI is larger than \$80,000 (\$160,000 if married filing joint).
- Emphasize that this cannot be used with the Hope or Lifetime Credits, and that the volunteer should determine which of the tax benefits will produce the higher refund. There is no rule for this and the volunteer should try each of the benefits which the taxpayer qualifies for before deciding which one produces the best result.
- **TaxWise® Tip:** Using TaxWise® makes calculating the best Education Credit or Adjustment to Income easy.
- Guided Question:
 - **What is included in qualified expenses?** (Course related books, supplies, and equipment and student activity fees when required as a condition of enrollment or attendance.) *Use this teaching point to explain the difference of buying books and supplies at the college bookstore (**not allowed**), and course related books and supplies as a condition of enrollment or attendance (**allowed**).*

Progress to the next slide.

Other Deductions

- 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 the Schedule SE after completing the Schedule C-EZ.
- Show students that when a taxpayer pays jury duty pay to their employer, that after reporting the jury duty pay as income, they may take the amount returned to the employer as an adjustment to their 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.
- Emphasize to students the importance of entering on Form 1040, line 31a, the Social Security Number of the person who received the alimony or separate maintenance payments. 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 Deductions (con't)

Other Deductions – Review 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 time deposit before the maturity date.)
 2. **Can the early withdrawal penalty be reported as an adjustment to income on Form 1040EZ or 1040A?** (No; the early withdrawal penalty can only be reported as an adjustment to income on Form 1040.)
 3. **Is the amount of early withdrawal penalty that can be reported on Form 1040 as an adjustment to income limited by either: (1) the amount of interest earned from a time deposit, or (2) a taxpayer's adjusted gross income?** (No; the full amount of early withdrawal penalty can be reported — even if the penalty is more than the interest earned.)

Progress to the next slide.

Lesson Summary

- Income adjustments covered in this lesson
- How do they affect the Adjusted Gross Income?
- Where do you claim them?



■ Review Adjustments

1. One-half self-employment tax (Within the scope of the VRPP; report on Form 1040, line 27.)
2. Jury duty pay given to an employer (Within the scope of the VRPP; report on Form 1040, line 36, and write "jury pay" dotted on line.)
3. Contributions to a traditional IRA (Within the scope of the VRPP; report on Form 1040, line 32, or on Form 1040A, line 17.)
4. Self-employed SEP, SIMPLE, and qualified plans (Outside the scope of the VRPP.)
5. Self-employed health insurance (Outside the scope of the VRPP.)
6. Alimony paid (Within the scope of the VRPP; report on Form 1040, line 31a, along with recipient's social security number on 31b.)
7. Penalty on early withdrawal of savings (Within the scope of the VRPP; report on Form 1040, line, 30.)
8. Moving expenses (outside the scope of the VRPP. However, covered later in a separate Lesson for Military personnel.)
9. Student loan interest deduction (Generally within the scope of the VRPP; report on Form 1040, line 33, or on Form 1040A, line 18.)
10. Tuition and fees deduction (Within the scope of the VRPP; report on Form 1040, line 34 or on Form 1040A, line 19.)

Progress to the next slide.

TaxWise Hints Review

- Worksheets are completed as data is entered on the Form 1040 or 1040A.



- **TaxWise® Tips Review:** TaxWise® will quickly complete any worksheets needed to determine the adjustments.
 1. The student loan interest, and tuition and fees adjustment, are combined on the same worksheet in TaxWise® and can be linked to from either line.
 2. Using TaxWise® makes calculating the best Education Credit or Adjustment to Income easy. This is normally done when the rest of the return is done, since the Earned Income Tax Credit qualification can make a difference in the outcome.
 3. For IRAs, you can link to the Deductible and Nondeductible worksheet from line 32, and it will complete the Form 8606 for you.
 4. One half the self employment tax will automatically be entered after completing the Schedule C-EZ.
 5. The penalty on early withdraw will automatically be carried over from the Interest Received Worksheet, which can be linked to through Schedule B.
 6. Jury Duty has a special line and box to enter the amount returned to the employer.
 7. For alimony, TaxWise® requires that a SSN is input to electronically file the return.

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, Record Keeping 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 you must use Form 1040 to claim 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 US within one year.
- Spouse and Dependant rule.



- Emphasize that only a Permanent Change of Station is allowed.
- Review the 3 types of moving which are considered a Permanent Change of Station.
- Discuss the special rule for Spouse and Dependents where 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 does not include any of the following in his or her gross income:
 - Moving or storage services furnished to the member.
 - Non-taxable 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 US or between foreign countries.
- Review Exercise 3.
- Explain the differences (options) in reporting the deduction for service members not reimbursed and those who did get reimbursed on the Form 3903.
- Review Example.
- Review the Exercise 4.

Progress to the next slide.

Lesson Summary

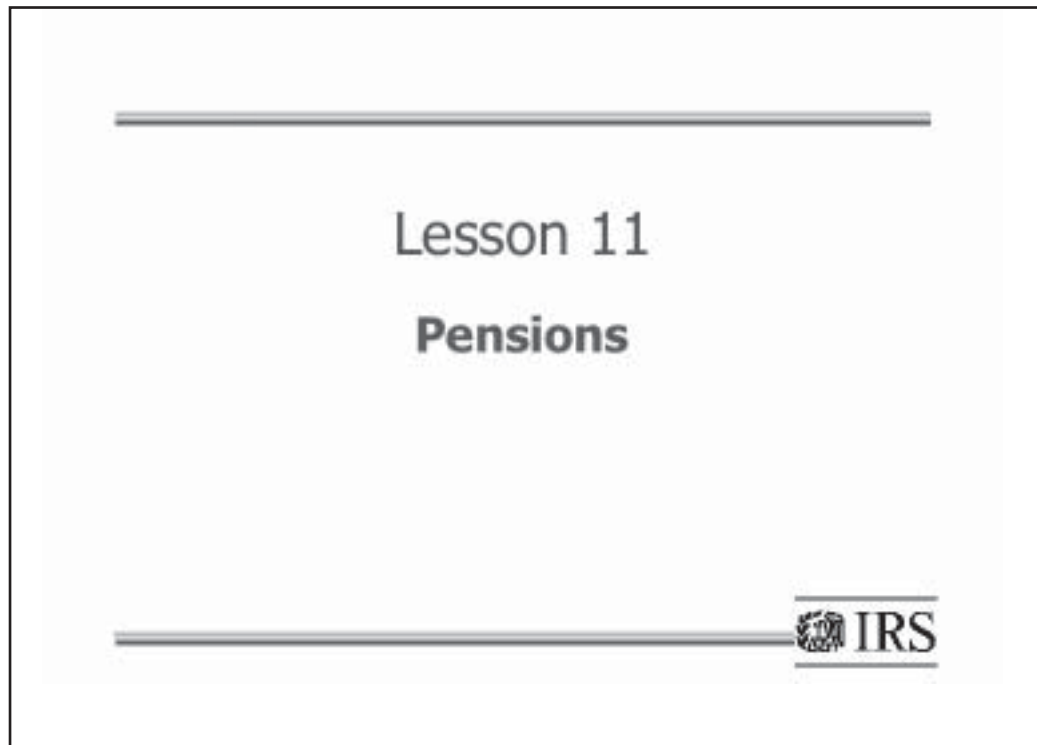
- Qualifications for Moving Expense Deduction
- Deductible Moving Expenses
- Form 3903 – Used to compute Moving Expense Deduction



- Point out that Moving Expenses are deductible on Line 26 of Form 1040.

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 2005.

■ **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.W. 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 situation dealing with retirement income, 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.

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 a 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 did not contribute to the pension plan, the benefits received are fully taxable. Military pensions are noncontributory and thus, are usually fully taxable.

Note: Exception for contributions to a Thrift Savings Plan while in a combat zone. 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.

- Review Example 1.
- Work 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.
- Review 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 11/18/96.
- 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 work Exercise 2 and then discuss.

Progress to the next slide.

Reporting the Income

	1040	1040A
IRA	Line 15	11
Pension	Line 16	12
Annuity	Line 16	12
Social Security	Line 20	14
Railroad-Tier 1	Line 20	14
Railroad-Tier 2	Line 16	12



- Review Forms 1040 and 1040A while pointing out line items for reporting each type of retirement income.
- 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 line 7, Form 1040)
- Treat as **pension** income once minimum retirement age reached (report on line 16, Form 1040)



- Explain that if a taxpayer retires on disability, taxable disability payments are reported as wages until minimum retirement age is reached.
- Show student the proper line numbers on the 1040 and 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* **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 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 70 1/2 years old. Generally, for all other retirement plans discussed in this lesson, a taxpayer who is still working at age 70 1/2 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 4 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 exceed base amount *or*
 - MFS & lived with your spouse
- Use the Social Security Benefits Worksheet to calculate the taxable benefits



- Remind students that Railroad Retirement SSEB are reported on RRB-1099 and tell them 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 SSI (supplemental security benefits), which are not taxable.
- Tell students to always input the social security benefits into software, if computer is used, or complete the worksheet, if preparing a manual return. This will ensure a proper determination as to if any benefits are taxable. Warn students against assuming that all social security benefits are non-taxable.
- Refer to the Social Security Benefits Worksheet.
- Review Example 5.

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 SSA-1099 or RRB-1099 and an amount will be 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 where 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" .

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 preparer.
- Review Example 6.
- 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
- Distribution made after 5-taxable-year period after Roth was established **and**
 - Taxpayer is age 59 ½, or
 - Taxpayer is disabled, or
 - To a beneficiary/estate after taxpayer death, or
 - To buy, build, or rebuild a 1st 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 & Estimated Tax Payments

- Use **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
 - Taxpayer owes more than \$1,000 in tax



- Explain to student that if the taxpayer has too little tax withheld, penalties and interest may be assessed.
- Have students complete the Summary Exercise.
- Review the Summary Exercise.

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 power point slide with the students.
- 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 70 1/2 years old. Generally, for all other retirement plans discussed in this lesson, a taxpayer who is still working at age 70 1/2 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

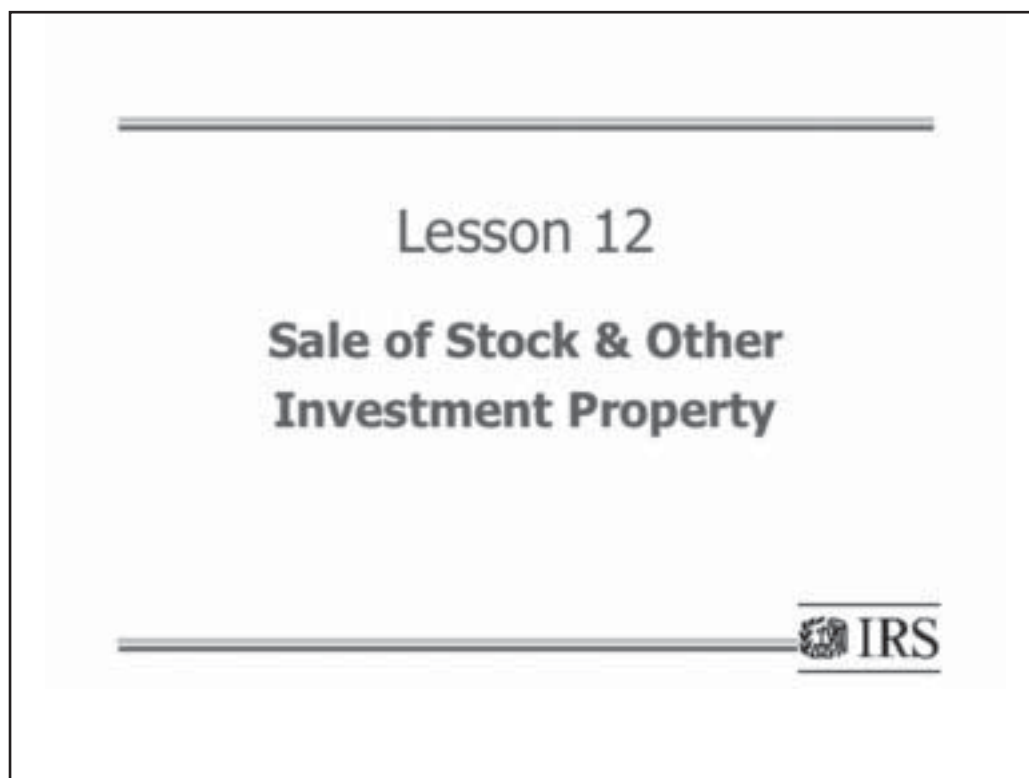


■ Optional Guided Questions (Intermediate Course)

- 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 percent 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 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



This lesson contains information for the Advanced and Military/International courses and has been updated for Tax Year 2005.

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

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

■ **References:**

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

■ **Additional References:**

- Publication 550, Investment Income
- Publication 551, Basis of Assets
- Publication 544, Sales & Disposition of Assets

Progress to the next slide.

Objectives

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



- Review the objectives with the class.

Progress to the next slide.

Investment Property

Property that produces investment income

- Stocks
- Bonds
- Mutual Funds
- Treasury Bills & Notes



- Define investment property and give examples.
- Go over Example 1 in text.
- Describe how a capital gain or loss on investment property is computed:
amount realized minus adjusted basis of asset.

Progress to the next slide.

Basis of Investment Property

- The **basis** of an asset is usually its cost
- Basis is +/- by certain events, resulting in **adjusted basis**
- Adjustments Include:
 - **Brokerage commissions paid (buying & selling)**
 - **Stock splits & tax-free stock dividends**
 - **Reinvested dividends**
 - **Reinvested capital gain distributions**



- Explain that before a capital gain or loss can be determined, 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.
- Give examples of adjustments to basis.
- Go over Examples 2 & 3 in the text.
- Explain how to figure the basis of property that was received: As a gift or by inheritance.
- Describe how bonds, other tax-exempt obligations, and employee stock option plans may require the assistance of a paid tax preparer.
- Explain the importance of good recordkeeping.
- Have students work 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 only reported when a sale, exchange, or other disposition of investment property occurs.

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



- Provide an overview of when capital gains and losses will be reported.
- Describe that changes in market value to a mutual fund or an IRA are not reportable transactions.
- 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.
- Go through Example 6.
- Discuss examples of other sales and trades that are beyond the scope of the VRPP: e.g. mark-to-market, wash sales, day trading.
- 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 Shares Sold

- Specific Identification
- Identification Not Possible
- Mutual Fund Shares
 - Cost Basis
 - Average Basis



- 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.
- Describe how shares of stock would be specifically identified by the taxpayer.
- Go through Example 8.
- Have the students work Exercise 5 and review it together when they are finished.
- Discuss that the FIFO method 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.
- 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

- Stock held for **more than** 12 months is considered long-term property
- Stock held for **1 year or less** has a short-term holding period
- Inherited property (long-term property)
- Nontaxable stock dividends and stock splits (same holding period as the original stock)



- Explain that capital gains and losses are classified as either long-term or short-term when reported on Schedule D, depending on how long the taxpayer owned the investment.
- Describe the definitions of long-term and short-term.
- Explain that the acquisition date is not counted, but the sale date is 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.
- Go through Example 14.
- Describe nontaxable 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 a capital gain or loss is computed.
- List the items needed before the gain or loss can be computed.
- Have students look at a 1099-B and/or a consolidated brokerage statement and review the elements of the form.
- Remind students that it is the taxpayer's responsibility to provide an acquisition date and the adjusted basis.
- Review Examples 15 and 16.

Progress to the next slide.

Commissions and Fees

- Commissions paid when investment property is purchased - **add to basis**
- Commissions paid at the time of sale **may** increase basis
 - If 1099-B shows gross proceeds, add the commission 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 VRPP.
- Have the students work Exercises 9, 10, and 11.
- Review Exercises 9, 10, and 11 with the class.

Progress to the next slide.

Reporting Transactions on the Tax Return

- Capital gains & losses are reported on Schedule D
- Schedule D has three sections
 - Part I - Short-term transactions
 - Part II - Long-term transactions
 - Part III – Summary
- If space is needed to report additional transactions, use Schedule D-1



- Remind students that capital gains and losses are reported on Schedule D of the tax return.
- Have students review a Schedule D.
- 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.
- Explain to students that taxpayers should include all transactions, even if no 1099-B was received.
- Tell students if additional transactions need to be reported, Schedule D-1 may be used.

Progress to the next slide.

Reporting Transactions on the Tax Return - cont'd

Combine net S-T capital gain/loss with net
L-T capital gain/loss (Part III)

- 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 section III, line 14.
- Review Schedule D, Section III with students.
- Tell students if losses exceed gains, the taxpayer has a net capital loss.
- Tell students if gains exceed losses, the taxpayer has a net capital gain.

Progress to the next slide.

Capital Gain Distributions

Reported on Form 1099-DIV, box 2a

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



- Explain capital gain distributions from 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, 1040 and the box checked.
- Describe how to report capital gain distributions on Schedule D, if it is required.

Progress to the next slide.

Total Net Capital Loss

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



- Share that if the result is a loss, the taxpayer may claim a capital loss.
- Explain the capital loss limitations.
- Describe how capital losses in excess of the limitations may be carried over indefinitely to future years.
- 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 – ensures that a capital loss carryover keeps its short-term or long-term nature from one year to the next.
- **Common Queries:** Students may ask 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.

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% - 28%
- To figure Capital Gains Tax use:
 - Schedule D Tax Worksheet or
 - Qualified Dividends & Capital Gains Tax Worksheet



- Tell the students if the taxpayer has a net capital gain, capital gains tax rates apply to the gain.
- 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% – 28%.
- Explain that capital gains tax rates are applied by completing Schedule D Tax Worksheet or the Qualified Dividends & Capital Gains Tax Worksheet. For the VRPP, the latter is most common.
- Have students review a sample Qualified Dividends & Capital Gains Tax Worksheet.

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 (summarized on the following power point slides).
- 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 MFS)



- Review the summary points.

Progress to the next slide.

Lesson Summary – cont'd

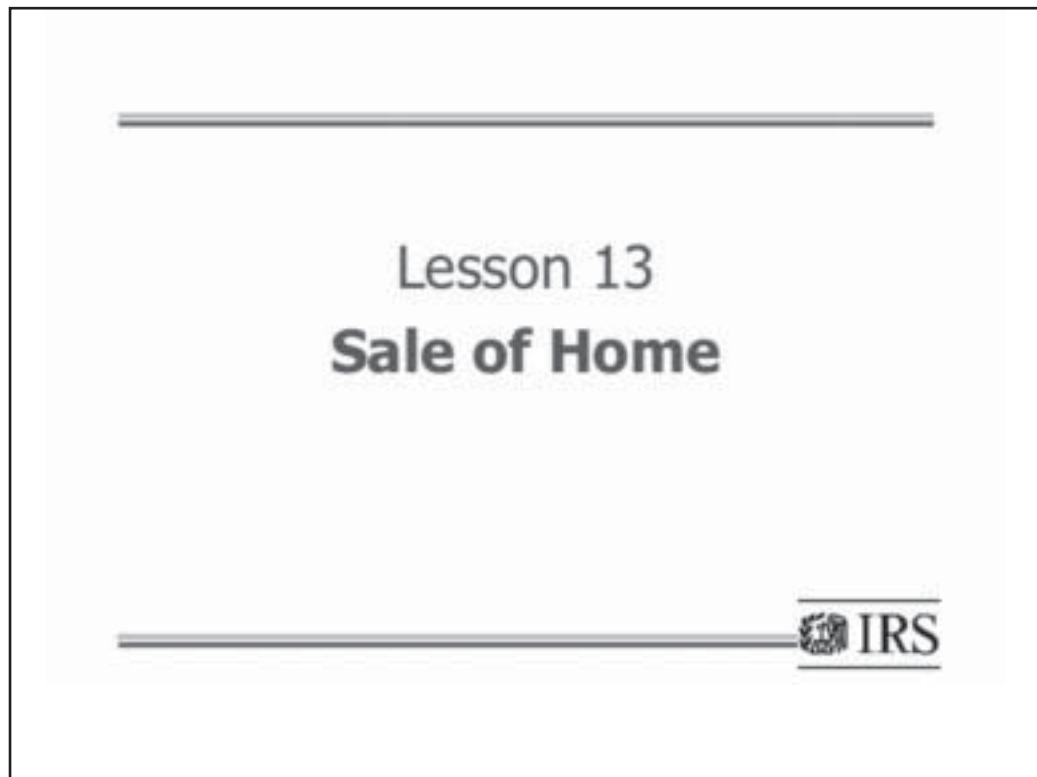
- Net capital gains are taxed at a lower, capital gains tax rates computed on
 - Schedule D Tax Worksheet, or
 - Qualified Dividends & Capital Gains Tax Worksheet
- Schedule D is not required if the taxpayer has only capital gain distributions from 1099-DIV to report



- Review the summary points.

Progress to the next lesson.

FACILITATOR NOTES



This lesson contains information for the Advanced and Military/International courses and has been updated for Tax Year 2005.

■ **References:**

- Form 1099-S, Proceeds from Real Estate Transactions
- Publication 523, Selling Your Home
- Publication 3, Armed Forces' Tax Guide

Note: The sale of a main home that was converted into rental property is beyond the scope of the VRPP.

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



- Review the lesson objectives with the students.
- Tell the students that it is important to ask the taxpayer all relevant questions to ensure the sale of the home qualifies for the exclusion.
- Explain that the person responsible for closing the transaction is generally required to file and furnish Form 1099-S for all sale transactions. 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 paid tax preparer.
- 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 paid tax preparer.

Progress to the next slide.

Requirements for Exclusion

Exclude up to \$250,000 (\$500,000 if MFJ) 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)
- Have not excluded gain in the past 2 years (neither spouse, if married)
- File a joint return, if married



- Tell students that qualifying taxpayers are eligible to exclude from income gains up to the maximum exclusion amounts.
- Review the requirements for the exclusion, including the additional requirements for married taxpayers.

Progress to the next slide.

Ownership & Use Tests

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

- Owned the home for at least 2 years, and
- Lived in the home (as a main home) for at least 2 years



- Inform students that both the ownership and use tests have to be met.
- Explain that the 5-year period for the purposes of the ownership and use test 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.
- **Note:** *The Military Family Tax Relief Act of 2003 provides a taxpayer on qualified official extended duty in the U.S. Armed Services or the Foreign Service to suspend for up to 10 years of such duty time the running of the 5-year ownership-and-use period before the sale of a residence. This election, which is an option for the taxpayer, applies to only one property at a time.*

Progress to the next slide.

"Main" Home

- The home a taxpayer lives in most of the time is considered a **main home**
- 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 & 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.

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 VRPP) will rarely have to report gain from the sale of a main residence.
- If any portion of the gain is taxable, the transaction should be reported on Schedule D.

Progress to the next slide.

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



- Review the power point slide.

Progress to the next slide.

Test Period Suspended

Members of armed forces can suspend the 5-year test period of the ownership and use tests if:

- Serving on “qualified official extended duty”
- Period of suspension doesn’t exceed 10 years
- Not more than one property at a time is being suspended



- The Military Families Tax Relief Act (MFTRA) signed by President Bush on November 11, 2003, contained special provisions for armed force members who sell their main home. The 5-year test period can be suspended for up to ten years for members of the armed services.
- Define Qualified Official Extended Duty
 - Called or ordered to active duty for > 90 days (or an indefinite period)
 - Serves at a duty station at least 50 miles from his/her main home or lives in government quarters under government order
 - Only one property at a time qualifies for suspension.
- Review Example 4 in the text.

Progress to the next slide.

Gain on Sale of Main Home

Gain = Amount Realized – Adjusted Basis

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



- Explain how to determine the gain or loss.
- Relate that if the taxpayer's selling price is less than the exclusion amount, no calculation is necessary.
- Review Example 5 from the book.
- Have students review a Form 1099-S, Proceeds from Real Estate Transactions.
- Go over Example 6 from the text.
- Have students review a Schedule D.
- 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.

Progress to the next slide.

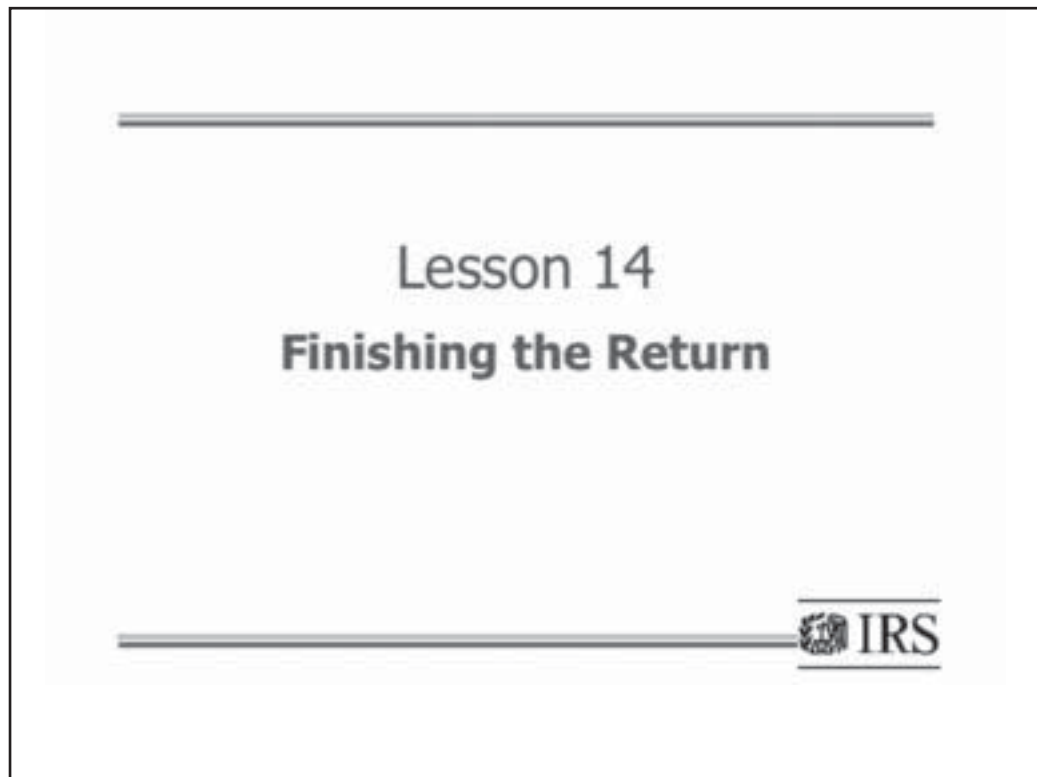
Lesson Summary

- Eligible taxpayers may exclude up to \$250,000 (\$500,000, if MFJ) 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 power point.
- Ask students if they have any questions.

Progress to the next lesson.



This lesson contains information for all courses and has been updated for Tax Year 2005.

Military information is at the end of the lesson.

■ **References:**

- Form 1040 ES, Estimated Taxes for Individuals
- Form 8158, Quality Review Checklist
- 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

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 if changes to the Form W-4 or 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 ID Section



- Have students read the student text section “Checklist for Finishing the Return”.
- Ask students to tell you where you can find the amount of federal income tax withheld (Forms W-2 and some 1099 Forms).
- 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 2006 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 - continued

- Return Assembly and Copy
- Site Identification Number
- On Site Quality Review
- Signing the Return
- Taxpayer Question
- Where to Mail Paper Returns



- Make sure that students know what their Site Identification Number is 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 VRPP.
- Tell the students that IRS does not provide VRPP sites with envelopes for mailing in paper returns. Some sites may choose to provide pre-addressed envelopes at their own expense.
- Remind students that a Quality Review Checklist, Form 8158, should be used for all returns to assure completeness and accuracy.
- Discuss the Personal Identification Number (PIN) Guidelines.

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



- Review where to find the amount of federal income tax that has been withheld.
- Remind students that they should not include the amount withheld for Social Security and Medicare with the federal withholding.
- Have the students read Examples 1 and 2 and then ask if there are any questions.

Progress to the next slide.

Estimated Tax Payments

- Add all federal Estimated Tax payments together
- Be sure to include:
 - An overpayment from the 2004 return that was applied to 2005 tax payments
 - Payments made using the Form 1040ES, including the one made in January, 2006



- 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 2004 return to see if the refund was applied to the 2005 tax year. (It would be the amount on line 73.)
- Optional Group Activity:
 - To review students' understanding of estimated tax payment and 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 creates an overpayment
- Overpayments are refunded unless applied to other accounts or tax years
- If the total tax exceeds the total payments, this creates 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 could be 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 a checking or savings account.

Progress to the next slide.

Figuring Estimated Tax for 2006

- If it is expected that \$1,000 or more will be owed on the 2006 return, Estimated Tax payments should be explained
- Form 1040ES is used to calculate the amount of the estimated 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.
- Discuss Example 4.
- Ask the students to name some times when taxpayers need to make estimated tax payments. Allow several students to answer.
- Review the Form 1040ES (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 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 2005 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. (Large refund, large balance due)
- Remind students that there is not a penalty for having too much withheld. In fact, many taxpayers have 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 want to 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.

Military/International course, progress to the next slide; otherwise 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 work Exercise 1.
- Review the answer to the exercise with the class. Ask if they have any questions.

Progress to the next slide.

Lesson Summary

- Always try to establish a system of quality review at your site
- If you are not already electronically filing returns, please consider this option
- SIDN on all returns



- Stress again privacy and quality.

Progress to the next slide.

Comprehensive Course Problem & Exercises

Application of Tax Law (Publication 678-W)

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



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

Note: See Instructor notes for Publication 678W on the next page.

How To Use Publication 678-W

Comprehensive Training Problems and Exercises Workbook (Publication 678-W) Instructor Notes

In the Publication 678-W workbook, students will complete tax returns for common scenarios often encountered at volunteer assistance sites. This will be valuable practice as they prepare to help taxpayers.

The returns for these scenarios can be prepared manually or with the use of tax preparation software. Students will have taxpayer information for scenarios presented in the same format that they will receive the information from the taxpayer, i.e. Form 13614, Interview and Intake Sheet, social security cards (facsimile), information documents (Forms W-2, Forms 1099, etc.).

Form 13614, Interview and Intake Sheet is presented from the taxpayer's viewpoint. Volunteers should always review the form with the taxpayer(s) to make sure the taxpayer(s) understood and answered all of the questions and that the information is accurate.

Manual Preparation Instructions

For practice in the manual preparation of tax returns, students may complete the Comprehensive Training Problem for the course for which they would like to certify. Blank draft 2005 tax forms are provided for each Comprehensive Problem.

- Basic Course completes Comprehensive Problem A.
- Intermediate Course completes Comprehensive Problem B.
- Advanced Course completes Comprehensive Problem C.
- Military/International Course completes the Comprehensive Problems C and D.

The accompanying Student Exercises are optional. Therefore a manual preparer may complete them at their or your discretion. (You will need to provide the necessary forms for the students if you would like for them to complete these exercises).

Integrated Training Instructions

Integrated training combines tax law training with tax preparation software training. The goal is a certified volunteer in less time than teaching tax law and tax software separately. This training approach is also divided by the course for which the student would like to certify.

- Basic Course completes Comprehensive Problem A and Student Exercises 1 through 4.

- Intermediate Course completes Comprehensive Problem B and Student Exercises 5 through 8. (Student Exercises 1 through 4 may be covered at the instructor's discretion.)
- Advanced Course completes Comprehensive Problem C and Student Exercises 9 through 12 (The Advanced Course covers all tax issues; therefore, Student Exercises 1 through 8 may be covered at the instructor's discretion).
- Military Course completes Comprehensive Problems C and D and Student Exercises 9 through 14.

Instructors

An instructional team with both tax law and TaxWise® (application) expertise should conduct the class. At a minimum, instructors are certified by the successful completion of the student test booklet, VITA/TCE Student Testing Materials, Form 6744. Additional assistant instructors can be assigned based on class size—ideally one assistant for five students.

Classroom

Integrated training class size should be 20 students or less.

The classroom should have:

- A computer for each student
- An instructor station with computer and projector
- Table space for documents

Instructors should be aware of computer storage limitations in some computer labs. For example, some university computer labs do not allow students to save training exercises to lab computers. In this case, instructors will need to ensure students have disks or CDs to save their work for the next day.

Student Materials

- Form 1040 (and Form 1040 Instructions)
- IRS Publication 678 Volunteer Assistor's Guide
- IRS Publication 4012, Volunteer Resource Guide
- Publication 17, Your Federal Income Tax for Individuals, if available
- State training materials (as appropriate)

Testing and Certification

Students are encouraged to complete the test using tax software where appropriate. The requirements for certification are the same as through the traditional training approach.

Evaluations

Evaluations by instructors and students are vital. Please refer to the evaluation procedures found in the traditional training instructor notes.

Overview

The suggested approach to integrated training is to introduce a segment of tax law (with views and examples from the actual software as well as the paper forms) followed by software navigation and implementation of that tax law using tax software. At appropriate times, students are provided the opportunity to work exercises on their own to reinforce what they have just learned. This process is continued until all of the tax law is covered.

Exercises

There are three types of exercises in this approach:

1. Comprehensive Problems: There is one comprehensive problem the instructor and student will work together. As the instructor works the exercise, the instructor's tax screen is displayed so students can emulate the instructor's entries. This part of the training should focus on an interactive approach—ask questions and show the results of entries in the application.

The Comprehensive Training Problem for each course level will cover course material applicable to that level.

After the instructor and students together complete a section of the comprehensive problem, the correct Federal Tax Liability is listed. The students can compare this tax liability with the number in the top left-hand corner of the TaxWise screen or select F7 and compare it to the Refund Due line. If the two numbers agree, there is a high probability the student has properly entered the information. If not, the instructor can work with the student to correct the entry before proceeding to the next section.

2. Student Exercises: Individual exercises are provided for students to work independently. These exercises are designed to allow the students to practice what they have learned in the comprehensive exercise.

3. Supplemental Exercises (Advanced Only): References to supplemental exercises indicate the student will return to a previously completed individual exercise. The supplemental exercises provide additional information for the student to input into the software. These supplemental exercises follow the delivery of the related tax law. As time permits use them to reinforce the learning process.

Process

For each Course level, tax law is presented beginning with the data collected for the TaxWise Main Information Sheet and then in the order it appears on IRS Form 1040. Students completing the Military Course will follow the Advanced Course and then complete the Military Problem and Exercises. The modules and their associated Publication 678 lessons are:

Basic Course

Module 1	Lesson 1, Getting Started
	Lesson 2, Filing Status and Filing Requirements
Module 2	Lesson 3, Income (Wages, Interest, Dividends, Unemployment Compensation, and Gambling)
Module 3	Lesson 4, Deductions and Tax Computations
Module 4	Lesson 7, Child and Dependent Credit
	Lesson 8, Education Credit
	Lesson 9, Miscellaneous Credits
Module 5	Lesson 6, Child Tax Credit
	Lesson 5, Earned Income Credit
Module 6	Lesson 14, Finishing the Return

Intermediate Course

Module 1	Lesson 1, Getting Started
	Lesson 2, Filing Status and Filing Requirements
Module 2	Lesson 3, Income (Wages, Interest, Dividends, Unemployment Compensation, Gambling, State and Local Tax Refunds, Early Distributions, Alimony, and Schedule C-EZ)
Module 3	Lesson 11 Pensions—IRA Distribution, Pensions and Annuities (taxable amount determined), Social Security
Module 4	Lesson 10 Adjustments
	Lesson 4, Deductions and Tax Computations
	Lesson 5, Earned Income Credit
Module 5	Lesson 6, Child Tax Credit
	Lesson 7, Child and Dependent Credit
	Lesson 8, Education Credit
	Lesson 9, Miscellaneous Credits
Module 6	Lesson 14, Finishing the Return

Advanced Course and Military/International

Module 1	Lesson 1, Getting Started Lesson 2, Filing Status and Filing Requirements
Module 2	Lesson 3, Income (Wages, Interest, & Dividends)
Module 3	Lesson 3, Income (Taxable Refund, Alimony and Business Income)
Module 4	Lesson 12, Sale of Stock Lesson 13, Sale of Home
Module 5	Lesson 3, Income (Unemployment Compensation and Other Income) Lesson 11, Pensions and Social Security Benefits
Module 6	Lesson 10, Adjustments
Module 7	Lesson 4, Standard and Itemized Deductions
Module 8	Lesson 9, Miscellaneous Credits Lesson 7, Credit for Child and Dependent Care Expenses Lesson 8, Education Credits Lesson 6, Child Tax Credit
Module 9	Lesson 5, Earned Income Credit
Module 10	Lesson 14, Finishing the Return Lesson 6, Additional Child Tax Credit

Directions

The comprehensive problems and student exercises are designed to be completed by the student at appropriate times during the lessons.

- The 2004 exercise answers were derived using TaxWise® 2004 (TW04). Because this publication goes to print long before TaxWise® 2005 (TW05) is released and because tax law changes have not been finalized, the answers for 2005 are estimates based on the best information available at the time of publication.
- If TaxWise® 2004 is used, reduce all year values by one year or as noted in the exercise. For example, Comprehensive C, Line 10, states John and Jane itemized deductions in 2004. If you are using TaxWise® 2004 software, change the year to 2003.
- All of the tax forms are for 2005. If TaxWise® 2004 is used, assume the forms are for 2004.
- Use the “Training” User Name when completing these exercises to assure that practice returns are not included in the TaxWise® return database. This user name requires all social security numbers and EINs begin with three unique numbers followed by the EFIN. The six Xs shown on documents represent your EFIN.
- For entering telephone numbers, enter your telephone number or use 200 as the area code plus any other numbers.
- If your state has an income tax, enter your state abbreviation. If your state has no income tax, check the box indicating no state return is being prepared.

- If an automatic debit withdrawal is requested for tax due, the Payment Date must be later than the current date.
- None of the taxpayers excluded any Puerto Rico income from their tax return.
- None of the taxpayers had an interest in or a signature or other authority over a financial account in a foreign country. None of the taxpayers received a distribution from, or were grantors of, or transferors to a foreign trust. This is information needed to complete the Schedule B for interest income.
- For C-EZ forms, assume the business vehicle was placed in service on January 1 of the tax year and is available for use during off-duty hours. Other mileage was 10,000 miles and the taxpayer has written records. The taxpayer has another vehicle available for personal use.
- In those exercises that request Self Select PINS be used, the return may not qualify. To ensure the return qualifies to be signed by a PIN do not enter the PIN data until all other tax data has been entered, then return to the Main Information Sheet and check under the “Self Select and Practitioner PIN” section. If the return qualifies, fill in the necessary information. If the return does not qualify, Form 8453 must be used.
- Each exercise is to be completed to the point of obtaining the correct AGI, Taxable Income and refund/due amount and achieving “Return is eligible for electronic filing” when running the diagnostic checks.

Publication 4012, Volunteer Resource Guide

Publication 4012 can be very helpful for training and as a resource when performing tax preparation using tax software.

Suggested Class Schedule

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

Basic Course

Day 1	Topic	Suggested Teaching Times
	Welcome & Introductions	15 minutes
	Administrative	
	e-file Background	15 minutes
	Introduction to TaxWise	
	Enter Basic Comprehensive Problem A (BCP A) and input entity data	15 minutes
	Module 1	
	Lesson 1 Getting Started	45 minutes
	Open BCP A and input exemptions and dependents	15 minutes
	Break	15 minutes
	Lesson 2 Filing Status	45 minutes
	Open BCP A and input filing status	15 minutes
	Lesson 2 Filing Requirements	15 minutes
	Module 2	
	Lesson 3 Wages	30 minutes
	<i>Open BCP A and input Forms W-2</i>	15 minutes
	<i>Lunch</i>	45 minutes
	Lesson 3 Interest and Dividends	30 minutes
	Open BCP A and input interest income	15 minutes
	Lesson 3 Unemployment Compensation	15 minutes
	Open BCP A and input Form 1099-G	
	Lesson 3 Gambling Winnings	15 minutes
	Open BCP A and input Form W-2 G	
	Module 3	
	Lesson 4 Deductions & Tax Compensation	30 minutes
	Open BCP A and input Student Loan Interest	15 Minutes
	Break	15 minutes
	Module 4	
	Lesson 7 Child and Dependent Care	30 minutes
	Open BCP A and input daycare expenses	
	Lesson 8 Education Credit	30 minutes
	Open BCP A and input tuition expenses	

Basic Course

Day 2	Topic	Suggested Teaching Times
	Lesson 9 Miscellaneous Credits	30 minutes
	Open BCP A and complete F 8880	
	Basic Student Exercise 1 - Madison	30 minutes
	Module 5	
	Lesson 6 Child Tax Credit	15 minutes
	Open BCP A and discuss the automatic calculation for CTC	15 minutes
	Lesson 5 Earned Income Credit	1 hour
	Open BCP A and complete EIC Worksheet	15 minutes
	Break	15 minutes
	Module 6	
	Lesson 14 Finishing the Return	
	Discuss Diagnostic, Printing, Signing	15 minutes
	Basic Student Exercise 2 - Hood	30 minutes
	Basic Student Exercise 3 - Denison	30 minutes
	Basic Student Exercise 4 - Chapman	30 minutes
	Summary & Review Changes to Tax Law, TaxWise® 2005 Updates, Common Errors, Questions	30 minutes

Intermediate Course

Day 1	Topic	Suggested Teaching Times
	Welcome & Introductions	15 minutes
	Administrative	
	e-file Background	
	Introduction to TaxWise®	15 minutes
	Enter Intermediate Comprehensive Problem B (ICP B) - Yale and input entity data	15 minutes
	Module 1	
	Lesson 1 Getting Started	45 minutes
	Open ICP B and input exemptions and dependents	15 minutes
	Break	15 minutes
	Lesson 2 Filing Status	45 minutes
	Open ICP B and input filing status	15 minutes
	Lesson 2 Filing Requirements	15 minutes
	Module 2	
	Lesson 3 Wages	30 minutes
	Open ICP B and input Forms W-2	15 minutes
	Lunch	45 minutes
	Lesson 3 Interest and Dividends	30 minutes
	Open ICP B and input interest income	15 minutes
	Lesson 3 Unemployment Compensation	15 minutes
	Lesson 3 Gambling Winnings	15 minutes
	Break	15 minutes
	Module 3	
	Lesson 3 Self Employment	30 minutes
	Open ICP B and input 1099 MISC	30 minutes
	Intermediate Student Exercise 5 - Morehouse	30 minutes

Intermediate Course

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

Intermediate Course

Day 3	Topic	Suggested Teaching Times
	Module 6	
	Lesson 6 Child Tax Credit	15 minutes
	Open ICP B and discuss the automatic calculation for CTC	15 minutes
	Lesson 7 Child and Dependent Care	30 minutes
	Open ICP B and input Child and Dependent Care Information	15 minutes
	Lesson 8 Education Credit	30 minutes
	Open ICP B and input Education Credit Information	
	Break	15 minutes
	Lesson 9 Miscellaneous Credits	30 minutes
	Open ICP B and complete F 8880	
	Module 7	
	Lesson 14 Finishing the Return	15 minutes
	Discuss Diagnostic, Printing, Signing	
	Intermediate Student Exercise 6—Rice	30 minutes
	Intermediate Student Exercise 7—Howard	30 minutes
	Intermediate Student Exercise 8—Austin	30 minutes
	Summary & Review Changes to Tax Law, TaxWise® 2005 Updates, Common Errors, Questions	30 minutes

Advanced Course

Day 1	Topic	Suggested Teaching Times
	Welcome & Introductions	15 minutes
	Administrative	
	e-file Background	15 minutes
	Introduction to TaxWise	
	Enter Advanced Comprehensive Problem C (ACP C) and input entity data	15 minutes
	Module 1	
	Lesson 1 Getting Started	45 minutes
	Open ACP C and input exemptions and dependents	15 minutes
	Break	15 minutes
	Lesson 2 Filing Status	45 minutes
	Open ACP C and input filing status	15 minutes
	Lesson 2 Filing Requirements	15 minutes
	Module 2	
	Lesson 3 Wages	30 minutes
	Open ACP C and input Form W-2	15 minutes
	Lunch	45 minutes
	Lesson 3 Interest	30 minutes
	Open ACP C A and input interest income	15 minutes
	Lesson 3 Dividends	30 minutes
	Open ACP C A and input dividend income	15 minutes
	Break	15 minutes
	Advanced Student Exercise 9 - McCook	30 minutes
	Advanced Student Exercise 10 - Reed	30 minutes
	Using Exercise 10, get the red out, run diagnostics, create e-file, print	30 minutes

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
	Module 3	
	Lesson 3 Tax Refund and Alimony	15 minutes
	Open ACP C and input Form 1099-G and alimony	15 minutes
	Lesson 3 Self Employment	30 minutes
	Open ACP C and input Form 1099 MISC	30 minutes
	Basic Student Exercise 4 – Susanne Denison	30 minutes
	Optional Supplemental Exercise S-1 Open Basic Student Exercise 3 Denison and add Form 1099 MISC	15 minutes
	Break	15 minutes
	Module 4	
	Lesson 12 Sale of Stock	45 minutes
	Open ACP C and input stock transactions	30 minutes
	Lesson 13 Sale of Home	15 minutes
	Lunch	45 minutes
	Intermediate Student Exercise 6 – Mark Rice	30 minutes
	Intermediate Student Exercise 7 – Andrew Howard	30 minutes
	Module 5	
	Lesson 11 IRA Distributions	30 minutes
	Open ACP C and input Form 1099-R for IRA distribu- tion	15 minutes
	Lesson 11 Pensions and Annuities	30 minutes
	Open ACP C and input Form 1099-R for pensions	30 minutes
	Lesson 3 Unemployment Compensation	15 minutes
	Open ACP C and input Form 1099-G	15 minutes

Notes:

After teaching basic tax law on self-employment, sale of stock, IRA distributions and pensions, 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 make optional Exercise 4 and Exercise 5. These exercises can be used as homework.

Advanced Course

Day 3	Topic	Suggested Teaching Times
	Lesson 11 Social Security Benefits	15 minutes
	Open ACP C and input form SSA-1099	15 Minutes
	Lesson 3 Other Income	15 minutes
	Open ACP C and input Form W-2G	15 minutes
	Optional Supplemental Exercise S-2 Open BSE 3 (Denison) and add Form 1099-B Open ISE 6 (Rice) and add Form 1099-R	(30 minutes)
	Intermediate Student Exercise 8—Austin	30 minutes
	Break	15 minutes
	Module 6	
	Lesson 10 Adjustments – IRA Deductions	30 minutes
	Open ACP C and input the traditional IRA deduction	15 minutes
	Lesson 10 Adjustments - Student Loan Interest, Tuition and Alimony Paid Deductions	30 minutes
	Open ICP B and input Educator Expense, IRA Deduction, Student Loan Interest, and Tuition Fees Deduction, and Alimony paid	30 minutes
	Optional Supplemental Exercise S-3 Open BSE 4 (Chapman) and add IRA Deduction and Student Loan Interest Open ISE 7 (Howard) and add alimony paid	(45 minutes)
	Lunch	45 minutes
	Module 7	
	Lesson 4 Deductions & Tax Compensation	30 minutes
	Open ACP C and input Itemized Deductions	30 minutes
	Intermediate Student Exercise 6—Rice	30 minutes
	Break	15 minutes
	Module 8	
	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
	Open ACP C and input daycare expenses	
	Lesson 8 Education Credit	30 minutes
	Open ACP C and input the tuition expenses	
	Lesson 6 Child Tax Credit	15 minutes
	Discuss the automatic calculation for CTC	15 minutes
	Optional Supplemental Exercise S-4 Open ISE 7 (Howard) and add dependent care	(15 minutes)

Notes:

Teaching times for the optional exercises are shown in parentheses. These times are not figured into the total teaching time for the day. 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.

After teaching basic tax law on social security benefits, the adjustments to income and the nonrefundable credits, 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.

Advanced Course

Day 4	Topic	Suggested Teaching Times
	Module 9	
	Lesson 5 Earned Income Credit	1 hour
	Complete BSE 2 - Hood	45 minutes
	Basic Student Exercise 3 - Denison	30 minutes
	Break	15 minutes
	Module 10	
	Lesson 14 Finishing the Return	45 minutes
	Open ACP C, add Estimated Tax Payments and finish return	30 minutes
	Discuss Diagnostic, Printing, Signing	30 minutes
	Lunch	45 minutes
	Sign return using Self Select PIN	15 minutes
	Optional Supplemental Exercise S-5 Open Advanced Student Exercise 9 (McCook) and compete direct deposit	(15 minutes)
	Optional Supplemental Exercise S-6 Open Intermediate Student Exercise 7 (Howard) and prepare installment payments and request wavier of underpayment if needed	(15 minutes)
	Optional Supplemental Exercise S-7 Open Advanced Student Exercise 10 (Reed) sign return using Self-Select PIN	(15 minutes)
	Summary & Review Changes to Tax Law, TaxWise 2005 Updates, Common Errors, Questions	30 minutes
	Break	15 minutes
	Advanced Student Exercise 11	30 minutes
	Advanced Student Exercise 12	30 minutes

Notes:

Teaching times for the optional exercises are shown in parentheses. These times are not figured into the total teaching time for the day. 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
	Break	15 minutes
	State Returns	2 hours
	Lunch	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.

TRAINING PROBLEM AND EXERCISE ANSWERS

Using TaxWise 2004

	Problem/ Exercise	AGI	Taxable Income	Total Tax	Total Payment	Overpaid/ (Owe)	
		Line 36	Line 42	Line 62	Line 70	Line 71/74	
Basic	CP A Davidson	28,806	6,706	0	4,680	4,680	
	SE 1 Madison	4,330	0	0	453	453	
	SE 2 Hood	24,612	5,062	1,200	3,250	2,050	
	SE 3 Denison	36,924	25,874	3,524	6,934	3,410	
	SE 4 Chapman	59,454	40,454	4,356	5,384	1,028	
Intermediate	CP B Yale	34,230	7,285	718	4,292	3,574	
	SE 5 Morehouse	62,428	43,428	5,198	5,384	186	
	SE 6 Rice	39,689	23,789	1,661	2,587	926	
	SE 7 Howard	58,966	39,966	3,850	2,539	(1340) \$29 Penalty	
	SE 8 Austin	33,273	24,123	3,241	1,478	(1809) \$41 Penalty	
Advanced	CP C Dalhart	76,959	50,828	5,597	6,084	487	
	SE 9 McCook	50,727	24,297	1,787	1,580	-187	
	SE 10 Reed	26,596	10,146	8	3,802	3,794	See Note 1
	SE 11 Rosemont	29,044	15,694	1,072	2,648	1,576	See Note 2
	SE 12 Sterling	54,937	34,037	3,181	3,494	313	
	Supp 1-1 Denison	43,297	32,247	5,763	6,934	1,171	
	Supp 2-1 Dennison	43,297	32,247	5,763	6,934	1,171	
	Supp 2-2 Rice	49,689	33,789	4,161	3,587	-587	
	Supp 3-1 Chapman	57,137	38,137	4,004	5,384	1,380	
	Supp 3-2 Howard	54,766	35,766	3,220	2,539	-681	
	Supp 4 Howard	54,766	35,766	2,861	2,539	-322	
	Supp 5 McCook	NO CHG	NO CHG	NO CHG	NO CHG	NO CHG	
	Supp 6-1 Howard	NO CHG	NO CHG	NO CHG	NO CHG	NO CHG	
	Supp 6-2 Austin	NO CHG	NO CHG	NO CHG	NO CHG	NO CHG	
	98145.451	98145.451	98145.451	98145.451	98145.451	98145.451	
Military	CP D Sierra	\$44,782	\$28,822	\$2,816	\$5,581	\$2,765	
	SE 13 Dayton	0	0	0	\$2,439	\$2,439	
	SE 14 Dayton	\$8,736	0	\$1,328	\$5,490	\$4,162	

Note 1: The answer assumed zero retirement credit since he received a pension distribution.

Note 2: The answer assumed taking the education credit against the business on Form CEZ since this provided the most advantageous legal tax benefit to the taxpayer.

TRAINING PROBLEM AND EXERCISE ANSWERS

Using TaxWise 2005

	Problem/ Exercise	AGI	Taxable Income	Total Tax	Total Payment	Overpaid/ (Owe)	
		Line 37	Line 43	Line 63	Line 71	Line 72/75	
Basic	CP A Davidson	28,806	6,006	0	5,060	5,060	
	SE 1 Madison	4,330	0	0	453	453	
	SE 2 Hood	24,612	4,512	1,200	3,474	2,274	
	SE 3 Denison	36,924	25,524	3,464	6,934	3,470	
	SE 4 Chapman	59,454	39,854	4,251	5,384	1,133	
Intermediate	CP B Yale	34,185	6,740	649	4,737	4,026	
	SE 5 Morehouse	62,364	42,764	5,076	4,837	(239)	
	SE 6 Rice	39,689	23,289	1,571	2,587	1,016	
	SE 7 Howard	58,966	39,366	3,745	2,539	(1206) with \$26 Penalty	
	SE 8 Austin	33,273	23,873	3,196	1,478	(1718) \$44 Penalty	
Advanced	CP C Dalhart	76,947	50,276	5,498	6,084	586	
	SE 9 McCook	50,727	23,877	1,692	1,580	(112)	
	SE 10 Reed	26,596	9,696	0	4,009	4,009	See Note 1
	SE 11 Rosemont	29,036	15,336	1,006	2,818	1,812	See Note 2
	SE 12 Sterling	54,937	33,337	3,061	3,494	433	
	Supp 1-1 Denison	42,766	31,366	5,397	6,934	1,537	
	Supp 2-1 Dennison	42,766	31,366	5,397	6,934	1,537	
	Supp 2-2 Rice	49,689	33,289	4,071	3,587	(484)	
	Supp 3-1 Chapman	57,137	37,537	3,899	5,384	1,485	
	Supp 3-2 Howard	54,766	35,166	3,115	2,539	(576)	
	Supp 4 Howard	54,766	35,166	2,756	2,539	(217)	
	Supp 5 McCook	NO CHG	NO CHG	NO CHG	NO CHG	NO CHG	
	Supp 6-1 Howard	NO CHG	NO CHG	NO CHG	NO CHG	NO CHG	
	Supp 6-2 Austin	NO CHG	NO CHG	NO CHG	NO CHG	NO CHG	
	Supl 7 Reed	NO CHG	NO CHG	NO CHG	NO CHG	NO CHG	
Military	CP D Sierra	\$44,727	\$28,327	\$2,719	\$5,581	\$2,862	
	SE 13 Dayton	0	0	0	\$2,819	\$2,819	
	SE 14 Dayton	\$8,736	0	\$1,328	\$5,490	\$4,162	

Note 1: The answer assumed zero retirement credit since he received a pension distribution.

Note 2: The answer assumed taking the education credit against the business on Form CEZ since this provided the most advantageous legal tax benefit to the taxpayer.

STUDENT NOTES

Lined writing area for student notes.

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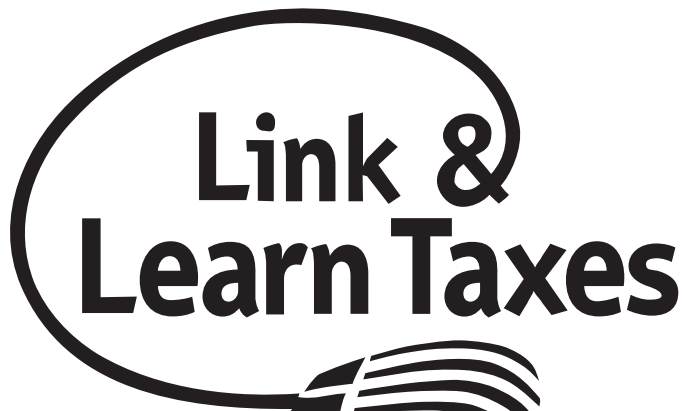


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