

**VITA/TCE INSTRUCTOR GUIDE**  
**For Use in Preparing Tax Year 2004 Returns**

# VOLUNTEER INSTRUCTOR'S GUIDE



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## FOR USE IN IRS VOLUNTEER PROGRAMS

- **Volunteer Income Tax Assistance (VITA)**
- **Tax Counseling for the Elderly (TCE)**

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## The IRS Mission

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“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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## Pending Legislation

At the time this publication went to print the Working Families Tax Relief Act of 2004 passed both the House and Senate and was awaiting signature by the President. The training material includes draft tax forms that did not take the proposed legislation into account. Therefore, the legislation may cause Form 1040, Form 1040A, Form 8812, child tax credit worksheets and EIC worksheets to change. Additional guidance will be issued if the legislation passes.

The following is a synopsis of those portions of the bill with impact on tax year 2004 returns.

- **Child Tax Credit.** The child tax credit will be refundable to the extent of 15-percent of the taxpayer’s earned income in excess of \$10,750. This will cause Form 8812, Additional Child Tax Credit, to be revised for tax year 2004.
  - **Inclusion of combat pay as earned income.** Military members will be permitted to include combat pay as earned income for purposes of calculating the child tax credit. They may also elect to include combat pay for purposes of EIC. This may cause EIC and child tax credit worksheets to be revised for tax year 2004.
  - **Educator expenses.** The above the line deduction for educator expenses is extended until December 31, 2005. This may cause Form 1040 and Form 1040A to be revised for tax year 2004.
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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 30303

WAGE AND INVESTMENT DIVISION

NOV 05 2004

**Welcome, Volunteers!**

Thank you for being a critical part of the volunteer return tax preparation programs of the Internal Revenue Service and its partners. Programs such as Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) provide important services for nearly 2 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 standardized interview tips and questions that will help you prepare accurate and quality tax returns, a certification process that has embedded formal volunteer standards of conduct, and an improved Volunteer Resource Guide (Publication 4012) that we encourage you to use at your site.

In addition to improving quality service, we continue to improve the way training is delivered to you. One method is the Integrated Training approach--a full scope tax law program taught in scenario format blending tax law theory and application with computer software instruction. Another new delivery technique is the online **Link & Learn Taxes**. This web based approach covers the same tax law theory and application in the traditional training materials, but covers them in a fun, interactive course that lets volunteers learn at their own pace. **Link & Learn Taxes** is great for volunteers that are new to the program and even better for returning volunteers. To try the course, enter the keyword "volunteer training" on [www.irs.gov](http://www.irs.gov).

I encourage 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 can discuss with you the steps you should take to guard the information provided to you. The protection of taxpayer information is key to the integrity of the program.

If you have any comments or recommendations about our training materials, please see your instructor 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-WI  
401 W. Peachtree Street, NW  
Atlanta, GA 30308

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

Sincerely,

A handwritten signature in black ink that reads "Marie Medeck".

Marie Medeck  
Acting Director, Stakeholder Partnerships,  
Education and Communication

## ***IMPORTANT TAX LAW CHANGES FOR 2004***

**Standard deduction amount increased.** The standard deduction (for taxpayers that do not itemize deductions on Schedule A (Form 1040)) has increased.

Married filing jointly or Qualifying Widow(er)	\$9,700
Head of household	7,150
Single or Married Filing separately	4,850

**Exemption amount increased.** The amount each taxpayer can deduct for each exemption has increased from \$3,050 to \$3,100.

**Standard mileage rate.** The standard mileage rate for the cost of operating a car, van, pickup, or panel truck in 2004 increases from 36 cents a mile to 37.5 cents a mile for all business miles driven.

**Business meal expenses.** Business-related meal expenses while traveling away from your tax home for business purposes increased in 2004 from 50% to 70% for employees subject to Department of Transportation limitations.

**Schedule C-EZ allowable business expenses.** The maximum amount of allowable business expenses on Form 1040, Schedule C-EZ, Net Profit From Business was increased from \$2,500 to \$5,000.

### ***EIC INCOME AND INVESTMENT LIMITATIONS***

**For tax year 2004 the maximum credits are:**

- Two or more qualifying children \$4,300
- One qualifying child 2,604
- No children 390

**Earned Income.** To be eligible for a full or partial credit, the taxpayer must have earned income of at least \$1 but less than:

- \$34,458 (\$35,458 married filing jointly) and two or more qualifying children;
- \$30,338 (\$31,338 married filing jointly) and one qualifying child;
- \$11,490 (12,490 married filing jointly) with no qualifying children.

**Adjusted Gross Income.** The taxpayer's adjusted gross income (AGI) must also be less than the above dollar amounts.

**Investment Income.** Taxpayers whose investment income is more than \$2,650 cannot claim the EIC.



**Education Credits.** The maximum Modified Adjusted Gross Income (MAGI) increased to \$52,000 for single and head of household taxpayers and \$105,000 for married filing jointly taxpayers.

**Social Security and Medicare Taxes.** For 2004, the employer and employee will continue to pay:

1. 6.2% each for social security tax (old-age, survivors, and disability insurance), and
2. 1.45% each for Medicare tax (hospital insurance).

**Wage limits.** For social security tax, the maximum amount of 2004 wages subject to the tax increases to \$87,900. For Medicare tax, all covered 2004 wages are subject to the tax.

**Self-Employment Tax.** The self-employment tax rate on net earnings remains the same for 2004. This rate, 15.3%, is a total of 12.4% for social security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance). The maximum amount subject to the social security part for tax years beginning in 2004 increases to \$87,900. All net earnings of at least \$400 are subject to the Medicare part.

**Depreciation and Section 179 Expense.** The maximum section 179 deductions you can elect for property you place in service in 2004 is increased from \$100,000 to \$102,000 for qualified section 179 property (\$137,000 for qualified zone property, qualified renewal property, or qualified New York Liberty Zone property). This limit is reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds \$410,000 (increased from \$400,000).

**Depreciation.** Extension of time to claim the 30% special depreciation allowance. You still may be eligible to claim the 30% special depreciation allowance for a tax year that included September 11, 2001, if you meet the following requirements.

- You timely filed your tax return for that tax year.
- You did not claim the 30% special depreciation allowance for qualified property placed in service during that tax year.
- You did not make an election not to claim the special allowance.

**Modified AGI Limit for Traditional IRAs Increases.** For 2004, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA will be reduced (phased out) if your modified adjusted gross income (AGI) is:

- More than \$65,000 but less than \$75,000 for a married couple filing a joint return or a qualifying widow(er),
- More than \$45,000 but less than \$55,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return.

For all filing statuses other than married filing separately, the upper and lower limits of the phaseout range increase by \$5,000.



New this year all volunteers should complete Form 13615, Standards of Conduct Volunteer Return Preparation Program (VRPP). This form confirms the long tradition of quality service delivered by our most valued volunteers. In an effort to continue to strengthen our volunteer programs, volunteers will be asked to endorse the quality initiatives.

Form <b>13615</b> (September-2004)	Department of the Treasury – <b>Internal Revenue Service</b> <b>Standards of Conduct</b> <b>Volunteer Return Preparation Program</b>
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The mission of the Volunteer Return Preparation Program is to provide free basic tax return preparation for eligible taxpayers. Volunteers are the program's most valuable resource. To establish the greatest degree of public trust Volunteers have a responsibility to provide high quality service and uphold the highest of ethical standards.

Participants in the Volunteer Return Preparation Program commit to the following standards of conduct

- I will treat all taxpayers professionally, with courtesy and respect
- I will safeguard the confidentiality of taxpayer information
- I will apply the tax laws equitably and accurately to the best of my ability
- I will only prepare returns within the scope of my training and experience
- I will exercise reasonable care in the use and protection of equipment and supplies
- I will not solicit business from taxpayers I assist
- I will not accept payment for the services I provide

Volunteer Name (print)	<b>Volunteer Signature and Date</b>
Home Street Address	Daytime Telephone Number
City, State and Zip Code	E-mail Address
Sponsoring Organization Name	

**This form is to be retained at the Site or Partner level.**

**Privacy Act Notice**

The Privacy Act of 1974 requires that when we ask for information we tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it, and whether your response is voluntary, required to obtain a benefit, or mandatory.

Our legal right to ask for information is 5 U.S.C. 301.

We are asking for this information to assist us in contacting you relative to your interest and/or participation in the IRS volunteer income tax preparation and outreach programs. The information you provide may be furnished to others who coordinate activities and staffing at volunteer return preparation sites or outreach activities. The information may also be used to establish effective controls, send correspondence and recognize volunteers.

Your response is voluntary. However, if you do not provide the requested information, the IRS may not be able to use your assistance in these programs.





# NOTES TO INSTRUCTORS

Where has the time gone? To our returning instructors—welcome back, to our new instructors—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 surveys included in your instructor kit.

This course is designed to allow you the flexibility you need to teach to the needs of the students you will be assisting. All students must take the basic module and any combination of the other two modules—wage-earner or pension-earner.

Your training kit consists of the following products:

1. Publication 1155, Instructor Guide  
(the student guide is embedded)
2. Form 6744, Test
3. Form 6745, Retest
4. Publication 4012, Volunteer Resource Guide
5. Publication 4189, Test/Retest Answer Key
6. Publication 1278, Bag
7. Form 12462, Instructor Evaluation
8. Form 12467, Instructor Comments
9. Document 12107, Business Reply Labels for Evaluations

## TAX YEAR 2004 PRODUCT CHANGES

**Lessons 1, 6 and 14 Changes.** Filing status and filing requirements, which were discussed in Lesson 1, Getting Started, are now discussed in Lesson 2, Filing Status and Filing Requirements. The Credit for the Elderly or the Disabled is discussed in Lesson 6, Miscellaneous Credits. Pensions are discussed in Lesson 14 instead of Lesson 13 which is now Sale of Home.

**Interview Tips for Volunteer Assistors.** To assist volunteers in asking the right questions, interview tips are included in the lessons on filing status (Lesson 2), dependency and exemptions (Lesson 1), the earned income credit (Lesson 10) and the child tax credit (Lesson 11). The interview tips are also included in Publication 4012, Volunteer Resource Guide.

**Critical Intake Questions.** All sites, whether coordinated by a partner, individual or IRS SPEC, must ask certain critical intake questions. The questions and a recommended format are discussed in the Introduction and Administrative Guidelines.

**Expanded Publication 4012, Volunteer Resource Guide.** To assist volunteers in “asking the right questions” to get the correct response from taxpayers, interview questions/tips are added under the tabs on filing status, dependency, exemptions, earned income credit and child tax credit. Technical charts, narratives, etc. are separate from tax software hints.

**Enhancements to Integrated Training Modules.** Student and instructor feedback resulted in major revisions to the integrated training materials, introduced last year. Appendix A contains the revised course material, which is a comprehensive approach to teaching tax law and tax preparation software. There are three different training plans: returning students; new students; and military students.

**Test and Retest Modified for Tax Law Changes.** The test and retest are designed (where appropriate) to allow volunteers to complete the problems using tax preparation software.

**Link & Learn Taxes on On-Line.** Students can reinforce the tax law training in this course at their own pace. This course is available on-line at [www.irs.gov](http://www.irs.gov) - keyword: volunteer training. In coming years, this e-learning tool will replace the printed products being used today.

## **TAX YEAR 2004 ADMINISTRATIVE HIGHLIGHTS**

**Volunteer Standards of Conduct.** Volunteers have a responsibility to uphold the highest of ethical standards. This year all volunteers must acknowledge receipt of the Volunteer Standards of Conduct (Form 13615) which are discussed in the Introduction and Administrative Guidelines.

**Site Identification Number (SIDN) Alpha Character Change.** The letter “S” replaces the letter “P” in all SIDNs. This change is discussed in Lesson 7, Finishing the Return.

**Technical Resources at the Tax Preparation Site.** The Volunteer Resource Guide (Publication 4012) and Your Federal Income Tax Guide (Publication 17) are tools for use in classroom training and at the tax preparation site. Students should take their copy of publications 4012 and 17 used in the training class to the tax preparation site for technical support.

**Watch for Volunteer Quality Alerts.** Volunteer Quality Alerts are intended to enhance the quality of volunteer-prepared returns. The alerts are published during the filing season (from February thru April) and can be accessed at [www.irs.gov](http://www.irs.gov) — Keyword: Volunteer Quality Alerts

Volunteers differ in the types of returns they prepare. In order to determine which modules and lessons will best serve the needs of your students, you or the site coordinator will need to know some facts about the students and their plans for volunteering. Here are some points to consider.

- **What** tax knowledge do your students bring to class? Are they law school students who have all had basic tax classes? Are they members of a social club who have no tax knowledge? Do they usually prepare their own return?
- **Where** will they be working? Will students be working at a senior center or a shopping mall? Will they be working at the community center of a low income housing area?
- **Who** will your students serve? Are your students primarily interested in working with senior citizens? Are they primarily going to assist low income single moms?

Answers to these questions will help you determine the types of returns your students will be preparing. This, of course, will help you decide which modules and topics you will need to teach.

### Organization of Material

The three separate training modules are comprised of various topics. Included in the first three modules are segments of information that are specific to international and military taxpayers.

**Basic** — Covers issues *all* volunteers need. Topics include:

- Personal and Dependency Exemptions
- Filing Status
- Who Must File — Who Should File
- Income
- Adjustments
- Standard Deduction and Itemized Deductions
- Tax Computations
- Miscellaneous Credits
- Finishing the Return

**Wage Earner** — Covers issues working families and individuals might have, including:

- Child and Dependent Care Credit
- Education Credits
- Earned Income Credit
- Child Tax Credit and Additional Child Tax Credit

**Pension Earner** — Contains more complex issues, those generally encountered by retirees and senior citizens, including:

- Sale of Stock
- Sale of Home
- Pensions
- Credit for the Elderly or Disabled (see Lesson 6, Miscellaneous Credits)

## ***PLANNING THE COURSE***

While every class is unique, we strive for consistency in the training that is presented to the volunteers. After customizing your curriculum to meet the needs of your students (see customizing the curriculum above), the class syllabuses in Appendix B will be helpful in determining how to present the information.

The syllabuses cover a variety of training situations and are divided into three basic categories: New Students, Returning Students and a Combination of New and Returning Students. There is also a suggested Tax Law Refresher schedule.

Most classes will include the Basic Module and either the Wage Earner or Pension Earner Module. However, in addition to covering the Basic Module and one other module, a class could include one or more topics from the other (non-covered) module. For instance, a Tax Counseling for the Elderly (TCE) class might include the Earned Income Credit lesson in addition to the Basic and Pension Earner modules.

## ***CERTIFICATION AND TESTING***

It is very important for volunteers to assist only with returns, supporting schedules and forms for which they have been trained. Testing and certification is mandatory for all volunteer return preparers. Certification and testing can be accomplished using one of the three methods that follow:

- IRS' traditional paper tests (Form 6744, Test and Form 6745, Retest)
- IRS' on-line testing (using Link & Learn Taxes) or a
- Partner's test approved by the IRS

# **INTRODUCTION AND ADMINISTRATIVE GUIDELINES**

**NOTES TO INSTRUCTORS**

## **OVERVIEW AND OBJECTIVES**

This section sets the stage for the course by helping volunteers understand and internalize the goal of the Volunteer Return Preparation Programs —“To provide free, top-quality service to eligible taxpayers.” Students can reinforce the tax preparation and tax law training in this course at their own pace. See the back cover for additional information about Link and Learn Taxes.

After completing this section the students should:

- Understand the importance of privacy and confidentiality in their volunteer capacity
- Solicit accurate information from the taxpayers
- Answer frequently asked taxpayer questions
- Understand the scope and sequence of this course

See Appendix B for suggested class schedules and approximate teaching times.

## **TRAINING MATERIALS AND ON-SITE RESOURCES**

This section will refer to the following IRS publications and forms.

- Form 13615, Volunteer Standards of Conduct
- Form 13614, Volunteer Return Preparation Program “Critical Intake Data”

See Publication 1084, Volunteer Site Coordinators handbook or the IRS Volunteer web site (referenced below) for additional program, administrative and technical information.

Publication 4012, Volunteer Resource Guide is included in each student training kit. The publication is designed for both classroom and actual site usage.

### **The IRS Volunteer Web Site**

Information for partners and volunteers is available on the Partnering Opportunities section of the IRS Web site, which is available by entering the key word “community network” at [www.irs.gov](http://www.irs.gov).

## **TEACHING TIP – THE SCOPE OF THE PROGRAM**

They are part of a nationwide program that boasts almost 14,000 sites and 70,000 volunteers reaching nearly 2 million low-income and elderly taxpayers with needed tax preparation assistance.

Taxpayers appreciate the assistance provided by volunteers, and the IRS recognizes and applauds these efforts.

## ***TEACHING TIP – TAX YEAR 2004 PROGRAM CHANGES***

This year the IRS is focusing on making changes that strengthen its business model for volunteer return preparation programs. Highlight each of the enhancements listed in the student guide:

- Standard intake process (Form 13614)
- Structured fact-gathering process
- Standards of conduct (Form 13615)

## ***TEACHING TIP – THE PROGRAM IS CONTINUALLY EVOLVING***

- While quality has always been important to the volunteer program, the definition of quality is shifting from one based solely on tax return information to one encompassing the full range of taxpayer/volunteer interaction.
- Volunteers must ensure that they obtain complete and accurate information when they interview each taxpayer so that they have the proper basis for preparing each return.
- Since high quality service is critical to the volunteer return preparation program, we must continually evolve the way we deliver and assess quality in these programs.
- Encourage students to monitor the IRS volunteer web site (see above).

## ***TEACHING TIP – STANDARDS OF CONDUCT (FORM 13615)***

Using the student text which includes an exhibit of Form 13615 discuss all components of the “Standards of Conduct” including the importance of the taxpayer identifying him/herself prior to receiving service.

1. Caution students to gracefully decline any token of appreciation offered by a taxpayer while acknowledging the generous intention.
2. Convey to your students that the information they receive from taxpayers in their volunteer capacity is confidential and under no circumstances should they discuss or share the information with unauthorized individuals. Volunteers should contact the local IRS coordinator for additional information.
3. In addition to protecting taxpayer rights to privacy during the tax return preparation process, IRS employees are required to adhere to provisions of the Privacy Act of 1974 during collection of personal information from volunteers.





## ***TEACHING TIP - CRITICAL INTAKE DATA (FORM 13614)***

Using the student text which includes an exhibit of Form 13614 discuss all components of the “Critical Intake Data” including the importance of the taxpayer identifying him/herself prior to receiving service.

## ***TEACHING TIP - VOLUNTEER HOTLINE***

**Why is the Volunteer Hotline available only to participants in this program?** The hotline is available as part of the IRS’ commitment to providing volunteers with ongoing technical assistance. Emphasize that the line is not available to the general public. Advise volunteers to check with their Site Coordinator for the exact hours and days of operation.

## ***VOLUNTEER PRODUCT INFORMATION***

Using the text in student materials, advise volunteers of the tools available to their site coordinator (via their IRS contact) regarding the availability of products. See Volunteer Product Information in the student text.

## ***TEACHING TIP — TRAINING EVALUATION***

Evaluation forms are included in both the instructor and student kits.

Table 1 lists IRS SPEC offices by Area and the corresponding training class number. The training class number must be entered on the top portion of both the student and instructor evaluations on the line “ACES Class Number.” This will ensure each SPEC Territory Office receives their applicable feedback.

Ask your students to not answer questions 1 and 2. These questions contain demographic information applicable to IRS employees only.

Each instructor will collect the student evaluations and comments, complete an instructor evaluation and comment form, then mail to HQ SPEC using the business reply label included in your instructor kit.

These evaluation forms are scannable so they should not be folded, stapled, or photocopied. Please use an envelope large enough to accommodate the 8 ½ x 11 size.

Please ensure your students use blue or black pen or pencil when completing these forms. Emphasize the importance of darkening the circles rather than placing an “X” or check mark in them.



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

<b>SPEC Office</b>	<b>Class Number</b>	<b>SPEC Office</b>	<b>Class Number</b>
<b>Area 1 Greensboro North Carolina</b>			
Albany NY	WI-2005-14	Baltimore MD	WI-2004-15
Boston MA	WI-2005-16	Buffalo NY	WI-2005-17
Burlington VT	WI-2005-18	Charleston WV	WI-2005-19
Charlotte NC	WI-2005-20	Columbia SC	WI-2005-21
Greensboro NC	WI-2005-22	Hartford CT	WI-2005-23
Manchester NH	WI-2005-24	Newark NJ	WI-2005-25
New York City NY	WI-2005-26	Norfolk VA	WI-2005-27
Philadelphia PA	WI-2005-28	Pittsburgh PA	WI-2005-29
Portland ME	WI-2005-30	Providence RI	WI-2005-31
Raleigh NC	WI-2005-32	Richmond VA	WI-2005-33
Washington DC	WI-2005-34	Wilmington DE	WI-2005-35
<b>Area 2 Indianapolis Indiana</b>			
Atlanta GA	WI-2005-36	Chicago IL	WI-2005-37
Cincinnati OH	WI-2005-38	Cleveland OH	WI-2005-39
Columbus OH	WI-2005-41	Detroit MI	WI-2005-42
Guaynabo PR	WI-2005-44	Indianapolis IN	WI-2005-58
Jacksonville FL	WI-2005-60	Louisville KY	WI-2005-62
Maitland FL	WI-2005-63	Memphis TN	WI-2005-64
Miami FL	WI-2005-65	Milwaukee WI	WI-2005-66
Nashville TN	WI-2005-67	Panama City FL	WI-2005-68
Plantation FL	WI-2005-69	Tampa FL	WI-2005-70
W Palm Beach FL	WI-2005-71		
<b>Area 3 Dallas Texas</b>			
Austin TX	WI-2005-72	Birmingham AL	WI-2005-73
Dallas TX	WI-2005-74	Des Moines IA	WI-2005-75
El Paso TX	WI-2005-76	Fargo ND	WI-2005-77
Houston TX	WI-2005-78	Jackson MS	WI-2005-79
Kansas City MO	WI-2005-80	Little Rock AR	WI-2005-81
Lubbock TX	WI-2005-82	New Orleans LA	WI-2005-83
Oklahoma City OK	WI-2005-84	Omaha NE	WI-2005-85
San Antonio TX	WI-2005-86	Sioux Falls ND	WI-2005-87
St. Louis MO	WI-2005-88	St. Paul MN	WI-2005-89
Wichita KS	WI-2005-90		
<b>Area 4 Phoenix Arizona</b>			
Albuquerque NM	WI-2005-92	Anchorage AK	WI-2005-93
Boise ID	WI-2005-94	Cheyenne ND	WI-2005-95
Denver CO	WI-2005-96	Helena MT	WI-2005-97
Honolulu HI	WI-2005-98	Las Vegas NV	WI-2005-99
Los Angeles CA	WI-2005-100	Phoenix AZ	WI-2005-101
Portland OR	WI-2005-102	Sacramento CA	WI-2005-103
Salt Lake City UT	WI-2005-104	San Diego CA	WI-2005-105
San Francisco CA	WI-2005-106	San Jose CA	WI-2005-107
Seattle WA	WI-2005-108		
<b>Other</b>			
Overseas VITA	WI-2005-109		



# **INTRODUCTION AND ADMINISTRATIVE GUIDELINES**

Welcome to the Internal Revenue Service's (IRS) Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs! These volunteer programs are very important to the IRS, our partners and the community. As an IRS volunteer, you provide a tremendous service to the American public and to your community. You are about to embark on a very challenging and rewarding task as an important player in tax administration.

Every year thousands of volunteers assist millions of taxpayers with their federal return. The people receiving your assistance need it the most. They are those with low to moderate incomes, individuals with disabilities, limited English proficient, and elderly taxpayers. Thank you for your hard work and dedication!

## **TAX YEAR 2004 ADMINISTRATIVE ENHANCEMENTS**

### **Standardized intake process**

To complete accurate returns, you must ask certain questions about the taxpayers and their families. An intake form (Volunteer Tax Preparation Information Sheet-Form 13614) is available to assist you in this process. Form 13614 is used to screen taxpayers to make sure they have the necessary documents and that their returns are within the scope of the volunteer program.

The use of Form 13614 (exhibit 1) is optional. However, the "critical intake data" must be captured at any time prior to the completion of each taxpayer's return.

A statement on page 2 contains information about what is expected from the taxpayer, such as treating the volunteers with courtesy and respect, and providing complete and correct information from which to prepare their return.

The intake form should not be signed by taxpayers. It should be provided to the taxpayer and attached to their copy of their tax return as part of their tax records.

## Structured fact-gathering process

The following tools are available to assist volunteers in gathering the data necessary to prepare accurate returns.

- Form 13614, Volunteer Tax Preparation Information Sheet discussed earlier.
- Effective interviewing techniques discussed later in this lesson.
- Interview tips in Lesson 2, Filing Status and Filing Requirements, Lesson 10, Earned Income Credit, Lesson 11, Child Tax Credit and Lesson 1, Getting Started.

## Standards of conduct for volunteers

Volunteers have a responsibility to provide quality service and to uphold ethical standards. Form 13615 (the last page of the highlights of changes) depicts the standards of conduct for volunteers. The standards of conduct will be part of the testing and certification process.

## Site Identification Number (SIDN) Changes

Each paper or electronically filed return should be identified with the appropriate “SIDN”. This will ensure that all volunteer prepared returns are correctly counted once received by the Internal Revenue Service.

Your SIDN is an 8-digit number preceded by the “letter S” that must be entered on all returns (Forms 1040, 1040A, and 1040EZ) you prepare—both paper and electronic. Your site coordinator provides this number along with other necessary guidelines for completing the return.

The SIDN should appear in the “Paid Preparer’s Use Only” section of the return and will be discussed in detail in Lesson 7, Finishing the Return.

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## VOLUNTEER RETURN PREPARATION PROGRAM CRITICAL INTAKE DATA

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**Instructions:** These questions must be asked of each taxpayer and documented on Page 2 of this form or on a partner developed form.

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### TAXPAYER IDENTIFICATION

1. Valid picture identification for taxpayer and spouse
2. Taxpayer/spouse's name
3. Taxpayer/spouse's address
4. Taxpayer/spouse's phone number
5. Taxpayer/spouse's Social Security Number (SSN) or Taxpayer Identification Number (TIN) (need to see official documentation)
6. Taxpayer/spouse's birth dates

### TAXPAYER MARITAL STATUS

1. Was taxpayer single as of December 31st of the tax year?
2. Was taxpayer legally married and living with their spouse as of December 31?
3. Has taxpayer's spouse died within the past two calendar years?
4. Can someone else claim the taxpayer/spouse as a dependent on his or her tax return?

### DEPENDENTS

1. List all persons who lived in your home during the tax year and anyone living outside your home that you supported during the tax year.
2. For each listed person, please note:
  - a. Person's name as shown on taxpayer identification number documents
  - b. Person's birth date
  - c. Person's social security number or taxpayer identification number
  - d. Person's relationship to taxpayer
  - e. Number of months person lived in taxpayer's home
  - f. Support provided by taxpayer for each person

### TAXPAYER'S INCOME

1. How many jobs did the taxpayer/spouse have during the tax year?
2. Did taxpayer/spouse bring W-2s or other proof of income for the jobs noted above?
3. Did the taxpayer/spouse receive income not reported on a W-2? (i.e. Social Security payments, interest, dividends, Form 1099s, etc.)

### TAXPAYER'S EXPENSES

Did the taxpayer/spouse pay for childcare during the tax year that allowed them to work?  
If yes, did the taxpayer bring the address and the identification number of the provider?

1. Did the taxpayer/spouse or any member of their household attend college or vocational school in 2004?
2. Did the taxpayer/spouse or any member of their family pay student loan interest?

### OTHER TAXPAYER INFORMATION

1. Have you ever had the Earned Income Tax Credit disallowed by the IRS?
2. Do you want to use Direct Deposit to your checking or savings account? If yes, did the taxpayer bring the account number and the routing number of the financial institution?

# TAX PREPARATION INFORMATION SHEET

**You will need:** a) Valid Picture I.D.  
 b) Copies of ALL W-2, 1099 Forms and proof of other income received by you and your spouse  
 c) Social Security Cards or Individual Tax Identification Number (ITIN) Cards or ITIN Letters for you, your spouse **and any others shown on the tax return**  
 Did you bring a copy of your prior year's tax return?  YES  NO

**YOUR INFORMATION:**

First Name \_\_\_\_\_ M.I. \_\_\_\_ Last Name \_\_\_\_\_ Social Security No. / ITIN \_\_\_\_\_ - \_\_\_\_\_

**SPOUSE INFORMATION:**

First Name \_\_\_\_\_ M.I. \_\_\_\_ Last Name \_\_\_\_\_ Social Security No. / ITIN \_\_\_\_\_ - \_\_\_\_\_

**ADDRESS:**

\_\_\_\_\_ Street \_\_\_\_\_ Apt. \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_

**Telephone Numbers:**

**YOU**

**SPOUSE**

**OCCUPATION & # Jobs**

Home \_\_\_\_\_  
 Business \_\_\_\_\_  
 Cell \_\_\_\_\_

Your \_\_\_\_\_  
 Spouse \_\_\_\_\_

**Date of Birth:** \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_    \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_

**MARITAL STATUS:**

Were you legally married as of December 31st?  YES  NO  
 If so, were you living with your spouse as of December 31st?  YES  NO  
 Did your spouse die within the last 2 years? If yes, date of death \_\_\_\_\_  YES  NO  
**Can someone else claim you or your spouse as a dependent on their tax return?**  YES  NO

**FAMILY / DEPENDENT INFORMATION – Do not include yourself or your spouse.**

Please list all persons who lived in your home and anyone living outside your home that you supported during the tax year.

Name	Birth Date	Social Security Number or ITIN	Relationship	Months person lived with you in 2004	Did you provide more than 50% support for this person in 2004

Did you or your spouse have income during the tax year that was not reported on a W2?  YES  NO  
 Did you receive Social Security payments during the tax year?  YES  NO  
 Did you receive unemployment payments during the tax year?  YES  NO  
 Did you pay for childcare during the tax year that allowed you to work?  YES  NO  
 If yes, did you bring the address and tax identification number for the provider?  YES  NO  
 Did you or anyone in your family attend college or vocational school during the tax year?  YES  NO  
 Did you or anyone in your family pay student loan interest?  YES  NO  
 Did you own your own home during the tax year?  YES  NO  
 Have you ever had the Earned Income Credit disallowed by the IRS?  YES  NO  
 Do you want to use Direct Deposit to a savings or checking account?  YES  NO  
 If so, did you bring the account number and the routing number of the financial institution?  YES  NO

**AFTER YOUR TAX RETURN HAS BEEN COMPLETED, ATTACH THIS COMPLETED FORM TO YOUR COPY OF YOUR TAX RETURN.**

*I understand that this is a free service by volunteers. I will be patient and treat volunteers with courtesy and respect. I agree to provide all information necessary to complete an accurate tax return. I have reviewed the information contained in this document and agree that all the information is complete and correct.*

## **TAXPAYER IDENTIFICATION**

Prior to assisting a taxpayer, the volunteer **must** request proof of identity from the taxpayer. Two forms of identification are required. **One must be photo identification such as:**

- Passport
- National Identity Card
- Drivers License (U.S.)
- State Identification Card (U.S.)
- Military Identification Card
- School Photo ID
- Visa

The second form of identification must be the original or a copy of the Social Security Card, the ITIN Card or Letter as applicable.

One or both of the forms of identification should reflect the taxpayer's current mailing address. If the taxpayer cannot substantiate their identity, or if the volunteer is uncomfortable accepting the items presented as proof of identity, the taxpayer should seek professional tax assistance.

## **PRIVACY AND CONFIDENTIALITY GUIDELINES**

All volunteers involved in the Volunteer Tax Preparation Program must adhere to Privacy and Confidentiality Guidelines. Volunteers ask several personal questions in order to complete an accurate tax return. Taxpayers provide confidential information and trust it will be protected. To maintain this trust, **DO NOT** disclose any personal tax information gained as a result of the service provided.

**DO NOT** openly discuss taxpayers by name in the presence of other volunteers or taxpayers.

Fully complete the taxpayer's return at the time of service. **DO NOT** retain taxpayer(s) documents for a follow-up visit. **DO NOT** take the taxpayers information for completion of the return outside the presence of the taxpayer.

In addition to protecting taxpayer rights to privacy during the tax return preparation process, IRS employees are required to adhere to provisions of the Privacy Act of 1974 during collection of personal information from volunteers.

Any gathering of volunteer name, address or other applicable personal information including any system of records are subject to and require the issuance of a Privacy Act Statement as follows:

## **IRS Volunteer Income Tax Preparation and Outreach Programs Privacy Act Notice**

Privacy Act Notice- The Privacy Act of 1974 requires that when we ask for information we tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it, and whether your response is voluntary, required to obtain a benefit, or mandatory.

### **Our legal right to ask for information is 5 U.S.C. 301.**

We are asking for this information to assist us in contacting you relative to your interest and/or participation in the IRS volunteer income tax preparation and outreach programs. The information you provide may be furnished to others who coordinate activities and staffing at volunteer return preparation sites or outreach activities. The information may also be used to establish effective controls, send correspondence and recognize volunteers.

Your response is voluntary. However, if you do not provide the requested information, the IRS may not be able to use your assistance in these programs.

**The statement is a statutory requirement, whether the person being asked to supply information is an employee or a taxpayer or a potential volunteer.**

## ***EVALUATION PROCESS***

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

Your instructor will give you specific instructions on completing the form. If you are taking this course self-study, please contact your local IRS SPEC office or your site manager for details. Your instructor will also give you information on how to complete this form on the internet and transmit directly to the vendor who will compile the evaluations.

## ***SCOPE AND SEQUENCE OF THE COURSE***

Most taxpayers are either wage earners or pension earners. Therefore, we have organized this training material in three modules: basic, wage earner, and pension earner. There are instances where a site serves both wage earners and pension earners. Your instructor has worked closely with the coordinator(s) at the site where you will assist taxpayers to determine which lessons you should learn.

## Basic Module

All volunteers must complete the following lessons:

Introduction

Lesson 1—Getting Started

Lesson 2—Filing Status and Filing Requirements

Lesson 3—Income

Lesson 4—Adjustments

Lesson 5—Standard and Itemized Deductions and Tax Computations

Lesson 6—Miscellaneous Credits

Lesson 7—Finishing the Return

## Wage Earner Module

Volunteers who will be assisting wage earners need to complete the following lessons:

Lesson 8—Credit for Child and Dependent Care Expenses

Lesson 9—Education Credits

Lesson 10—Earned Income Credit

Lesson 11—Child Tax Credit

## Pension Earner Module

Volunteers who will be assisting pension earners are required to complete the following lessons:

Lesson 12—Sale of Stock

Lesson 13—Sale of Home

Lesson 14—Pensions

Those who are taking this training with the expectation of becoming instructors themselves must learn all lessons.

The sequence of lessons generally follows the order of topics on the tax returns which you will complete at the volunteer site. In a few instances, this does not parallel the order of the tax form itself. For example, while the entity section (taxpayer's name, address, and social security number) appears first on the form, it is covered in the lesson on finishing the return since it is one of the last things to do when completing the return. (Have you ever tried to peel off one of the stick-on labels after you have found an error on the return?)

It is very important for you to assist only with returns and supporting schedules and forms for which you have been trained. If you go beyond your training, you risk making errors and causing difficulties for those you wish to help. Refer taxpayers with difficult returns, or with portions of returns that are beyond the scope of your training to a paid professional tax preparer.

There are separate training materials available for the following categories of taxpayers:

Publication 678FS—Foreign Students and Scholars

Publication 678M—Military/International Student Text

Publication 678PR—Tax Issues for Puerto Rico

As a volunteer, you are not allowed to charge for your services. This includes taxpayer return preparation advice and return preparation. You may at times need to remind taxpayers that the assistance that you are providing is **FREE**. Do not solicit or accept donations on behalf of your sponsor, or any other individual or organization, while providing assistance in this program.

Assisting taxpayers includes helping to make sure they are aware of their rights. Publication 1, *Your Rights as a Taxpayer*, is available free, from the IRS. Taxpayers can help ensure that they receive fair treatment in tax matters when they are aware of their rights.

## Testing and Certification

All volunteers must take the applicable test to show that they can complete returns accurately. You may use this text and all reference materials to complete the test. Volunteers who do not pass the test may take the appropriate retest. Instructions on taking and grading the test are in the Test and Retest Booklets.

## Proof Copies of Forms

Forms imprinted in this publication were current as of the “draft” date shown on each form. Final forms may be found at [www.irs.gov](http://www.irs.gov) and may have supplemental changes. **Be sure to compare the final forms with those in this publication and make sure you understand processing changes (if any) before helping taxpayers with their returns.**

## Exercises and Exhibits

It is important that you take the time to complete the exercises to achieve the objectives in each lesson. Studies have shown that long-term retention of information increases dramatically if you put pencil to paper in responding to questions and problems. The Volunteer Assistor’s Guide is your learning tool and you may mark it up in any way you wish.

**Note: Answers to all exercises are available at the end of the lesson.**

Each exercise is separated from the rest of the text by a border design. Write out your answer to each exercise, and then check it immediately against the answer provided. If your answer is different, work the problem again. If you need additional reinforcement, review any parts of the text that apply.



The exercises are designed to give you practice, to emphasize what we think is important, and to help you complete your training successfully.

The coursebook contains a large number of exhibits of the various tax forms and schedules. These exhibits are numbered starting at the beginning of each lesson. Many of the exercises contain exhibits of blank forms, or part of the form, that you must complete.

## Lesson Features

### Introduction and Objectives

There is a brief Introduction to each lesson or segment which provides an overview of the topics to be covered, as well as how to apply the information when assisting taxpayers.

### Summing Up This Section, Segment or Lesson

This boxed feature appears at the end of each lesson. It provides you with a summary of the main points covered in the lesson. Used together, the lesson summaries provide a comprehensive overview of the course content.

### Sidebar Features

Sidebar features appear in the outer margins (left and right) of the text. These boxed features emphasize important points presented in the lesson, or provide additional, related information. **Potential Pitfalls** point out commonly made errors and indicate ways to avoid these errors. **Alert!** identifies pending legislation, tax law changes, or tax form changes that were expected, but not enacted or in final form when this publication went to print. **Interview Tips** encourages volunteers to ask probing questions to get complete and accurate information from the taxpayer. As a volunteer please confirm that you have the latest information on the tax law and forms before assisting your clients.

## **QUALITY OF SERVICE**

The goal of the Volunteer Return Preparation Program is to provide high quality service. The following list suggests some ways to ensure that each return is prepared correctly:

- Where possible, prepare the return using electronic filing software.
- Use the fact-gathering tools described earlier, the intake form, Interview tips, etc.
- Use a calculator to check your math (paper returns).
- Refer to Publications 4012 and 17 and technical resources for help with complicated topics.
- Use the checklists and worksheets provided.

- Consult with other, more experienced volunteers.
- Call the Volunteer Hotline (described below).
- Use the information conveyed in Volunteer Quality Alerts

## Volunteer Hotline

There is a toll-free hotline available for volunteer use only. This hotline is a source of tax information for volunteers. When you use the hotline, identify yourself as a volunteer.

The hotline number is 1-800-829-8482 (829-VITA). **Do not give this number to taxpayers.** This service is generally available between February 1 and April 15th.

Do not use this hotline to order forms or schedules. Instead, contact your IRS Territory Manager.

## EFFECTIVE INTERVIEWING

To complete accurate returns, you must ask certain questions about the taxpayers and their families. **The Volunteer Resource Guide (Publication 4012)** included in this training kit contains interview questions and decisions trees to assist you in obtaining specific technical information from taxpayers. It is important to set the appropriate climate to obtain this information.

It is also important to be sensitive to the needs of all taxpayers you assist, especially those with disabilities. All references to taxpayers with disabilities should reflect the individuality, equality and dignity of the person.

- Refrain from using such terms as “handicapped, physically or mentally challenged, differently challenged”. It would be better to use:
  - Person(s) with a disability;
  - Persons who are blind; persons who are visually impaired;
  - Persons who are deaf; persons who are hearing impaired or hard of hearing;
  - Persons who use a wheelchair;
  - Persons who are physically disabled; or persons with mental retardation.

## Steps to Effective Interviewing:

1. Make necessary introductions and engage in small talk.
2. Preface what will take place during the interview.
3. Share your intentions and any hopeful results/benefits for the taxpayer.
4. Allow the taxpayer to share any expectations, needs, and/or concerns.
5. Respond with active listening skills.
  - A. Create a “safe” climate.
  - B. Remember your nonverbal listening clues.
  - C. Listen, then respond by:
    1. restating,
    2. paraphrasing, (and/or)
    3. encouraging
6. Ask the first key tax question, creating an awareness about why the tax information is needed.
  - A. Make no assumptions.
  - B. Ask no leading questions.
  - C. Ask, “What have you brought with you today?”
7. Continue to ask questions. Define any terms that may be unfamiliar to the taxpayer.
8. Check your own comfort level.
9. Respond to any misunderstandings.
10. Continue with effective questioning and active listening.
11. Overcome any communication barriers.
  - A. Stay on track. (“I hear you.”/repeat question)
  - B. Allow adequate response time.
  - C. Avoid making assumptions.
  - D. Deal with taxpayers.
    1. Silent (“tell me more about...”)
    2. Upset (paraphrase)
  - E. Concentrate.
12. Indicate the taxpayer’s next steps. Inform the taxpayer about the VITA/TCE Programs and stress the benefits of accurate record keeping.
  - A. Express confidence in having completed an accurate tax return.
  - B. Part cordially.

## WHAT IF . . . ?

Use these questions and answers to provide quick and accurate information to taxpayers who have administrative questions.

### **1. What is the CHIP Program?**

The Children's Health Insurance Program (CHIP) is designed to help millions of children of working families obtain affordable and much-needed health insurance. CHIP informational materials are available at IRS Tax Assistance Centers and Volunteer Income Tax Assistance (VITA) sites. CHIP information (i.e. brochures, flyers) should be provided to VITA sites prior to the filing season. Volunteers at VITA site locations are not expected to answer any questions pertaining to this program, just to make information available to taxpayers visiting their sites.

### **2. How can I direct someone to their closest AARP sponsored Tax-Aide Site?**

AARP Tax-Aide operates a toll-free nationwide number to help people find their closest Tax-Aide Site. The number is 1-888-227-7669. The information is also available on the AARP web page. The address is [www.aarp.org/taxaide](http://www.aarp.org/taxaide).

### **3. What if a taxpayer or dependent does not have a social security number?**

Taxpayer Identification numbers are required for all taxpayers and dependents. Taxpayers who do not have a social security number and are eligible, must apply for one by using Form SS-5, Application for a Social Security Card. This form is available from the Social Security Administration and U.S. Citizens must show proof of age, identity, and citizenship when they apply for a social security number. Individuals who are age 18 or older must apply at the Social Security Administration office in person rather than by mail.

### **4. Who needs an Individual Taxpayer Identification (ITIN) Number?**

An ITIN is available for certain resident and nonresident aliens, their spouses, and their dependents who are not eligible for a SSN. To obtain an ITIN, you must complete, sign, and submit IRS Form W-7, Application for IRS Individual Taxpayer Identification Number to the Internal Revenue Service with proper documentation to support your status.

### **5. What if the taxpayer needs an IRS form or publication?**

Most IRS offices and many post offices and libraries have IRS forms that taxpayers may take or photocopy. They also have the instruction booklets for specific forms and publications. Remind the taxpayer that forms can also be ordered by calling the IRS on 1-800-829-3676 (1-800-TAX FORM) or from a fax machine dial (703) 368-9694.

The IRS Internet site ([www.irs.gov](http://www.irs.gov)) provides instant access to federal income tax forms, instructions, publications, and information on free tax assistance programs, electronic tax filing, and more 24 hours a day. Current and prior year federal tax products and information are available for downloading.

## **6. What if the taxpayers move?**

Taxpayers should use Form 8822, *Change of Address*, to notify the IRS of any change of address. If the taxpayers plan to move after sending the return and before a refund is received, they should notify their old post office and the IRS of their new address. (See item #5 for information on how to order Form 8822.)

## **7. Which address should taxpayers use, their street address or their post office box?**

If the post office delivers mail to the post office box rather than to a street address, enter the P.O. box number on the line for the present home address.

## **8. What if the taxpayer needs a copy of a prior year return?**

If the taxpayer needs an exact copy of a previously filed and processed return and all attachments (including Forms W-2), they must complete Form 4560, Request for Copy of Tax Return and mail it to the IRS address in the instructions along with the applicable fee for each tax year requested.

Copies are generally available for returns filed in the current and past 6 years. If an exact copy of the return is not needed, the taxpayer may order a transcript of their return by calling (800) 829-1040 or completing and mailing Form 4506-T, Request for Transcript of Tax Return. See [www.irs.gov](http://www.irs.gov) for additional information — keyword: prior year return.

## **9. What if the taxpayer wants to make a voluntary contribution to reduce the public debt?**

Voluntary contributions to reduce the public debt should be made payable to “Bureau of the Public Debt.” The contribution may be sent in the tax return envelope. If the taxpayer is making a payment of tax due, as well as a contribution, there should be two checks or money orders in the tax-return envelope—one to pay the tax due and one to make the voluntary contribution. Voluntary contributions to reduce the public debt are considered charitable contributions and may be entered as an itemized deduction on Schedule A of Form 1040 in the year paid.

## **10. How long should taxpayers keep their tax returns?**

Taxpayers should keep a copy of the tax return, worksheets used, and records of all items appearing on it (such as 1099 forms) until the statute of limitations runs out for that return. Usually, this is 3 years from the date the return was due or filed, or 2 years from the date the tax was paid, whichever is later. They should keep Form W-2 until the Social Security Administration has recorded the earnings reflected on the forms. Keep property records

(including those on a home) as long as they are needed to figure the basis of the original or replacement property. Closing statements for a home should be kept until the home is sold. Brokerage statements showing the purchase price of stock should be kept until the stock is sold. Also, contributions to nondeductible IRAs should be kept until all IRA funds are withdrawn. Calculations determining the nontaxable portion of pension income should be kept until all of the pension income is taxable. For additional record keeping information, see Publication 552, *Recordkeeping for Individuals*.

### **11. What is On-Line filing?**

On-line filing allows a taxpayer to file their tax return from home through an Internet Web site or third-party transmitter. Information about filing from home is included in many commercial tax preparation software packages. Also, many software companies offer tax preparation and electronic filing software that can be downloaded from the Web; or they provide the option for individuals to prepare their returns while logged on to the Internet.

All that is needed is a personal computer (PC), software and a modem to send the return data. On-line filing accommodates the same basic forms and schedules as electronic filing. The taxpayer is responsible for sending their signature document (Form 8453-OL) accompanying paper documents to IRS after they receive notification from the Internet on-line provider or transmitter that their return has been accepted by IRS. If IRS rejects the return, the taxpayer will either have to correct the information and retransmit the return or print it and send it as a paper return to IRS. Credit card and direct debit payment options are available for balance due returns.

### **12. Are there any publications or forms that can assist a taxpayer that owes prior year taxes or previously had their refund offset to satisfy another's debt?**

IRS offers various publications and forms that are specific to these issues.

- A. The IRS Collection Process**, Publication 594, explains a taxpayer's right and responsibility regarding payment of federal taxes. Installment Agreement Request, Form 9465, gives the taxpayer the option to pay a balance due through monthly installment payments.
- B. Innocent Spouse Relief**, Publication 971, addresses how one spouse may request relief from past taxes due solely based on the other spouse's debt. Request for Innocent Spouse Relief, Form 8857, explains various forms of relief and who may qualify.

- C. Injured Spouse Claim and Allocation**, Form 8379, allows a taxpayer to request relief from their spouse's past due federal debts including back child support and past due taxes. An injured spouse can get a refund for his or her share of the overpayment that would be used to pay the past due amount.

Additional information on these topics can be obtained by contacting the IRS at 1-800-829-1040, accessing their web page at [www.irs.gov](http://www.irs.gov), or by visiting a Tax Assistance Center in your area.

### **13. Are Your Civil Rights Protected?**

Publication 4053, explains that under no circumstances will the Internal Revenue Service tolerate discrimination by its employees, grantees, contractors, and/or subcontractors. These provisions extend to VITA and TCE Programs. Publication 4053 or other IRS Civil Rights information should be displayed or made available to all taxpayers.

## ***VOLUNTEER PRODUCT INFORMATION***

As a volunteer, you may have questions about when some of IRS' volunteer products will be available. You may also want to share any ideas you have about improving the IRS products you are currently using in your role as a volunteer. Your site coordinator's IRS contact can access several tools that can answer some of your questions or help you capture your product ideas and comments.

- 1. How can I order IRS volunteer products?** Work with your site coordinator. They can request most volunteer products by completing a Form 2333 V, Volunteer Order Form. The site coordinator forwards their order form to their IRS contact so the order can be filled.
- 2. Is there a way for me to know when IRS' volunteer products will be in stock?** Yes, your site coordinator's IRS Contact can provide you with an IRS Status At-A-Glance report. See exhibit 2. This report can tell you if an IRS volunteer product is in stock or when stock is expected.
- 3. How do I tell IRS if I find a serious problem with IRS' volunteer products?** Your site coordinator's IRS contact has access to a Problem Tracking Sheet. This can be used by your IRS contact to forward problems to the appropriate IRS office for action.
- 4. There are some products that I used to use. What happened to them?** Sometimes products are combined with others for efficiency. Others are dropped because of program changes, or there wasn't much demand for the product. Your site coordinator's IRS contact can give you a list of products that are no longer in use.
- 5. I have an idea for a new IRS product that can help me in my role as a volunteer. How do I get that to IRS?** Your site coordinator is welcome to forward your product idea to their IRS contact, who can get the idea to the appropriate IRS staff for action.

Product Type	Product Number	Suffix	Revision Date	Title	Projected Delivery Date to the Area Distribution Centers <small>(Orders that are pending in CAPS or at the ADCs should receive stock within 10 days of date shown in this column)</small>	Status At A Glance	Actual Date Product was Confirmed in the Area Distribution Centers
Publication	678	FS	2003-00	Volunteer Assistor's Guide - Foreign Student Text	2004/01	In Stock at the ADCs	2004/01/14
Publication	678	M	2003-00	Volunteer Assistor's Guide - Military / International Student Text	2003/11	In Stock at the ADCs	2003/11/18
Publication	678	PR	2003-00	Volunteer Assistor's Guide - Puerto Rico Supplement	2003/11	Initial supply delivered to Puerto Rico In Stock at the ADCs.	2003/11/23 In PR 2003/12/19

**TAX RETURN LESSON REFERENCES**

The following pages show forms 1040EZ, 1040A, and 1040. For a discussion about what to put on a line, turn to the lesson in this text that is shown in the circle.



Department of the Treasury—Internal Revenue Service

**Form 1040EZ** **Income Tax Return for Single and Joint Filers With No Dependents** (99) **2004** OMB No. 1545-0675

<p><b>Label</b> (See page 12.) <b>Use the IRS label.</b> Otherwise, please print or type.</p> <p><b>Presidential Election Campaign</b> (page 12) ▶</p>	Your first name and initial _____ Last name <b>7</b>	Your social security number _____ Spouse's social security number _____	
	If a joint return, spouse's first name and initial _____ Last name _____	Home address (number and street). If you have a P.O. box, see page 12. _____ Apt. no. _____ City, town or post office, state, and ZIP code. If you have a foreign address, see page 12. _____	<p style="text-align: center;"><b>▲ Important! ▲</b></p> <p style="text-align: center;">You <b>must</b> enter your SSN(s) above.</p> <p style="text-align: center;">                     You                      Spouse  <input type="checkbox"/> Yes <input type="checkbox"/> No    <input type="checkbox"/> Yes <input type="checkbox"/> No                 </p>
	<p><b>Note.</b> Checking "Yes" will not change your tax or reduce your refund.</p> Do you, or your spouse if a joint return, want \$3 to go to this fund? . . . . . ▶		

<p><b>Income</b></p> <p><b>Attach Form(s) W-2 here.</b> Enclose, but do not attach, any payment.</p> <p><b>Note.</b> You must check Yes or No.</p>	1	Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	3	
	2	Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.	3	
	3	Unemployment compensation and Alaska Permanent Fund dividends (see page 14).	3	
	4	Add lines 1, 2, and 3. This is your <b>adjusted gross income</b> .	4	
	5	Can your parents (or someone else) claim you on their return? Yes. Enter amount from <input type="checkbox"/> worksheet on back.      No. <input type="checkbox"/> If <b>single</b> , enter \$7,950. If <b>married filing jointly</b> , enter \$15,900. See back for explanation.	6	
	6	Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your <b>taxable income</b> .	6	
	7	Federal income tax withheld from box 2 of your Form(s) W-2.	7	
	8	<b>Earned income credit (EIC).</b>	10	
	9	Add lines 7 and 8. These are your <b>total payments</b> .	7	
	10	<b>Tax.</b> Use the amount on <b>line 6 above</b> to find your tax in the tax table on pages 24–28 of the booklet. Then, enter the tax from the table on this line.	5	
<p><b>Refund</b></p> <p>Have it directly deposited! See page 19 and fill in 11b, 11c, and 11d.</p>	11a	If line 9 is larger than line 10, subtract line 10 from line 9. This is your <b>refund</b> .	7	
	b	Routing number <input style="width: 100px;" type="text"/>	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
	d	Account number <input style="width: 100px;" type="text"/>	7	
<p><b>Amount you owe</b></p>	12	If line 10 is larger than line 9, subtract line 9 from line 10. This is the <b>amount you owe</b> . For details on how to pay, see page 20.	12	
<p><b>Third party designee</b></p>	Do you want to allow another person to discuss this return with the IRS (see page 20)? <input type="checkbox"/> <b>Yes</b> . Complete the following. <input type="checkbox"/> <b>No</b>			
<p><b>Sign here</b></p> <p>Joint return? See page 11. Keep a copy for your records.</p>	Designee's name _____ Your signature <b>7</b>	Phone no. _____ Date _____	Personal identification number (PIN) <input style="width: 40px;" type="text"/> Your occupation _____ Spouse's occupation _____	Daytime phone number _____ ( ) _____
<p><b>Paid preparer's use only</b></p>	Preparer's signature <b>7</b> Firm's name (or yours if self-employed), address, and ZIP code _____	Date _____ EIN _____ Phone no. _____	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN <input style="width: 40px;" type="text"/>

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 23. Cat. No. 11329W **Form 1040EZ** (2004)

Note: Contact IRS for site ID

Form 1040A U.S. Individual Income Tax Return 2004

Department of the Treasury—Internal Revenue Service

IRS Use Only—Do not write or staple in this space.

OMB No. 1545-0085

**Label** (See page 19.)

Your first name and initial: \_\_\_\_\_ Last name: **7**

If a joint return, spouse's first name and initial: \_\_\_\_\_ Last name: \_\_\_\_\_

Home address (number and street). If you have a P.O. box, see page 20. \_\_\_\_\_ Apt. no. \_\_\_\_\_

City, town or post office, state, and ZIP code. If you have a foreign address, see page 20. \_\_\_\_\_

**Use the IRS label.** Otherwise, please print or type.

**Important!** You must enter your SSN(s) above.

**Presidential Election Campaign** (See page 20.)

Note. Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? . . . . ▶

You:  Yes  No Spouse:  Yes  No

**Filing status** (Check only one box.) **2**

1  Single

2  Married filing jointly (even if only one had income)

3  Married filing separately. Enter spouse's SSN above and full name here. ▶

4  Head of household (with qualifying person). (See page 20.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶

5  Qualifying widow(er) with dependent child (see page 21)

**Exemptions** (1)

6a  Yourself. If someone can claim you as a dependent, do not check box 6a.

b  Spouse

c Dependents:

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 23)
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

Boxes checked on 6a and 6b: \_\_\_\_\_

No. of children on 6c who:

- lived with you: \_\_\_\_\_
- did not live with you due to divorce or separation (see page 23): \_\_\_\_\_

Dependents on 6c not entered above: \_\_\_\_\_

Add numbers on lines above ▶

d Total number of exemptions claimed. \_\_\_\_\_

**Income**

7 Wages, salaries, tips, etc. Attach Form(s) W-2. 7 **3**

8a Taxable interest. Attach Schedule 1 if required. 8a **3**

b Tax-exempt interest. Do not include on line 8a. 8b **3**

9a Ordinary dividends. Attach Schedule 1 if required. 9a

b Qualified dividends (see page 25). 9b

10 Capital gain distributions (see page 25). 10 **3**

11a IRA distributions. 11a **14**

11b Taxable amount (see page 25). 11b

12a Pensions and annuities. 12a **14**

12b Taxable amount (see page 26). 12b

13 Unemployment compensation and Alaska Permanent Fund dividends. 13 **3**

14a Social security benefits. 14a **14**

14b Taxable amount (see page 28). 14b

15 Add lines 7 through 14b (far right column). This is your total income. ▶ 15

**Adjusted gross income**

16 Deduction for clean-fuel vehicles (see page 28). 16

17 IRA deduction (see page 28). 17 **4**

18 Student loan interest deduction (see page 31). 18

19 Tuition and fees deduction (see page 31). 19

20 Add lines 16 through 19. These are your total adjustments. 20

21 Subtract line 20 from line 15. This is your adjusted gross income. ▶ 21

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<b>Tax, credits, and payments</b>	<b>22</b> Enter the amount from line 21 (adjusted gross income).	22	
<b>Standard Deduction for—</b> • People who checked any box on line 23a or 23b or who can be claimed as a dependent, see page 32. • All others: Single or Married filing separately, \$4,850 Married filing jointly or Qualifying widow(er), \$9,700 Head of household, \$7,150	<b>23a</b> Check if: <input type="checkbox"/> You were born before January 2, 1940, <input type="checkbox"/> Blind <input type="checkbox"/> Spouse was born before January 2, 1940, <input type="checkbox"/> Blind } Total boxes checked ▶ 23a	<input type="checkbox"/>	(5)
	<b>b</b> If you are married filing separately and your spouse itemizes deductions, see page 32 and check here ▶ 23b	<input type="checkbox"/>	
	<b>24</b> Enter your <b>standard deduction</b> (see left margin).	24	
	<b>25</b> Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.	25	
	<b>26</b> Multiply \$3,100 by the total number of exemptions claimed on line 6d.	26	
	<b>27</b> Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your <b>taxable income</b> .	27	
	<b>28</b> Tax, including any alternative minimum tax (see page 33).	28	(5)
	<b>29</b> Credit for child and dependent care expenses. Attach Schedule 2.	29	(8)
	<b>30</b> Credit for the elderly or the disabled. Attach Schedule 3.	30	(15)
	<b>31</b> Education credits. Attach Form 8863.	31	(9)
	<b>32</b> Child tax credit (see page 37).	32	(6)
	<b>33</b> Retirement savings contributions credit. Attach Form 8880.	33	(6) (11)
	<b>34</b> Adoption credit. Attach Form 8839.	34	(6)
<b>35</b> Add lines 29 through 34. These are your <b>total credits</b> .	35		
<b>36</b> Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.	36		
<b>37</b> Advance earned income credit payments from Form(s) W-2.	37	(10)	
<b>38</b> Add lines 36 and 37. This is your <b>total tax</b> .	38		
<b>39</b> Federal income tax withheld from Forms W-2 and 1099.	39	(7)	
<b>40</b> 2004 estimated tax payments and amount applied from 2003 return.	40	(7)	
<b>41</b> Earned income credit (EIC).	41	(10)	
<b>42</b> Additional child tax credit. Attach Form 8812.	42	(11)	
<b>43</b> Add lines 39 through 42. These are your <b>total payments</b> .	43	(7)	
<b>Refund</b>	<b>44</b> If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you <b>overpaid</b> .	44	(7)
Direct deposit? See page 50 and fill in 45b, 45c, and 45d.	<b>45a</b> Amount of line 44 you want <b>refunded to you</b> .	45a	(7)
	<b>b</b> Routing number <input type="text"/> ▶ <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
	<b>d</b> Account number <input type="text"/>		(7)
	<b>46</b> Amount of line 44 you want <b>applied to your 2005 estimated tax</b> .	46	(7)
<b>Amount you owe</b>	<b>47</b> Amount you owe. Subtract line 43 from line 38. For details on how to pay, see page 51.	47	(7)
	<b>48</b> Estimated tax penalty (see page 52).	48	
<b>Third party designee</b>	Do you want to allow another person to discuss this return with the IRS (see page 52)? <input type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No		
	Designee's name ▶	Phone no. ▶ ( )	Personal identification number (PIN) ▶ <input type="text"/>
<b>Sign here</b>	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.		
Joint return? See page 20. Keep a copy for your records.	Your signature (7)	Date	Your occupation
	Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation
<b>Paid preparer's use only</b>	Preparer's signature ▶ (7)	Date	Check if self-employed <input type="checkbox"/>
	Firm's name (or yours if self-employed), address, and ZIP code ▶	EIN	Preparer's SSN or PTIN <input type="text"/>
		Phone no. ( )	

Printed on recycled paper

Form 1040A (2004)

Note: Contact IRS for site ID

Form **1040**

Department of the Treasury—Internal Revenue Service  
**U.S. Individual Income Tax Return 2004**

(99) IRS Use Only—Do not write or staple in this space.

**Label**

(See instructions on page 19.)

**Use the IRS label.**

Otherwise, please print or type.

L  
A  
B  
E  
L  
  
H  
E  
R  
E

For the year Jan. 1–Dec. 31, 2004, or other tax year beginning , 2004, ending , 20

OMB No. 1545-0074

Your first name and initial

Last name **7**

Your social security number

If a joint return, spouse's first name and initial

Last name

Spouse's social security number

Home address (number and street). If you have a P.O. box, see page 19.

Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, see page 19.

**▲ Important! ▲**

You must enter your SSN(s) above.

**Presidential Election Campaign**  
(See page 19.)

**Note.** Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? . . . ▶

You  Yes  No Spouse  Yes  No

**Filing Status**

Check only **2** one box.

- 1  Single
- 2  Married filing jointly (even if only one had income)
- 3  Married filing separately. Enter spouse's SSN above and full name here. ▶
- 4  Head of household (with qualifying person). (See page 20.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
- 5  Qualifying widow(er) with dependent child (see page 20)

**Exemptions**

**1**

If more than four dependents, see page 21.

- 6a  Yourself. If someone can claim you as a dependent, do not check box 6a
- b  Spouse
- c **Dependents:**

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 21)
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
- d Total number of exemptions claimed . . . . .

Boxes checked on 6a and 6b

No. of children on 6c who:

- lived with you
- did not live with you due to divorce or separation (see page 21)

Dependents on 6c not entered above

Add numbers on lines above ▶

**Income**

**Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.**

If you did not get a W-2, see page 22.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	<b>3</b>
8a	Taxable interest. Attach Schedule B if required	8a	<b>3</b>
b	Tax-exempt interest. Do not include on line 8a	8b	
9a	Ordinary dividends. Attach Schedule B if required	9a	<b>3</b>
b	Qualified dividends (see page 23)	9b	
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 23)	10	<b>3</b>
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	<b>3</b>
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>	13	<b>12</b>
14	Other gains or (losses). Attach Form 4797	14	<b>13</b>
15a	IRA distributions	15a	<b>14</b>
b	Taxable amount (see page 25)	15b	
16a	Pensions and annuities	16a	
b	Taxable amount (see page 25)	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation	19	<b>3</b>
20a	Social security benefits	20a	<b>14</b>
b	Taxable amount (see page 27)	20b	
21	Other income. List type and amount (see page 27)	21	<b>3</b>
22	Add the amounts in the far right column for lines 7 through 21. This is your <b>total income</b> ▶	22	

**Adjusted Gross Income**

23	Deduction for clean-fuel vehicles (see page 29)	23	<b>4</b>
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	<b>4</b>
25	IRA deduction (see page 29)	25	
26	Student loan interest deduction (see page 31)	26	<b>4</b>
27	Tuition and fees deduction (see page 32)	27	
28	Health savings account deduction. Attach Form 8889	28	
29	Moving expenses. Attach Form 3903	29	
30	One-half of self-employment tax. Attach Schedule SE	30	
31	Self-employed health insurance deduction (see page 33)	31	
32	Self-employed SEP, SIMPLE, and qualified plans	32	
33	Penalty on early withdrawal of savings	33	
34a	Alimony paid	34a	
b	Recipient's SSN ▶		
35	Add lines 23 through 34a	35	
36	Subtract line 35 from line 22. This is your <b>adjusted gross income</b> ▶	36	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 77.

Cat. No. 11320B

Form **1040** (2004)

Tax and Credits

Standard Deduction for—

• People who checked any box on line 38a or 38b or who can be claimed as a dependent, see page 34.

• All others: Single or Married filing separately, \$4,850 Married filing jointly or Qualifying widow(er), \$9,700 Head of household, \$7,150

37 Amount from line 36 (adjusted gross income) 37
38a Check if: You were born before January 2, 1940, Blind. Total boxes checked 38a
if: Spouse was born before January 2, 1940, Blind.
b If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 34 and check here 38b
39 Itemized deductions (from Schedule A) or your standard deduction (see left margin) 39
40 Subtract line 39 from line 37 40
41 If line 37 is \$107,025 or less, multiply \$3,100 by the total number of exemptions claimed on line 6d. If line 37 is over \$107,025, see the worksheet on page 35 41
42 Taxable income. Subtract line 41 from line 40. If line 41 is more than line 40, enter -0- 42
43 Tax (see page 36). Check if any tax is from: a Form(s) 8814 b Form 4972 43
44 Alternative minimum tax (see page 38). Attach Form 6251 44
45 Add lines 43 and 44 45
46 Credit for child and dependent care expenses. Attach Form 2441 46
47 Credit for the elderly or the disabled. Attach Schedule R 47
48 Education credits. Attach Form 8863 48
49 Credits from: a Form 8396 b Form 8859 49
50 Foreign tax credit. Attach Form 1116 if required 50
51 Child tax credit (see page 40) 51
52 Retirement savings contributions credit. Attach Form 8880 52
53 Adoption credit. Attach Form 8839 53
54 Other credits. Check applicable box(es): a Form 3800 b Form 8801 c Specify 54
55 Add lines 46 through 54. These are your total credits 55
56 Subtract line 55 from line 45. If line 55 is more than line 45, enter -0- 56

Other Taxes

57 Self-employment tax. Attach Schedule SE 57
58 Social security and Medicare tax on tip income not reported to employer. Attach Form 4137 58
59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required. 59
60 Advance earned income credit payments from Form(s) W-2 60
61 Household employment taxes. Attach Schedule H 61
62 Add lines 56 through 61. This is your total tax 62

Payments

If you have a qualifying child, attach Schedule EIC.

63 Federal income tax withheld from Forms W-2 and 1099 63
64 2004 estimated tax payments and amount applied from 2003 return 64
65 Earned income credit (EIC) 65
66 Excess social security and tier 1 RRRTA tax withheld (see page 56) 66
67 Additional child tax credit. Attach Form 8812 67
68 Amount paid with request for extension to file (see page 56) 68
69 Other payments from: a Form 2439 b Form 4136 c Form 8885 69
70 Add lines 63 through 69. These are your total payments 70

Refund

Direct deposit? See page 56 and fill in 72b, 72c, and 72d.

71 If line 70 is more than line 62, subtract line 62 from line 70. This is the amount you overpaid 71
72a Amount of line 71 you want refunded to you 72a
b Routing number Type: Checking Savings
c Account number
73 Amount of line 71 you want applied to your 2005 estimated tax 73

Amount You Owe

74 Amount you owe. Subtract line 70 from line 62. For details on how to pay, see page 57 74
75 Estimated tax penalty (see page 58) 75

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 58)? Yes. Complete the following. No

Designee's name Phone no. Personal identification number (PIN)

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature Date Your occupation Daytime phone number
Spouse's signature. If a joint return, both must sign. Date Spouse's occupation

Paid Preparer's Use Only

Preparer's signature Date Check if self-employed Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code EIN Phone no.

Note: Contact IRS for site ID

## **TaxWise Hints**

Each year the Internal Revenue Service contracts with a tax preparation software vendor to provide free software to our volunteers. This year you will find TaxWise hints integrated throughout the text. They will be at the end of each lesson just before “Summing Up This Lesson” or “Summing Up This Section.”

### **▶▶ SUMMING UP THIS SECTION ◀◀**

- ▶ Remember that the information used to prepare an individual’s income tax return must be treated as confidential.
- ▶ Use the steps for effective interviewing.
- ▶ The “critical intake questions” must be asked of the taxpayer prior to preparing the return. See Form 13614.

#### LESSON OVERVIEW AND OBJECTIVES

This lesson will explain what is needed to begin to prepare an individual federal income tax return. Emphasis is placed on the importance of insuring that the taxpayer's (or dependent's) name and social security number match IRS records.

See Appendix B for suggested class schedules and approximate teaching times.

After completing this lesson the student should be able to:

- Explain the importance of requiring a social security card for the tax preparation.
- Identify the documents that could be used in lieu of a social security card.
- Determine which taxpayers need an Individual Taxpayer Identification Number (ITIN).
- Use the 5 tests for a qualifying dependent.

#### TRAINING MATERIAL AND ON-SITE REFERENCE GUIDE

This lesson will refer to the following IRS publications and forms. If you would like to provide your students with the most current revision of the publications or forms, you can download the files from [www.irs.gov](http://www.irs.gov).

- Form 1040A, U. S. Individual Income Tax Return and Form 1040, U. S. Individual Income Tax Return *Exemptions* section
- Form W-7, Application for IRS Individual Taxpayer Identification Number
- Form 2120, Multiple Support Declaration
- Form 8332, Release of Claim to Exemption for Child of Divorced or Separated parents
- Publication 4012, Volunteer Resource Guide, is included in each student training kit. The publication is designed for both classroom and actual site usage. Direct the student to the tab for this lesson and make sure the student is aware of the content of the tab and how it should be used when assisting taxpayers.

Remind volunteers how important it is to avoid overly complicated tax returns. If a volunteer does not feel qualified to determine if the taxpayer is entitled to an exemption, the volunteer should suggest that the taxpayer see a paid professional tax preparer.

## **TEACHING TIP - TAXPAYER IDENTIFICATION NUMBERS**

It is important to stress to students that they must explain the reason for asking a taxpayer questions of a personal nature. The loss of a child, even if that child was stillborn or only lived briefly, can still be painful for a taxpayer. Similarly, other deaths in the household can remind taxpayers of painful experiences.

## **GUIDED QUESTION - TAXPAYER IDENTIFICATION NUMBERS (ITINs) FOR ALIENS**

### **IRS Individual Taxpayer Identification Numbers (ITINs) for Aliens**

Nonresident or resident aliens who do not have and are not eligible to get a SSN, must **apply for an ITIN**. The Internal Revenue Service issued a revised Form W-7, Application for IRS Individual Taxpayer Identification Number (ITIN), with new processing rules and procedures on December 17, 2003. The new procedures require ITIN applicants to file a federal (U.S.) income tax form with the Form W-7 unless certain exceptions are met. For more details, see Form W-7 and its instructions. It usually takes about 4–6 weeks to get an ITIN.

**If they already have an ITIN, enter it wherever the SSN is requested on the tax return.**

**Note:** An ITIN is for tax use only. It does not entitle one to social security benefits or change employment or immigration status under US law.

- 1. Who must have an ITIN?** An ITIN is required for individuals who have US income and do not have and are not eligible to get a SSN.
- 2. If a U.S. resident's spouse is not eligible for a social security number but the couple want to file a joint return, does the spouse need to apply for an ITIN?** Yes.

## **IRS INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER FOR THE MILITARY**

### **Exception for Overseas Military:**

All military personnel stationed overseas (not currently assigned to a U.S. base or post) may apply for an ITIN for their spouse and/or dependent(s) without attaching a tax return (procedure described below). The IRS suggests, however, that whenever possible they do file the application with their return so IRS can process both the application and the return together.





## Procedure For Filing An ITIN Application Without Attaching a Tax Form:

If an ITIN applicant is a spouse or dependent (reason “d” of “e” on Form W-7) of a member of the U.S. military stationed overseas, they may apply for the ITIN in advance of filing the related tax return. The applicant must indicate their relationship by marking the appropriate reason for applying, Spouse of (check box “e”) or Dependent of (check box “d”) and notate on the adjacent line the name of the U.S. person and their SSN. In addition, you must check box “h” (Other) and notate on the adjacent line “Overseas Military.” (Dependents must be otherwise eligible and appropriate identification documents must be provided.) Once the application is sent, you should wait for the ITIN to be issued before filing the tax return.

### **GUIDED QUESTION - DEPENDENCY TEST**

- 1. Define the term *dependent*.** (For federal income tax purposes, a dependent is a person who meets the five qualification tests prescribed by the Internal Revenue Service.)
- 2. How does the relationship or member of household test apply to adopted or foster children?** (An adopted child meets the relationship test. If a child is adopted and begins living with the taxpayer in the middle of the year, the taxpayer may claim an exemption for the child even though the child did not live with the taxpayer for the entire year.) (A foster child or children must live with you as a member of your household for the entire year to qualify as your dependent.)
- 3. Name the different ways that a person can meet the citizen or resident test.** (A person can meet this test if he or she, for some part of the tax year, is either a U.S. citizen or resident, or a resident of Canada or Mexico.)
- 4. Generally, how does someone meet the joint return test?** (A person generally meets this test by being married and not filing a joint return or married filing jointly only to claim a refund.)
- 5. To what types of income does the term *gross income* refer?** (Gross income refers to all taxable income in the form of money, property, and services, including all unemployment compensation and certain scholarships.)
- 6. What are the two exceptions to the gross income test?** (The test does not apply to the taxpayer’s children under the age of 19 or to the taxpayer’s children under the age of 24 who are full-time students.)

## **GUIDED QUESTIONS - SUPPORT TEST**

- 1. How much of a person's support must a taxpayer provide in order to claim that person as a dependent?** (In general, a taxpayer must provide more than half of a person's total support for the entire year.)
- 2. What are the two exceptions to the support test?** (Multiple support and children of divorced or separated parents are the two exceptions to the support test.)
- 3. When can capital items, like cars, be included as support?** (When they are solely for the dependent's own use.)
- 4. How does the amount used to decide whether a person meets the support test differ from that used for the gross income test?** (The gross income test considers taxable income only, whereas the support test considers all of the dependent's income-both taxable and nontaxable.)

## **GUIDED QUESTIONS - DIVORCED OR SEPARATED PARENTS**

- 1. In the case of separated or divorced parents who, together, provide over half of a child's support, which parent can claim the dependency exemption?** (The parent who has custody of the child for the greater part of the year, unless a divorce decree or separation agreement provides otherwise.)
- 2. What is the purpose of Form 8332?** (Form 8332 is signed by the custodial parent in order to allow the non-custodial parent to claim the dependency exemption.)

## **TEACHING TIP - DEPENDENCY EXEMPTIONS**

1. When determining the number of exemptions, volunteers should not assume that taxpayers will have the same number of exemptions on their current return as they did on last year's return. Information about deaths or births in a taxpayer's household might not be volunteered right away and may require some probing on the part of the assistor/counselor.
2. You may wish to remind students that a taxpayer who can be claimed as a dependent on another person's return cannot claim a personal exemption for himself or herself on his or her own return. This is true even if the other taxpayer does not claim the dependency exemption.

## **SUBJECT REVIEW - DEPENDENTS AND SSNs/ITIN**

Emphasize that all dependents must have a taxpayer identification number. Tell students that taxpayers who need to acquire a social security number for a dependent should contact their local social security office.



Volunteers should also tell taxpayers that a certified copy of the dependent's birth certificate will be required in order to get a social security number.

The application process will take a few weeks, in most cases.

In addition, a resident or nonresident alien who does not have, or cannot get, an SSN should file a Form W-7 with the IRS to apply for an individual tax identification number (ITIN). The ITIN is entered on the return wherever the SSN is requested, and is used *for tax purposes only*. A taxpayer who has an ITIN and later receives a SSN, should no longer use the ITIN on tax returns.

### ***GUIDED QUESTION - IDENTITY VALIDATION***

**What items are required to validate a taxpayer, spouse or dependent's identity when preparing a tax return?** A photo ID and social security card or other identifying document for each person is required.

### ***TEACHING TIPS - ALIENS/COMMUNITY PROPERTY***

1. When confronted with a situation in which the taxpayer is a United States resident or citizen who is married to a nonresident alien, volunteers should know that the taxpayer can file a joint return as long as both spouses agree to be taxed on their worldwide income. IRS Publication 519, *Tax Guide For Aliens*, deals with this type of situation.
2. If more information is needed to answer students' questions about community property states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin) refer to IRS Publication 555, *Community Property*.



**STUDENT NOTES**

Lined writing area for student notes.



### INTRODUCTION AND OBJECTIVES

In this lesson you will learn what you need to know when you begin to prepare an individual's federal income tax return. Please note that two of the objectives concern the importance of insuring that the taxpayer's (or dependent's) name and social security number (SSN) match IRS records.

Each person listed on a U.S. Federal individual income tax return must be identified by a number. Each person refers to the taxpayer, the taxpayer's spouse if the taxpayer is married, and any dependent claimed on the return. The taxpayer identification number (TIN) will be a social security number for those persons who qualify to be issued one. All others must have an individual taxpayer identification number (ITIN) or adoption individual taxpayer identification number (ATIN).

After completing this lesson you should be able to:

- Explain the importance of requesting a social security card for tax preparation.
- Determine which taxpayers need an Individual Taxpayer Identification Number (ITIN)
- Use the 5 tests for a qualifying dependent.

### SOCIAL SECURITY NUMBER

It is extremely important that each person use the correct social security number. The most accurate information is usually located on the taxpayer's original social security card. Each year hundreds of thousands of returns are delayed in processing or credit/deductions disallowed because names and social security numbers do not match Social Security Administration (SSA) records. To prevent processing delays in paper returns and rejected electronically filed returns, volunteers must check the accuracy of each Social Security number, as well as the spelling of the name associated with the number. If a taxpayer does not have a valid SSN, direct them to Form SS-5, Social Security Number Application. This form should be submitted to the nearest Social Security Administration Office. Explain to him/her that they **must** have a taxpayer identification number before you can assist them with filing the tax return.

#### ALERT



Ask the taxpayer to show the Social Security Cards for self, spouse and dependents.

#### POTENTIAL PITFALLS



Canadians have a number that is like a social security number, but it is for their old age pension. Do not use this number on a U.S. tax return. Canadians often have both a U.S. and Canadian Social Security Number.

To verify that the taxpayer's name and social security number match the government's records, volunteers should ask for one of the following documents for each individual on the return.

- Social Security Card (original or copy)
- SSA 1099 benefit statements
- SSA letter OR a copy of last year's tax return showing the needed information (if no Notice of Exception was received).

**Note:** Driver's licenses and passport may not depict the name or number as it appears on SSA records.

## ALERT



The Internal Revenue Service has taken several steps to **strengthen controls** over the issuance of ITINs. ITIN applications (Form W-7) are now being processed by the IRS if they are submitted with original tax returns (this includes amended and late filed returns). For exceptions to this requirement please refer to the instructions on the back of Form W-7.

The changes will help ensure that ITINs are issued for their intended **tax administration purpose** for administering the tax code and not for other reasons, such as providing personal identification.

## INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS (ITIN)

### What is an ITIN?

An ITIN is an individual taxpayer identification number. The IRS issues an ITIN to individuals who are required to have a U.S. taxpayer identification number (TIN) but who do not have and are not eligible to obtain an SSN. Federal law requires individuals with U.S. income, regardless of immigration status, to have to file a U.S. tax return. The ITIN, a **nine-digit number that begins with the number 9** is formatted like an SSN (NNN-NN-NNNN). The ITIN was created for use on tax returns only for those taxpayers who do not qualify for a Social Security Number.

### Who Needs an ITIN?

If a taxpayer must file a U.S. tax return or can be listed on a U.S. tax return as a spouse or dependent they must have a taxpayer identification number (TIN), in the form of an SSN or an ITIN. SSNs were discussed earlier. The issuance of an ITIN does not:

- Entitle the recipient to Social Security benefits or the Earned Income Credit (EIC);
- Create an inference regarding the individual's immigration status;
- Give the individual the right to work in the U.S. Any individual who is legally eligible for employment in the U.S. must have an SSN.

Except for overseas military personnel (described below), all new ITIN applicants will have to show a federal tax purpose for seeking the ITIN. For those seeking an ITIN to meet their income tax filing obligations, this will require attaching a federal tax return to the Form W-7 when they are ready to file their tax return with the IRS. ITIN applications without **proof of need for tax administration purposes** will be rejected.

A small number of non-U.S. residents apply for an ITIN to report income under a tax treaty, and a small number of U.S. resident and non-resident applicants apply for an ITIN to report income from a U.S. bank or brokerage account. Neither type of applicant will be required to file a tax return along with their ITIN application. Non-resident applicants will be required to furnish evidence of their ownership of the asset that gave rise to the reporting obligation. Resident applicants will be required to furnish evidence of actual rather than intended ownership of the bank or brokerage account.

### ***GUIDANCE ON PREPARATION OF A RETURN WHEN THE TAXPAYER HAS AN ITIN AND PRESENTS W-2'S WITH AN INVALID SSN***

#### **What is an ITIN/SSN Mismatch?**

Individual Taxpayer Identification Number (ITIN) holders frequently file tax returns under their ITIN with attached Forms W-2 showing Social Security Numbers (SSN) of other individuals to substantiate their withholding claims, creating an ITIN/SSN mismatch. A mismatch return causes IRS' document-matching program to erroneously attribute the income and resulting tax to the SSN owner, rather than the ITIN holder. This creates inaccuracies in both the SSN owner's tax account and Social Security Administration records.

#### **ITIN Tax Preparation Guidelines (Effective January 1, 2004)**

When an individual comes to a volunteer tax preparation site with a W-2 reflecting an SSN requesting return preparation and produces an ITIN, the volunteer may prepare the tax return with the documents provided.

Reminder: Prior to completion of any tax return, the volunteer **must** request proof of identity. Two forms of identification are required. One must be photo identification such as:

Passport

National Identity Card

Drivers License (U.S.)

State Identification Card (U.S.)

Military Identification Card

School Photo ID

VISA

For ITIN holders, the second form of identification must be the original or a copy of the ITIN Card or Letter.

One or both of the forms of identification should reflect the taxpayer's current mailing address. If the taxpayer cannot substantiate their identity, or if the volunteer is uncomfortable accepting the items presented as proof of identity, the taxpayer should seek paid professional tax assistance.

**Returns prepared with an ITIN/SSN mismatch cannot be filed electronically. Do not change any information on the Form W-2. Volunteers may prepare a paper return for the taxpayer once identity has been verified.**

The return should reflect the ITIN for the taxpayer. The erroneous SSN on the Form W-2 **should not** be used on the return.

**A paper return must be filed.** Publication 1345, Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns, states that the information on a W-2 should never be altered. In order to e-file, the taxpayer identification number (TIN) on the W-2 must match the TIN on the federal return. Since the W-2 shows an SSN and the return shows an ITIN, these returns cannot be electronically filed. *As a precaution and reminder to the volunteers, if the volunteer is using electronic return preparation software (e.g. TaxWise), the ITIN/SSN mismatch should show up as an error and the program will not allow the return to be e-filed. Volunteers should NOT attempt to override this error. The return must be printed and given to the taxpayer to be mailed to the IRS.*

The taxpayer **is not** eligible for the Earned Income Tax Credit (EITC). Based on Chief Counsel Advice, dated May 15, 2001, if the taxpayer becomes a permanent resident of the United States and secures a valid SSN at a later date, he/she can later file amended returns and claim the EITC for all years for which the statute of limitations has not expired.



## Returns prepared with no ITIN:

The new ITIN application requirements announced by IRS Commissioner Everson on December 17, 2003, require a federal tax return be associated with all Form W-7 applications (with some exceptions as noted in the instructions for Form W-7). Federal tax returns cannot be filed using electronic return preparation software without a TIN (taxpayer identification number). Therefore, guidance is being provided to allow the use of electronic return preparation software when completing paper returns for these taxpayers. **These returns cannot be electronically transmitted.** In this scenario, a temporary identification number can be used for purposes of accessing the electronic return preparation program and generating an accurate paper return.

Scenario: Taxpayer one, his spouse and his dependents (if applicable) are applying for ITINs by completing Forms W-7. The volunteer is completing the federal tax return for association with the taxpayers Form W-7 application. If the taxpayer is working under an erroneous social security number, that social security number **should not** be used on the return. Create the return by following these procedures: In the TIN field, enter the number “99” followed by six zeros and a numerical sequence starting with the number “1”.

For example in the scenario above,

The taxpayer’s TIN would be:                    990-00-0001

The spouse’s TIN would be:                    990-00-0002

The dependent’s TIN would be:                990-00-0003,

And so on ... changing the last digits of the TIN each time a new taxpayer, spouse or dependent applying for an ITIN needs a return prepared. After 990-00-0009, the volunteer can use 990-00-0010, 990-00-0011, etc.

Upon completion of the return:

1. Print the return package,
2. **Completely** cross-out in **INK** the TIN on each form reflecting the temporary number, and
3. Provide the return package to the Taxpayer to mail with Forms W-7 to the address shown in Form W-7 instructions.
4. If the taxpayer has a family pack that includes multiple Form W-7’s with one return, or multiple returns with one Form W-7, these forms should be staggered and stapled together to show the entire package as a family pack. This will prevent separation of the forms/returns that could delay the processing time.

When an individual comes in to a volunteer tax preparation site and needs assistance with completion of Form W-7, volunteers should refer taxpayers to seek professional assistance, unless a volunteer at that site has been specifically trained in completion of Form W-7 or an authorized acceptance agent is present to provide assistance.

**Note:** The taxpayer is responsible for mailing their federal tax return and/or Form W-7 to the IRS' Philadelphia Service Center ITIN Unit, Bensalem, PA 19020. SPEC employees, partners, and/or volunteers **may not** accept these forms for submission.

## ***NEW PROCEDURES FOR INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS (ITINs) EXCEPTION FOR OVERSEAS MILITARY***

### **Background:**

All military personnel stationed overseas (not currently assigned to a U.S. base or post) may apply for an ITIN for their spouse and/or dependents(s) without attaching a tax return. The IRS suggests, however, that whenever possible they do file the application with their return so IRS can process both the application and the return together.

Procedure for filing an ITIN application without attaching a tax form:

If an ITIN applicant is a spouse or dependent (reason "d" of "e" on Form W-7) of a member of the U.S. military stationed overseas, they may apply for the ITIN in advance of filing the related tax return. The applicant must indicate their relationship by marking the appropriate reason for applying, Spouse of (check box "e") or Dependent of (check box "d") and notate on the adjacent line the name of the U.S. person and their SSN. In addition, you must check box "h" (Other) and notate on the adjacent line "Overseas Military." (Dependents must be otherwise eligible and appropriate identification documents must be provided.) Once the application is sent, you should wait for the ITIN to be issued before filing the tax return.

### **Frequently Asked ITIN Questions and Answers**

**What should I do if a customer comes to the site with a completed Form W-7 and needs a federal return completed to attach to the W-7 for submission to the IRS?**

If the customer has his/her tax records and meets all other volunteer site requirements, such as income, type of return, etc., you may complete a federal tax return and any state or local return agreed upon for your site.

Unless you are an authorized acceptance agent, advise the customer to mail the tax return, Form W-7, and applicable documentation to:

Internal Revenue Service  
Philadelphia Service Center  
ITIN Unit  
P.O. Box 447  
Bensalem, PA 19020  
DPN280

Or take Form W-7 with the federal return and required identity documents (refer to instructions for Form W-7) to an authorized acceptance agent or the nearest IRS Taxpayer Assistance Center (TAC). The taxpayer can call 1-800-829-1040 to obtain the closest TAC in their area. Note: Currently IRS TAC will not prepare tax returns requiring an ITIN.

**What if a customer comes in and does not have a SSN (Social Security Number) or ITIN (Individual Tax Identification Number)?**

A Taxpayer Identification Number (TIN) is required to file a federal tax return. A TIN may be an SSN, or an ATIN, or an ITIN. If the customer is eligible for an SSN, (US citizen or Resident Alien), they should apply for the SSN prior to completing their federal return; advise the customer to complete Form SS-5, Social Security Number Application. Form SS-5 should be submitted to Social Security Administration Office.

If the customer is not eligible for an SSN (not a U.S. Citizen or Resident Alien) but has a filing requirement (refer to Publication 678, Filing Requirement) the customer must complete Form W-7, Application for an Individual Tax Identification Number. Unless you are specifically trained on how to complete Form W-7, the customer should seek professional assistance.

The customer may also choose to apply for an ITIN through an authorized Acceptance Agent. Explain to the customer that some agents charge a fee for this service. For a list of Acceptance Agents in their area the customer can call the IRS at 1-800-829-1040 or go to [www.irs.gov](http://www.irs.gov) and search for Acceptance Agent.

**What if a customer's spouse or dependents do not have a TIN or wages?**

To file a joint return or claim dependents on a federal tax return both the spouse and dependents must have a TIN. Refer to instructions above for guidance on applying for an SSN, ATIN, or ITIN.

**What if the taxpayer comes in with the correct SSN on one Form W-2 and an incorrect SSN on a second Form W-2?**

Advise the taxpayer to contact the employer for the incorrect Form W-2 and ask for a corrected Form W-2. If he/she receives the corrected W-2 before your site closes for the season, he or she may come back to the site for free tax preparation.

**What if a taxpayer or spouse has an ITIN and SSN?**

Both numbers cannot be valid. If you can determine the valid number, you may complete the return. If you cannot determine the valid number the taxpayer should seek professional assistance.

### ***SUMMING UP THIS SUBJECT***

- All taxpayers and dependents listed on a tax return must have an identification number.
- An Identification Number can be either an SSN, ATIN, or an ITIN.
- Use caution when completing the entity section of the tax return.

## PERSONAL AND DEPENDENCY EXEMPTIONS

After completing this section, you will be able to:

- Define *personal exemption*.
- Define *dependency exemption*.
- Use the five tests to determine a qualifying dependent.

There are two kinds of exemptions: personal and dependency. While both exemptions are worth the same amount, different rules apply to each type.

**Personal exemptions** are allowed to the taxpayer and to the taxpayer's spouse.

**Dependency exemptions** are allowed to the taxpayer for qualifying dependents who meet five specific tests.

The taxpayer can usually deduct the **exemption amount** (\$3,100 for 2004) when figuring taxable income.

## PERSONAL EXEMPTIONS

### The Taxpayer

The taxpayer can claim a personal exemption for himself or herself unless the taxpayer is eligible to be claimed as a dependent on another person's return. If this is true, the taxpayer cannot claim an exemption for himself or herself, even if the other taxpayer does not actually claim the dependency exemption.

### The Spouse

Generally, if the taxpayer's spouse is claimed as a dependent on another person's return, the taxpayer cannot claim the spouse's exemption on his or her return. (One spouse is never considered the dependent of the other.)

To claim an exemption for a spouse, the taxpayers must be married by December 31, the last day of the year. If the taxpayer files a separate return, he or she can claim the exemption for his or her spouse only if his or her spouse had no gross income (defined later) and was not the dependent of another taxpayer. This is true even if the other taxpayer does not actually claim the taxpayer's spouse's exemption. If a taxpayer is divorced or legally separated at the end of the tax year, he or she cannot claim his or her (former) spouse's exemption.

If the taxpayer's spouse died during the year and the taxpayer did not remarry by December 31, the taxpayer can generally claim the personal exemption for the deceased spouse. This exemption can be claimed only if the taxpayer was not divorced or legally separated from his or her spouse on the date of the death and would have been able to claim the exemption under regular circumstances.

#### ALERT



Establish if taxpayer was considered married on 12/31/04.

#### ALERT



For 2004 the exemption amount increased to \$3,100.

#### ALERT



Ask if the taxpayer's spouse died during the year.

## ALERT



Ask if the taxpayer and/or spouse is a U.S. citizen or resident alien.

Following is a set of interview questions designed to familiarize you with probing techniques. In some cases the the question may reference topics that will be discussed in later lessons. Refer to the questions now and again when you get to applicable lessons to help you understand any unclear information.

## INTERVIEW TIPS



### Personal Exemptions

#### Probe/Action: Ask the taxpayer:

Step 1: Were you married during any part of the tax year? (answer yes if state common law rules met)	If <b>YES</b> , go to Step 2. If <b>NO</b> , go to Step 7.
Step 2: Were you still married on December 31st of the tax year?	If <b>YES</b> , go to Step 5. If <b>NO</b> , go to Step 3.
Step 3: Did you obtain a final decree of divorce or separate maintenance by December 31st of the tax year?	If <b>YES</b> , you cannot claim a personal exemption for your former spouse. Go to Step 7. If <b>NO</b> , go to Step 4.
Step 4: Did your spouse (or you, the taxpayer, if this is a final return for the deceased) die during the tax year?	If <b>YES</b> , go to Step 5. If <b>NO</b> , go back through Steps 1-3 and clarify answers that brought you to Step 4. Explain abandonment does not change marital status but might affect filing status.
Step 5: Are you filing a joint tax return?	If <b>YES</b> , go to Step 7. If <b>NO</b> , go to Step 6.
Step 6: Did your spouse have income and/or can anyone else claim your spouse as a dependent?	If <b>YES</b> , you cannot claim a personal exemption for your spouse. Go to Step 7 to see about your own personal exemption. If <b>NO</b> , you can claim a personal exemption for your spouse.
Step 7: Can anyone meet all five dependency tests to claim you, and/or your spouse if you answered <b>YES</b> to Steps 1 and 2 above, as a dependent?	If <b>YES</b> , you cannot claim a personal exemption for yourself, and/or spouse, if someone else can claim you as a dependent, even if the other person does not claim a dependency exemption for you or your spouse. If <b>NO</b> , you can claim a personal exemption.

## POTENTIAL PITFALLS



Your spouse is never considered your dependent. You may be able to take one exemption for your spouse only because you are married.

A **dependent** is a person, other than the taxpayer or spouse, who entitles the taxpayer to claim a dependency exemption. A taxpayer can claim a dependency exemption only if **all five** of the following dependency tests are met.

1. Member of Household or Relationship
2. Citizen or Resident
3. Joint Return
4. Gross Income
5. Support

### 1. The Member of Household or Relationship Test

To meet this test, the person must either:

- A. Live with the taxpayer for the entire year as a member of his or her household, or
- B. Be related to the taxpayer in one of the ways listed later, under *Relatives who do not have to live with the taxpayer*.

#### **Note:**

A person away on temporary absences is considered to live and be a member of the household the entire year. Temporary absences include attending school, taking vacations, hospital stays due to illness, and military service. In addition, the relationship must not violate local law.

#### **Relatives who do not have to live with the taxpayer**

A person related to the taxpayer in any of the following ways does not have to live with the taxpayer the entire year as a member of his or her household to meet this test.

- Child, grandchild, great grandchild, etc. (A legally adopted child is considered the taxpayer's child)
- Stepchild
- Brother, sister, half brother, half sister, stepbrother, stepsister
- Parent, grandparent, or other direct ancestor, but not foster parent
- Stepmother or stepfather
- Brother or sister of your father or mother
- Son or daughter of your brother or sister
- Father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law

## ALERT



A foster child must live with the taxpayer the entire year to be considered for a dependency exemption.

## ALERT



You cannot claim a dependency exemption for persons who do not have a valid taxpayer identification number (TIN) except for your child who was born and died in the tax year.

## POTENTIAL PITFALLS



There are two tests within the **Member of Household or Relationship** test. Passing this test requires meeting only one or the other of the test criteria.

If a child was born alive during the year and meets the dependency tests, the taxpayer can take the exemption, even if the child lived only for a moment. No exemption is allowed for a stillborn child. State or local laws determine if a child was born alive or stillborn.

A legally adopted child is considered to be the taxpayer's child. If an adoption is finalized and the child begins living with the taxpayer on or before December 31, the member of the household test is met.

If a foster child has lived with the taxpayer for the entire year (except for temporary absences) and the taxpayer cares for the child as his or her own, the child is treated as the taxpayer's own child.

A person who died during the year and was a member of the taxpayer's household until death meets the member of household test.

A cousin must live with the taxpayer for the entire year (except for temporary absences) to meet the member of household test. A cousin *does not* meet the relationship test.

## INTERVIEW TIPS



### Dependency Exemptions, Member of Household or Relationship Test

#### Probe/Action: Ask the taxpayer:

Step 1: Did the person live with you as a member of your household for the entire year?

(Answer yes if your child died in the tax year.)  
If YES, the Member of Household or Relationship Test is met. Proceed to the next test - **Citizen or Resident Test**.  
If NO, go to Step 2.

Step 2: Is the person a qualifying relative? Child or descendant of child, child of your brother or sister, stepchild, brother, sister, half brother, half sister, stepbrother stepsister, parent, grandparent, or other direct ancestor, stepmother or stepfather, brother or sister of your father or mother, father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law

(Answer yes if legal adoption for your child was finalized on or before December 31 or if the adoption is not yet final, but the child was placed with you for legal adoption by an authorized placement agency.)  
If YES, the Member of Household or Relationship Test is met. Proceed to the next test - Citizen or Resident Test.  
If NO, STOP. You cannot claim this person as a dependent.

## 2. Citizen or Resident Test

To meet this test, a person must be for some part of the year:

- a U.S. citizen or resident, or
- a resident of Canada or Mexico.

Children usually are citizens or residents of the country of their parents. A child born in a foreign country can be recognized as a U.S. citizen for tax purposes if either parent is a U.S. citizen.



If a taxpayer (who is a U.S. citizen) legally adopts a child who is not a U.S. citizen or resident, and the other dependency tests are met, the taxpayer can take the exemption if the taxpayer's home is the child's main home and the child is a member of the household for the entire tax year.

<b>INTERVIEW TIPS</b>	
★★	
Dependency Exemptions, Citizen or Resident Test	
<b>Probe/Action: Ask the taxpayer:</b>	
Step 1: Was the person a US citizen or resident, or a resident of Canada or Mexico, for any part of the year?	If YES, the Citizen or Resident Test is met. Proceed to the next test - The Joint Return Test. If NO, STOP. You cannot claim this person as a dependent.

### 3. Joint Return Test

To meet this test, generally, the taxpayer's dependent cannot file a joint return. However, the joint return test does not apply if a joint return is filed by the dependent and his or her spouse *merely as a claim for refund* and no tax liability would exist for either spouse on separate returns.

<b>INTERVIEW TIPS</b>	
★★	
Dependency Exemptions, Joint Return Test	
<b>Probe/Action: Ask the taxpayer:</b>	
Step 1: Did the person file a joint return for the year?	If YES, go to Step 2. If NO, the Joint Return Test does not apply. Proceed to the next test - The Gross Income Test.
Step 2: Was a joint return filed by the dependent and his/her spouse merely as a claim for refund and no tax liability would exist for either spouse on separate returns?	If YES, the Joint Return Test does not apply. Proceed to the next test - The Gross Income Test. If NO, STOP. You cannot claim this person as a dependent.

**ALERT**

The **Joint Return** test is a limitation on claiming a dependency exemption. The exemption is denied even if the other dependency tests are met for a dependent who files a joint return. However, the exemption is allowed if the test does not apply.

### 4. The Gross Income Test

A taxpayer cannot take an exemption for a person whose gross income equals or exceeds the **exemption amount**. The exemption amount for 2004 is \$3,100.

*Gross income* is all *taxable* income in the form of money, goods, property, and services. It includes all unemployment compensation and certain scholarships. It does not include welfare benefits or nontaxable social security benefits.

There are two exceptions to the gross income test. The gross income test does not apply if:

- the taxpayer's child is under 19 years of age at the end of the year, or
- the taxpayer's child is under 24 years of age at the end of the year and is a full-time student

To be considered a student, the taxpayer's child must attend school full-time for some part of each of five calendar months of the year. The five months need not be consecutive in order to qualify. School generally does not include night schools, on-the-job training courses, or correspondence schools.

**ALERT**



The **Gross Income test** is a limitation on claiming a dependency exemption. The exemption is denied even if the other dependency tests are met for a dependent that had gross income of \$3,100 or more for the tax year. However, the exemption is allowed if the test does not apply.

**INTERVIEW TIPS**



Dependency Exemptions, The Gross Income Test

**Probe/Action: Ask the taxpayer:**

Step 1: Did the person have gross income of \$3,100 or more during the year?	If YES, go to Step 2. If NO, the Gross Income Test does not apply. Proceed to the next test - The Support Test.
Step 2: Was the person your child?	If YES, go to Step 3. If NO, STOP. You cannot claim this person as a dependent.
Step 3: Was your child under age 19 at the end of the year?	If YES, the Gross Income Test does not apply. Proceed to the next test - The Support Test. If NO, go to Step 4.
Step 4: Was the child under age 24 at the end of the year and a full-time student for some part of each of the five months during the year?	If YES, the Gross Income Test does not apply. Proceed to the next test - The Support Test. If NO, STOP. You cannot claim this person as a dependent.

**5. The Support Test**

The support test requires that the taxpayer provide more than half of a person's total support for the entire year in order to claim that person as a dependent.

There are two exceptions to the support test:

- Multiple support, and
- Children of divorced or separated parents

(Both of these exceptions will be covered later in this section.)

To determine if the taxpayer provided more than half of the dependent's support, compare the amount that the taxpayer contributed to the person's support with the entire amount of

support the person received from all sources. (Exhibit 1 provides a worksheet for figuring whether the taxpayer provided more than half of a dependent's support.)

State benefit payments like welfare, food stamps, and housing are considered support provided by the state, not by the parent, regardless of how the parent actually spends the funds.

Support provided for the dependent includes support paid from these sources: amounts withdrawn from savings; borrowed amounts, such as student loans and car loans; and tax-exempt income, including social security benefits, life insurance proceeds, nontaxable pensions, gifts, and tax-exempt interest.

Only the amount of a dependent's own funds that is actually spent on support is counted. Scholarships received by fulltime students are not included in total support.

Do not include in support any amounts that are:

- paid from a dependent's own funds for income and social security taxes,
- paid as life insurance premiums, or
- not spent, but saved or invested.

Total support items include food, clothing, shelter at fair rental value, education, medical and dental care, recreation, and transportation. Some support items, like food and rent, benefit more than one member of a household. Divide the value of these support items among the number of household members that benefit. Capital items like furniture, appliances, or autos should be included in support if the items are solely for the dependent's own use or benefit.

### **Example 1**

Alexis, age 20, lived all year with her parents and younger sister in an apartment. Alexis earned \$4,000 from her part-time job. She saved \$1,000 for college and \$500 was withheld for income and social security taxes. Alexis spent the remaining \$2,500 on clothing, transportation, and recreation.

Alexis provided \$2,500 of her own support. The college savings will not be counted as support until the money is spent. The funds used to pay income and social security tax are not considered to be support.

In order for Alexis' parents to claim her as a dependent, they must provide additional support of more than \$2,500. Included in support items are one-fourth of the family's rent, utilities, grocery bills, and any additional amounts paid for Alexis' medical expenses and education.

<b>Funds Belonging to the Person You Supported</b>	
1) Total funds belonging to the person you supported, including income received (taxable and nontaxable) and amounts borrowed during the year, plus the amount in savings and other accounts at the beginning of the year	\$
2) Amount used for support	\$
3) Amount used for other purposes	\$
4) Amount in savings and other accounts at end of the year	\$
(The total of lines 2, 3, and 4 should equal line 1)	\$
<b>Expenses for Entire Household (where the person you supported lived)</b>	
5) Lodging (Complete item a or b)	
a) Rent paid	\$
b) If not rented, show fair rental value of home. If the person you supported owned the home, include this amount in line 19.	\$
6) Food	\$
7) Utilities (heat, light, water, etc. not included in line 5a or 5b)	\$
8) Repairs (not included in line 5a or 5b)	\$
9) Other. Do not include expenses of maintaining home, such as mortgage interest, real estate taxes, and insurance.	\$
10) Total household expenses (Add lines 5 through 9)	\$
11) Total number of persons who lived in household	
<b>Expenses for the Person You Supported</b>	
12) Each person's part of household expenses (line 10 divided by line 11)	\$
13) Clothing	\$
14) Education	\$
15) Medical, dental	\$
16) Travel, recreation	\$
17) Other (specify)	\$
18) Total cost of support for the year (Add lines 12 through 17)	\$
<b>Did You Provide More Than Half?</b>	
19) Amount the person provided for own support (line 2, plus line 5b if the person you supported owned the home)	\$
20) Amount others provided for the person's support. Include amounts provided by state, local, and other welfare societies or agencies. Do not include any amounts included on line 1.	\$
21) Amount you provided for the person's support (line 18 minus lines 19 and 20)	\$
22) 50% of line 18	\$
<p>Is line 21 more than line 22?</p> <p><b>Yes.</b> You meet the support test for the person. If the other exemption tests are met, you may claim an exemption for the person.</p> <p><b>No.</b> You do not meet the support test for the person. You cannot claim an exemption for the person unless you can do so under a multiple support agreement. See <i>Multiple Support</i>, later.</p>	

## Multiple Support

Sometimes, no one person provides more than half of an individual's support, but two or more persons together do. In this situation, anyone who separately provides over 10 percent of the person's total support and meets the other tests can claim the exemption for the dependent. Nonetheless, only one person can claim the exemption. All other persons who provided more than 10 percent of the support and who meet the other tests must sign a written statement agreeing not to claim the exemption for that year. **Form 2120, Multiple Support Declaration**, is used to identify each of the others not claiming the exemption. The person who claims the exemption attaches Form(s) 2120 to his or her current year's tax return and must keep for his records the signed statement from the person agreeing not to claim the exemption.

### Example 2

Henry E. and Harold S. Loras each provide more than 10 percent of the total support of their mother Angela S. Loras, but neither provides more than 50 percent. Together, Henry and Harold provide more than 50 percent. They decide that Henry will claim the exemption this year. Exhibit 2 shows the completed Form 2120 that Henry will attach to his return.

Exhibit 2

Henry's Form 2120

Form <b>2120</b> (Rev. December 2002)  Department of the Treasury Internal Revenue Service	<h3>Multiple Support Declaration</h3> <p>▶ Attach to Form 1040 or Form 1040A.</p>	OMB No. 1545-0071  Attachment Sequence No. <b>114</b>
Name(s) shown on return <b>Henry E. Loras</b>		Your social security number <b>xxx   xx   xxxxx</b>
During the calendar year _____, the eligible persons listed below <b>each</b> paid over 10% of the support of:		
<b>Angela S. Loras</b> Name of person supported		
I have a signed statement from each eligible person waiving his or her right to claim this person as a dependent for any tax year that began in the above calendar year.		
<b>Harold S. Loras</b> Eligible person's name		<b>xxx   xx   xxxxx</b> Social security number
<b>123 Marin Street, Your City, State Zip</b> Address (number, street, apt. no., city, state, and ZIP code)		
Eligible person's name		Social security number
Address (number, street, apt. no., city, state, and ZIP code)		
Eligible person's name		Social security number
Address (number, street, apt. no., city, state, and ZIP code)		
Eligible person's name		Social security number
Address (number, street, apt. no., city, state, and ZIP code)		

## Children of Divorced or Separated Parents

The parent who has custody of the child for the greater part of the year (the custodial parent) will generally be considered as having provided over half of the child's support ***if all of the following conditions are met.***

- The child received over half of his or her total support from one or both parents.
- The parents are divorced, legally separated, separated under a written separation agreement, or have lived apart at all times during the last six months of the calendar year.
- The child was in the custody of one or both parents for more than half of the calendar year.

The custodial parent ***will not*** be considered as having provided over half of the child's support if any of the following conditions exist.

- Over half of the support of the child is considered to have been received from a third party, such as a relative or friend, or the government (welfare benefits).
- The custodial parent signed Form 8332, *Release of Claim to Exemption for Child of Divorced or Separated Parents*, or a similar statement, that allows the noncustodial parent to claim the exemption (this statement must be attached to the noncustodial parent's return).
- A decree or agreement that went into effect after 1984 unconditionally states that the noncustodial parent can claim the child as a dependent.
- A qualified pre-1985 agreement provides that the noncustodial parent shall be entitled to the exemption for the child and the noncustodial parent contributed at least \$600 toward the child's support during the tax year, unless the pre-1985 agreement is modified after 1984 to specify that this provision will not apply.

### Example 3

Ellen M. and Richard A. Stonehill are divorced. Under the terms of the 1984 divorce, Richard has custody of their two children, Alan R. and Mary E. The divorce decree specifies that Ellen can claim the dependency exemptions. Ellen provided \$1,500 of support for each child. Assuming all other tests are met, Ellen can claim both children as dependents.

If Ellen had provided only \$500 of support for each child, she could not claim dependency exemptions for the two children. To claim the exemptions, she must provide at least \$600 of support for each child.

If the divorce occurred after 1984 and Richard and Ellen had agreed that Ellen would claim the dependency exemptions for the children, Ellen would attach Form 8332 or a similar statement to her tax return. Exhibit 3 shows a completed Form 8332 for Ellen.

#### Exhibit 3

Ellen's Form 8332

Form <b>8332</b> (Rev. December 2000) Department of the Treasury Internal Revenue Service	<b>Release of Claim to Exemption          for Child of Divorced or Separated Parents</b> ▶ <b>Attach</b> to noncustodial parent's return <b>each year</b> exemption is claimed. <b>Caution: Do not use this form if you were never married.</b>	OMB No. 1545-0915  Attachment Sequence No. <b>115</b>
Name of noncustodial parent claiming exemption <u>Ellen M. Stonehill</u>		Noncustodial parent's social security number (SSN) ▶ <u>XXX : XX : XXXX</u>
<b>Part I Release of Claim to Exemption for Current Year</b>		
I agree not to claim an exemption for <u>Alan R. Stonehill and Mary E. Stonehill</u> <div style="text-align: right; font-size: small;">Name(s) of child (or children)</div>		
for the tax year 20 <u>04</u> .		
<u>Richard A. Stonehill</u> <small>Signature of custodial parent releasing claim to exemption</small>	<u>XXX : XX : XXXX</u> <small>Custodial parent's SSN</small>	<u>3/26/2005</u> <small>Date</small>
<b>Note: If you choose not to claim an exemption for this child (or children) for future tax years, also complete Part II.</b>		

## INTERVIEW TIPS



### Dependency Exemptions, The Support Test

#### **Probe/Action: Ask the taxpayer:**

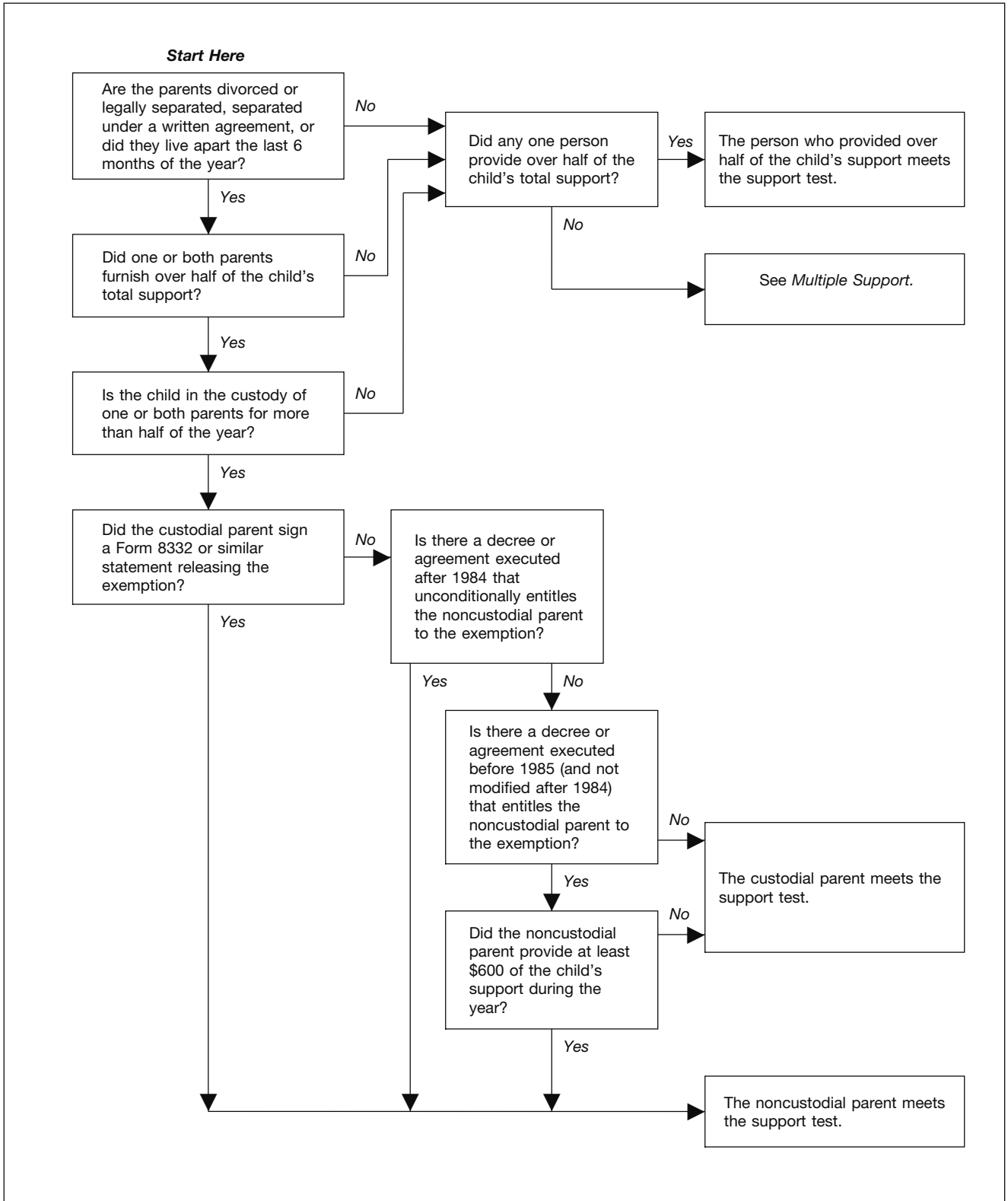
**TABLE 1 Test for Support by Taxpayers Not Divorced or Separated**

Step 1: Did you provide more than half the person's total support for the year?	If YES, the person meets the Support Test and qualifies as a dependent since all 5 tests are either met or do not apply. If NO, go to Step 2.
Step 2: Did another person provide more than half the person's total support?	If YES, STOP. You cannot claim this person as a dependent. If NO, go to Step 3.
Step 3: Did 2 or more people together provide more than half the person's total support?	If YES, go to Step 4. If NO, STOP. No one can claim this person as a dependent.
Step 4: Did you provide more than 10% of the person's total support for the year?	If YES, go to Step 5. If NO, STOP. You cannot claim this person as a dependent.
Step 5: Did the people providing at least 10% of the person's total support for the year provide you with a signed statement agreeing not to claim the exemption?	If YES, the person meets the Support Test and qualifies as a dependent since all 5 tests are either met or do not apply. If NO, STOP. You cannot claim this person as a dependent.

**TABLE 2 Test for Support of Child by Divorced or Separated Taxpayers**

Step 6: Were the parents of the child ever married?	If YES, go to Step 7. If NO, use TABLE 1, Test for Support by Taxpayers Not Divorced or Separated. Go to Step 1.
Step 7: Were the parents divorced or legally separated, separated under a written agreement, or did they live apart the last 6 months of the year?	If YES, go to Step 8. If NO, use TABLE 1, Test for Support by Taxpayers Not Divorced or Separated. Go to Step 1.
Step 8: Did one or both parents provide more than half the child's total support?	If YES, go to Step 9. If NO, use TABLE 1, Test for Support by Taxpayers Not Divorced or Separated. Go to Step 1.
Step 9: Did one or both parents have custody of the child for more than half the calendar year?	If YES, go to Step 10. If NO, use TABLE 1, Test for Support by Taxpayers Not Divorced or Separated. Go to Step 1.
Step 10: Did you have custody of the child for more than half the calendar year?	If YES, go to Step 11. If NO, go to Step 12.
Step 11: Did you sign a Form 8332 or similar statement releasing the exemption?	If YES, STOP. You cannot claim this person as a dependent. If NO, the person meets the Support Test and qualifies as a dependent since all 5 tests are either met or do not apply.
Step 12: Did the custodial parent provide you with a signed Form 8332 or similar statement releasing the exemption?	If YES, the person meets the Support Test and qualifies as a dependent since all 5 tests are either met or do not apply. If NO, STOP. You cannot claim this person as a dependent.





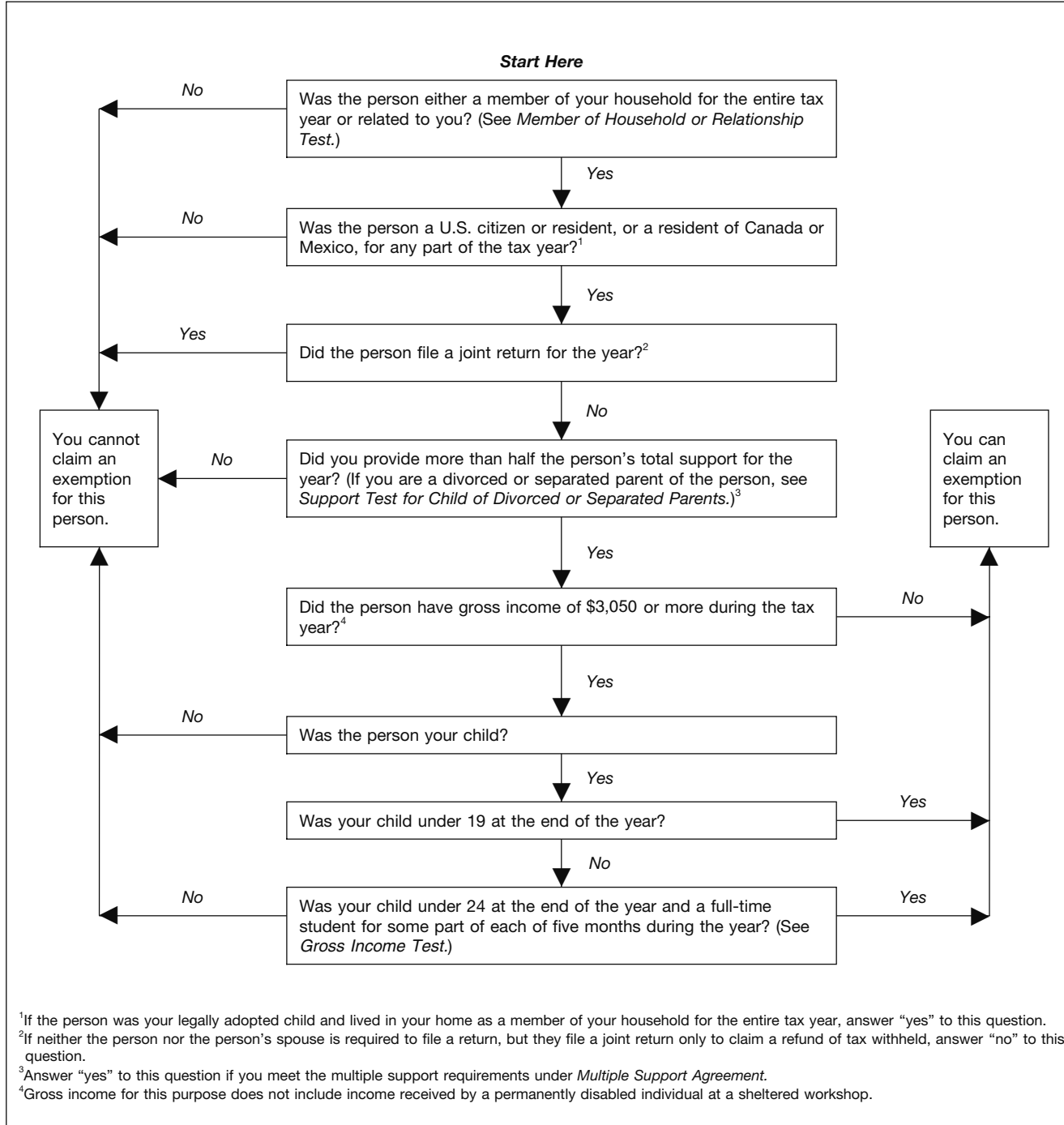
## DETERMINING THE NUMBER OF EXEMPTIONS TO CLAIM

When determining the number of exemptions to claim, first look at the personal exemptions and then review each of the tests for dependency exemptions. There are many factors to consider as well as several major exceptions.

**REMEMBER: Do not claim an exemption for a person who can be claimed on another return.**

**Exhibit 5**

Can You Claim an Exemption for a Dependent?



# COMPLETING THE EXEMPTION SECTION OF FORMS 1040A AND 1040

Exemptions are claimed on lines 6a through 6d. The taxpayer's personal exemption is claimed on line 6a. The personal exemption for the taxpayer's spouse is claimed on line 6b. The total of lines 6a and 6b is entered on the line in the right-hand margin. The dependency exemptions are claimed on line 6c. The columns on line 6c are self explanatory. In column 3, enter the specific relationship for each dependent: son, daughter, grandson, granddaughter, etc. Column 4 is checked if the taxpayer's dependent is also a qualifying child for the child tax credit (see lesson 11). The line 6c exemptions are totaled on the three right-hand-margin lines that relate to:

- Children who lived with the taxpayer,
- Children who did not live with the taxpayer due to divorce or separation, and
- Other dependents not entered on the lines above.

Line 6d shows the total number of exemptions (See Exhibit 6).

Exhibit 6

Form 1040/1040A, page 1

Exemptions		6a <input checked="" type="checkbox"/> Yourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, <b>do not</b> check box 6a.				No. of boxes checked on 6a and 6b
		b <input checked="" type="checkbox"/> Spouse				
c Dependents:		(1) First name		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 25)
		Last name				
If more than six dependents, see page 24.	James Nicholson		000:00:3333	son	<input checked="" type="checkbox"/>	No. of children on 6c who: ● lived with you
					<input type="checkbox"/>	
					<input type="checkbox"/>	● did not live with you due to divorce or separation (see page 26)
					<input type="checkbox"/>	
					<input type="checkbox"/>	
				<input type="checkbox"/>	Dependents on 6c not entered above	
				<input type="checkbox"/>	Add numbers on lines above	
				<input type="checkbox"/>	3	
		d Total number of exemptions claimed.				

If you are claiming Child Tax Credit (CTC), Earned Income Credit, and/or Dependent Care (DC), you must enter the date of birth for qualifying children and "X" the EIC and/or DC box(es). CTC is automatically calculated for you.

**▶▶ Summing Up This Section ◀◀**

There are two types of exemptions: personal and dependency. Each exemption reduces taxable income by \$3,100 in 2004.

A personal exemption can be claimed for a taxpayer and spouse if neither the taxpayer nor the spouse can be claimed on another taxpayer's return.

To claim a dependency exemption, the dependent must meet all of 5 tests.

1. The Member of Household or Relationship Test.
2. The Citizen or Resident Test.
3. The Joint Return Test.
4. The Gross Income Test.
5. The Support Test.

There are two exceptions to the gross income test.

- ▶ Taxpayers' children under age 19.
- ▶ Taxpayers' children under age 24 who are full-time students.

There are two exceptions to the support test.

- ▶ The multiple-support agreement.
- ▶ Children of divorced or separated parents.

## Exercises

1. Janice is 18 years old and a full-time student. She can be claimed as a dependent on her parents' tax return. Janice will file Form 1040EZ to report income from her summer job. How many personal exemptions can Janice claim on her return?  
\_\_\_\_\_
2. Tom Brown supports his wife's uncle, Jim (her mother's brother), who lives in another city. The Browns file a joint return. Can the Browns claim Jim as a dependent if all other tests are met?  
\_\_\_\_\_
3. Ruth filed a joint return with her husband whom she married in November. They claimed two personal exemptions on their return. Ruth had no income; her husband had \$10,600 income. Can Ruth's father, who supported her and paid for the wedding, claim her as a dependent on his return? \_\_\_\_\_
4. Joe is 65 years old and lives with his son and daughter-in-law. In 2004, Joe's taxable pension income was \$4,700. Can Joe's son and daughter-in-law claim a dependency exemption for Joe if all other tests are met? \_\_\_\_\_
5. Randy's son, Paul, earned \$4,300 last year. Paul is 18 years old and started college in September 2004. Is the gross income test met? \_\_\_\_\_
6. Traci's mother received \$3,500 in social security payments and \$600 in interest. Traci paid \$1,500 for her food and \$500 for her medical bills. Her mother paid \$2,400 for lodging, \$300 for recreation, \$150 for clothes, \$100 for transportation, \$400 for life insurance premiums, and \$200 for a television set.
  - A. What is the total support for Traci's mother? \_\_\_\_\_
  - B. How much did Traci contribute toward her mother's support?  
\_\_\_\_\_
  - C. How much did Traci's mother contribute toward her support?  
\_\_\_\_\_
  - D. Can Traci claim a dependency exemption for her mother?  
\_\_\_\_\_
7. Mrs. Wiley has three children, Mark, Tim, and Mary. Each child contributes toward Mrs. Wiley's support. Mark provides 45 percent, Tim, 35 percent, and Mary, 10 percent.
  - A. Which, if any, of her children can claim a dependency exemption for Mrs. Wiley under a multiple-support agreement?  
\_\_\_\_\_
  - B. If Mark is to claim the dependency exemption, who must sign a statement waiving his/her right to claim Mrs. Wiley as a dependent? \_\_\_\_\_
8. Under the terms of Peter's pre-1985 divorce decree, his former wife has custody of their child. The decree states that Peter can claim the exemption. He provided \$700 toward the child's support. Can he claim the exemption? \_\_\_\_\_

**Exercise 1**

0

**Exercise 2**

Yes; Jim is related by blood to Mrs. Brown.

**Exercise 3**

No, the husband has a filing requirement

**Exercise 4**

No; His gross income equals or exceeds the exemption amount of \$3,150.

**Exercise 5**

Yes; Paul is under the age of 19.

**Exercise 6**

- A. \$5,150 ( $\$1,500 + \$500 + \$2,400 + \$300 + \$150 + \$100 + \$200$ )  
Note that life insurance premiums are not considered support.
- B. \$2,000 ( $\$1,500 + \$500$ )
- C. \$3,150 ( $\$2,400 + \$300 + \$150 + \$100 + \$200$ ) Note that life insurance premiums are not considered support.
- D. No; she did not pass the Gross Income Test.

**Exercise 7**

- A. Mark or Tim are eligible to claim the exemption. Both provide more than 10 percent of Mrs. Wiley's support. Mary is not eligible since she does not provide more than 10 percent of the support.
- B. Only Tim must sign. Mary is not eligible to take the exemption. Therefore, she does not have to sign a waiver.

**Exercise 8**

Yes; Peter provided at least \$600 in support.

**STUDENT NOTES**

Lined writing area for student notes.

**STUDENT NOTES**



### LESSON OVERVIEW AND OBJECTIVES

In this lesson you will learn how to determine the correct filing status to use when completing a tax return. You will also learn how to establish whether there is a filing requirement and which tax form to use. You must choose the correct filing status before you can determine if there is a filing requirement. The filing status is also used to determine whether you are eligible to claim certain deductions and credits.

After completing this lesson you should be able to:

- 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.

See Appendix B for suggested class schedules and approximate teaching times.

### TRAINING MATERIALS AND ON-SITE REFERENCE GUIDE

This lesson will refer to the following IRS publications and forms. If you would like to provide your students with the most current revision of the publications or forms, you can download the files from [www.irs.gov](http://www.irs.gov).

- Form 1040A and Form 1040, *Filing Status* section

### LESSON REVIEW - FILING STATUS

1. Students may wonder when spouses filing separately can achieve a lower tax. If one spouse has high medical or miscellaneous expenses or large casualty losses, for example, separate returns may result in lower taxes because a lower adjusted gross income allows more expenses or losses to be deducted.
2. Students may wonder which absences qualify as “temporary” in determining head of household filing status. Remind them that temporary absences include those that are for school, vacation, illness, business, or military service.

#### ALERT



Publication 4012, Volunteer Resource Guide has helpful charts and interview questions to assist you in determining the correct filing status.

## **GUIDED QUESTIONS - FILING STATUS**

- 1. Is married filing jointly the only status available to spouses?** (No; they can file married filing separately.)
- 2. Can a married couple file separate returns even if one spouse had no income?** (Yes)
- 3. If a married couple files separately, can only one spouse itemize deductions?** (No; if one itemizes, the other must itemize because he or she cannot take the standard deduction.)
- 4. Must the person who qualifies the taxpayer as head of household be claimed as the taxpayer's dependent?** (Yes, unless the person is the taxpayer's child—with some exceptions.)

## **TEACHING TIPS - FILING STATUS**

- Review with students, from the earlier discussion of the head of household status, which individuals qualify as a “child.” Included are a natural child, a grandchild, a stepchild, and an adopted child. Explain that each of these individuals also qualifies as a “child” when determining qualifying widow(er) with dependent child filing status.
- Remind students that this filing status is only available for 2 years following the year of death of the spouse.
- The material in this section deals with the surviving spouse's return. However, volunteers should know that a tax return must sometimes be filed on behalf of a deceased person. If the surviving spouse files a joint return with the deceased spouse for the year of death, a separate return is not required for the deceased spouse. A tax return must be filed on behalf of any other deceased taxpayer whose income exceeded the limits outlined in this Lesson. See Publication 559, *Survivors, Executors, and Administrators*, for more information.

## **GUIDED QUESTIONS - HEAD OF HOUSEHOLD**

- 1. For a relative to qualify a taxpayer for the head of household filing status, how long must the taxpayer's home be the main home of the relative?** (More than half the year.)
- 2. What happens when the name of the qualifying person is not entered on a head of household return?** (The IRS will delay processing the return and correspond with the taxpayer because the return cannot be processed without this information. See the Tax Tips feature in the student text.)



## **GUIDED QUESTIONS - FILING STATUS - WIDOW(ER)**

- 1. What information must you know in order to determine if a widow or widower can use the qualifying widow(er) with dependent child filing status?** (The year the spouse died; whether or not the taxpayer was entitled to file a joint return for the year that the spouse died; and whether or not the taxpayer has furnished over half the cost for the year of keeping up the main home of a child, foster child, stepchild, or adopted child, who qualified as the taxpayer's dependent.)
- 2. If a taxpayer has not remarried, is there a limit to the number of years after the death of a spouse that he or she may use the qualifying widow(er) with dependent child filing status?** (Yes; the taxpayer can only use the qualifying widow(er) status for the two years following the year of death; if all other qualifications are met.)

## **GUIDED QUESTIONS - FILING STATUS**

- 1. Why is it important to select the correct filing status?** (Because the filing status factors in how much tax will be due.)
- 2. What two filing statuses generally yield the lowest tax due?** (Married filing jointly and qualifying widow(er) with dependent child.)
- 3. Do filing statuses vary depending on the tax form?** (No.)
- 4. When a taxpayer is eligible for more than one filing status, which status do you select?** (You recommend the taxpayer select the one that yields the lowest tax.)

## **TEACHING TIPS - RELATED PUBLICATIONS**

Remind students that Publication 17, Your Federal Income Tax, and Publication 501, Exemptions, Standard Deduction, and Filing Information are excellent tools to assist with determining filing status.

## **GUIDED QUESTIONS - WHO MUST FILE**

- 1. What information must a volunteer have in order to determine if an individual must file a tax return?** (The individual's filing status, age, gross income, and type of income are needed. The volunteer must also determine: if some of the income is excludable, whether the individual can be claimed as a dependent on another tax return, if the individual is blind, and whether the individual received advance earned income credit payments.)
- 2. With which group of individuals should volunteers use Chart A—For Most People?** (Individuals who cannot be claimed as a dependent on another taxpayer's return.)

3. **What chart should be used with all individuals, regardless of their dependency status?** (*Chart C—Other Situations When You Must File.*)
4. **Direct students’ attention to Chart A—For Most People, and ask, “How does the information in the right-hand column determine if an individual must file?”** (If the individual’s gross income is at least the amount listed in the right-hand column, the individual must file a return.)
5. **What charts and checklists apply specifically to individuals who can be claimed as a dependent on another taxpayer’s return?** (*Chart B—For Children and Other Dependents, and Dependents Who Must or Should File a Return.*)

### LESSON REVIEW - BLIND DEPENDENTS

1. Students may ask whether a single individual who is blind (and can be claimed as a dependent) must also be 65 years or older to use the *Standard Deduction Chart for People Age 65 or Older or Blind* in the form instructions. Review Form 1040 (or Form 1040A) and its instructions to help students understand that if a taxpayer is EITHER blind or 65 or older, the *Standard Deduction Chart for People Age 65 or Older or Blind* must be used. Review also the *Standard Deduction Worksheet for Dependents* (in the instructions) that is used if the taxpayer is a dependent.
2. Point out to students that “blindness” may not be a simple determination. Individuals whose sight is not better than 20/200 in their best eye while wearing contact lenses or glasses, or whose field of vision is 20 degrees or less, might be legally blind. Remind students that determining if an individual is legally blind requires volunteers to use some of their effective interviewing skills.
3. Remind students to appropriately complete the age/blindness boxes on the tax return. Stress to students that quality-review checks revealed that the failure to complete the age/blindness indicator was one of the most frequent errors.

Also stress that if any of these boxes are checked, the *Standard Deduction Chart for People Age 65 or Older or Blind* must be used. If the taxpayer is also a dependent, use the *Standard Deduction Worksheet for Dependents*. The chart and the worksheet are both in the form 1040 instructions.

### TEACHING TIPS - TAX TERMS AND WHO MUST FILE

1. Despite the advice given in the student text, some students will insist that it is important for them to know the meanings of *all* the unfamiliar tax terms NOW.



Explain that, just as taxpayers will have to trust the students' expertise when they assist them, you are asking students to trust you. Assure them that they can accomplish the objectives of this lesson quite successfully without understanding the meaning of the vocabulary in question.

2. As you lead students in using the charts to determine whether an individual **MUST** or **SHOULD** file a return, think of how we interchangeably use the words *must* and *should* in everyday speech. For the purposes of tax assistance situations, it is important that students recognize and respect the different implications of these words for taxpayers. As you conduct in-class discussions, listen carefully to make certain that your students are using the words in the correct context.

### ***GUIDED QUESTIONS - FILING REQUIREMENTS***

1. **In what situation should a dependent be required to file a tax return, although Chart B may indicate that he or she does not have to file?** (A married dependent with at least \$5 of income whose spouse itemizes deductions on a separate return; a dependent with at least \$400 of net self-employment income; and a dependent who is not required to file but had income tax withheld.)
2. **What is *self-employment income*?** (Earned income from farming or a trade, business, or other profession that is not paid by an employer.)
3. **What chart should you use as a last step in determining who must file?** (*Chart C—Other Situations When You Must File.*)
4. **In what three instances should an individual file a return, even if the charts noted in this lesson indicate that filing is not necessary?** (To claim a refund of withheld taxes, to claim the earned income credit, and to claim the additional child tax credit.)



**STUDENT NOTES**

Lined area for student notes, consisting of approximately 25 horizontal lines and a vertical margin line on the left side.



# Filing Status and Filing Requirements

## INTRODUCTION AND OBJECTIVES

In this lesson you will learn how to determine the correct filing status to use when completing a tax return. You will also learn how to establish whether there is a filing requirement and which tax form to use. You must choose the correct filing status before you can determine if there is a filing requirement. The filing status is also used to determine whether the taxpayer is eligible to claim certain deductions and credits.

After completing this lesson you should be able to:

- 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.

## FILING STATUS

There are five filing statuses:

1. Single
2. Married filing jointly
3. Married filing separately
4. Head of household, and
5. Qualifying widow(er) with dependent child

In general, the taxpayer's filing status depends on whether they are considered unmarried or married. Determining the appropriate filing status is critical to accuracy of the taxpayer's return.

## SINGLE

A taxpayer is considered **single** if, on the last day of the year, either of the following is true.

- The taxpayer was never married.
- The taxpayer was legally separated, according to state law, under a decree of divorce or separate maintenance.

A taxpayer can also be considered **single** if the taxpayer was widowed before January 1, 2004, and did not remarry in 2004. However, the taxpayer may be able to use another filing status that will give a lower tax. See *Head of Household* and *Qualifying Widow(er) with Dependent Child*, later.

## MARRIED FILING A JOINT RETURN

Taxpayers may use the **married filing jointly** status if they are married. They are considered married if, on the last day of the year, one of the following applies:

- They are married and live together as husband and wife.
- They live together in a common-law marriage recognized in the state where they now live or in the state where the common-law marriage began.
- They are married and live apart but are not legally separated under a decree of divorce or separate maintenance.
- They are separated under an interlocutory (not final) divorce decree.
- The taxpayer's spouse died during the year and the taxpayer has not remarried.

If taxpayers file a joint return, combine the husband's and wife's tax items (for example, income) on the same return. Both the husband and wife must sign the return and both are responsible for any tax owed on that return. Taxpayers can choose the married filing joint status even if only one spouse has income.

Taxpayers filing a joint return generally have a lower tax than their combined tax for any other filing status.

### POTENTIAL PITFALLS



A common-law marriage is recognized for federal tax purposes if the marriage is recognized by the state where the taxpayers now live or in the state in which the common-law marriage was entered. Legal advice may be required to determine if a common-law marriage exists.



## **MARRIED FILING A SEPARATE RETURN**

Taxpayers who are married may choose to file separately. The husband and wife report their own incomes and deductions on separate returns. Taxpayers may choose the **married filing separately** status even if one spouse had no income.

If the taxpayers live in a community property state, they must follow state law to determine their separate income. For more information, see Publication 555, *Community Property*.

If a married couple files separately and one spouse itemizes deductions, the other spouse must also itemize deductions because he or she cannot take the standard deduction. See Lesson 5 for more information on itemized deductions.

Taxpayers filing separate returns generally have a higher tax than when filing jointly. Occasionally, however, separate returns may result in a lower tax. If you think this might be the case, compute the tax liability for (a) married filing jointly and (b) married filing separately. Choose the filing status that results in the lower tax.

When a married taxpayer files separately, the taxpayer must show his or her spouse's name and social security number on the return in the label section or line 3.

## **HEAD OF HOUSEHOLD**

In general, the **head of household** status is for unmarried taxpayers (or those considered unmarried) who pay more than half the cost of keeping up a home for a qualified relative during the year.

Generally, taxpayers who file under the **head of household** filing status have a lower tax than if they file as single. If they qualify, taxpayers should use the head of household status instead of the single status.

### **Head of Household Qualifications**

1. The taxpayer must be unmarried (single, divorced, or legally separated) on the last day of the year

OR

The taxpayer must meet the tests for married persons living apart with dependent children (explained later in this lesson)

AND

2. The taxpayer must have paid more than half the cost of keeping up a home that was the main home for more than half the year (except for temporary absences) of any of the following:

- A. The taxpayer's unmarried child who must have lived with the taxpayer but does not have to have been the taxpayer's dependent,
- B. The taxpayer's foster child who must have lived with the taxpayer and must have been the taxpayer's dependent, the entire year, or
- C. Only the relatives listed at the end of this discussion that lived with the taxpayer and who were the taxpayer's dependents.

**EXCEPTION:** The taxpayer may claim head of household filing status if the taxpayer's parent is claimed as a dependent, even if the parent does not live with the taxpayer. However, the taxpayer must pay more than half the cost of maintaining the parent's home for the entire year.

- D. The taxpayer's married child—who must have lived with the taxpayer and who must have been the taxpayer's dependent unless:

- The child is not a dependent because the taxpayer signed a written declaration allowing the noncustodial parent to claim the child as a dependent, or
- The child is not a dependent because the noncustodial parent provides at least \$600 of support for the child and claims the child as a dependent under a pre-1985 divorce decree or agreement.

## ALERT



A foster child must live with the taxpayer for the entire year to qualify as a dependent.

“Child” includes:

- Grandchild; stepchild; adopted child

“Relative” includes:

- Parent, grandparent
- Brother, sister, stepbrother, stepsister
- Half brother, half sister
- Stepmother, stepfather
- Mother-in-law, father-in-law
- Brother-in-law, sister-in-law
- Son-in-law, daughter-in-law

AND (if related by blood)

- Uncle, or aunt, nephew, or niece

“Relative” does not include cousins and more distant relatives.

## Keeping Up the Home

The taxpayer must pay more than half the cost of keeping up the home. The cost of keeping up a home includes: rent, mortgage interest, real estate taxes, insurance on the home, repairs, utilities, domestic help, and food eaten in the home. Welfare payments are not considered amounts that the taxpayer furnishes to keep up a home.

The home must have been the main home for more than half the year except for temporary absences. Temporary absences include those for school, vacation, illness, business, or military service.

The following chart may help you decide who is eligible to claim head of household filing status.

**Exhibit 1**

<b>Qualifying Relations for Head of Household</b>		
<b>Relationship to Taxpayer</b>	<b>Must Live with Taxpayer?</b>	<b>Must be Taxpayer's Dependent?</b>
<b>1. Unmarried child, grandchild, or step child</b>	Yes	No
<b>2. Married child, grandchild, or step child</b>	Yes	Yes*
<b>3. Foster child</b>	Yes***	Yes
<b>4. Mother or father</b>	No	Yes
<b>5. Other relatives</b>	Yes**	Yes
<b>Exceptions:</b>		
* The married child does not have to be the taxpayer's dependent if a noncustodial parent claims the child as a dependent under the rules for children of divorced or separated parents.		
** Cousins and more distant relatives do not qualify as "relatives" in determining head of household status.		
NOTE: The taxpayer's home must be the main home of the relative for more than half the year. The relative cannot be a person who files a joint return.		
***The foster child must live with the taxpayer for the entire year.		

## Married Persons Living Apart With Dependent Children

Some married taxpayers who live apart from their spouses may be considered unmarried for tax purposes. If so, these taxpayers are permitted to file as head of household and receive the benefit of lower tax amounts.

A married taxpayer can file as head of household if:

1. The taxpayer files a separate return,
2. The taxpayer paid more than half the cost of keeping up his or her home for the year,
3. The taxpayer's spouse did not live in the home during the last six months of the year,
4. The taxpayer's home was the main home of the taxpayer's child, stepchild, or adopted child for more than half of the year or of the taxpayer's foster child for the entire year, and
5. The taxpayer claims the child, stepchild, adopted child, or foster child as a dependent, unless one of the following exceptions for divorced or separated parents applies:
  - the taxpayer signed a statement allowing the noncustodial parent to claim the child as a dependent, or
  - the noncustodial parent provided at least \$600 for the child's support and can claim the dependent under a pre-1985 agreement.

## Reporting Head of Household Filing Status

Taxpayers must enter the name of the person who qualifies them for the head of household status. If the person is a dependent, enter the dependent's name on line 6c of the exemption section of the tax return. If the qualifying person is not a dependent, enter the name of the nondependent person on line 4 in the filing status section of the tax return.

### Example 4

Darlisa is divorced and provided over half the cost of keeping up a home. Her five-year-old daughter, Pam, lived with her for seven months last year. Darlisa does not claim Pam as a dependent; her ex-husband does.

Darlisa may use head of household status. Darlisa must write Pam's name in the space on Form 1040 or 1040A, on line 4.

### Exhibit 2

Samantha's Form 1040A, page 1

<b>Filing status</b>	1 <input type="checkbox"/> Single	4 <input checked="" type="checkbox"/> Head of household (with qualifying person). (See page 23.)
	2 <input type="checkbox"/> Married filing jointly (even if only one had income)	If the qualifying person is a child but not your dependent, enter this child's name here. ► <u>Pam</u>
	3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ► _____	5 <input type="checkbox"/> Qualifying widow(er) with dependent child (year spouse died ► _____). (See page 24.)
	Check only one box.	

## **QUALIFYING WIDOW(ER) WITH DEPENDENT CHILD**

A widow or widower, with one or more dependent children, may be able to use the **qualifying widow(er)** with dependent child filing status. This filing status yields the lowest tax rate (the same tax for married filing jointly).

If the taxpayer's spouse died during 2002 or 2003 and the taxpayer did not remarry before the end of 2004, the taxpayer may be able to file as a qualifying widow(er) with dependent child. To qualify, the taxpayer must:

- Have been entitled to file a joint return for the year the spouse died (it does not matter whether or not a joint return was actually filed),

AND

- Have a child, foster child, adopted child, or stepchild who qualifies as the taxpayer's dependent for the year,

AND

- Have furnished over half the cost of keeping up a home that was the main home of the child for the entire year.

An "adopted child" includes a child placed with the taxpayer by an authorized placement agency for legal adoption.

Social Security survivor benefits received on behalf of the child are considered to be amounts furnished by the child, not by the parent.

In the year a taxpayer's spouse dies, if the taxpayer does not remarry, he or she can use the married filing jointly filing status or married filing separately filing status and can claim an exemption for the deceased spouse. For two years after the year of death, the taxpayer may file as a qualifying widow(er) with dependent child, but may not claim an exemption for the deceased spouse. After the second year following the year of death, the taxpayer can no longer use the qualifying widow(er) filing status. The taxpayer may use either the head of household or single filing status depending on his or her situation then.

The following chart may help you decide which filing status to use for a taxpayer with a qualifying dependent if the spouse is deceased and the taxpayer has not remarried.

**Exhibit 3**

<b>Filing Status After Death of Spouse</b>		
<b>Tax Year</b>	<b>Filing Status</b>	<b>Exemption for Deceased Spouse?</b>
<b>1. Year of Death</b>	Married (joint) OR Married (separate)	Yes Yes
<b>2. First Year after death</b>	Qualifying widow(er)*	No
<b>3. Second year after death</b>	Qualifying widow(er)*	No
<b>4. After the second year after death</b>	Head of household** OR Single	No No
* With a qualifying dependent.		
** With a qualifying relative.		

You may find the flowchart shown in Exhibit 4 helpful in determining the correct filing status. It has some of the same questions as shown in the Interview Tips on the following page.

## INTERVIEW TIPS

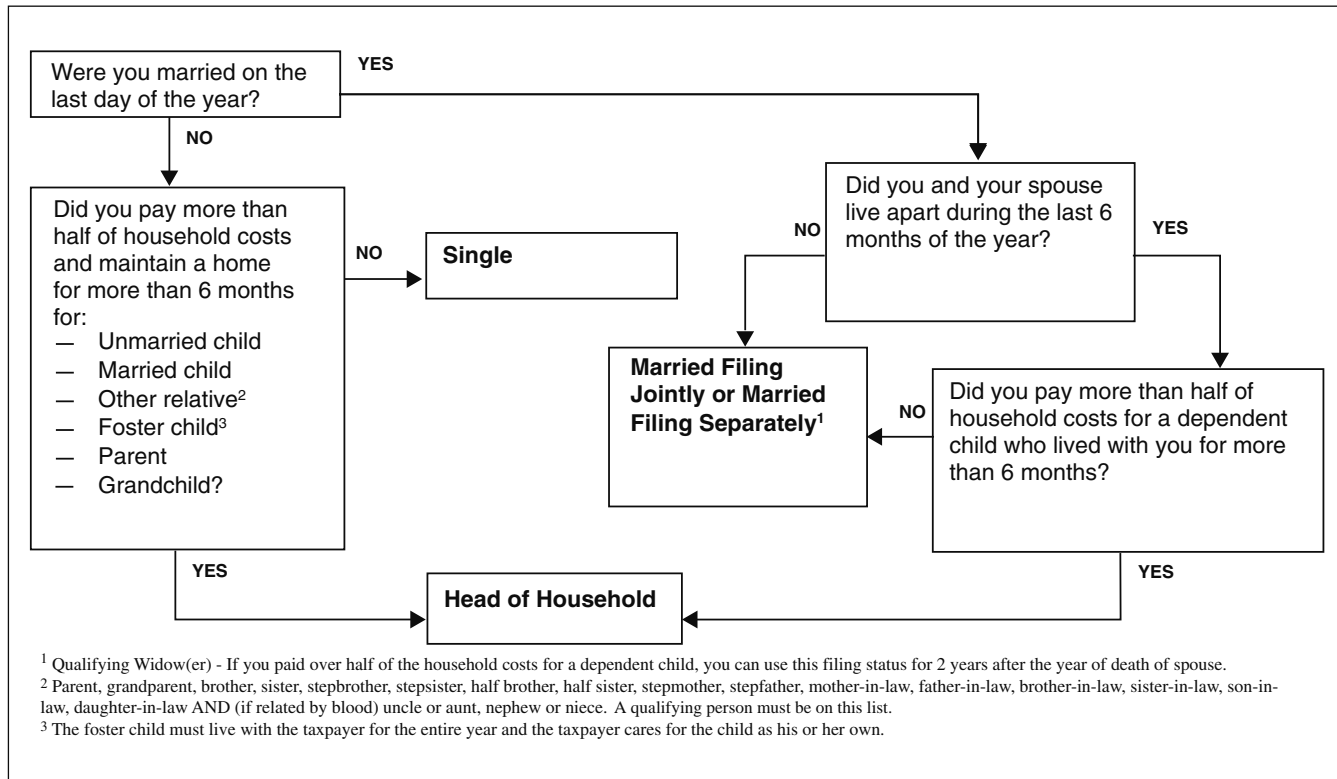


### Filing Status

#### **Probe/Action: Ask the taxpayer:**

<p>Step 1: Were you considered married as a legal union between a man and a woman as husband and wife on December 31st of the tax year (answer yes if state common law rules met)?</p>	<p>If <b>YES</b>, go to Step 2. If <b>NO</b>, go to Step 5.</p>
<p>Step 2: Do you and your spouse wish to file a joint return?</p>	<p>If <b>YES</b>, STOP. Your filing status is <b>Married Filing Jointly</b>. If <b>NO</b>, go to Step 3.</p>
<p>Step 3: Did you have a child living in your home during the tax year?</p>	<p>If <b>YES</b>, go to Step 4. If <b>NO</b>, STOP. Your filing status is <b>Married Filing Separately</b>.</p>
<p>Step 4: Can you be considered unmarried?</p> <ul style="list-style-type: none"> <li>■ You file a separate return</li> <li>■ Paid more than half the cost of keeping up a main home</li> <li>■ Your spouse did not live in your home during the last 6 months (including temporary absences) of the tax year</li> <li>■ Your home was the main home of your child, stepchild, or adopted child for more than half the year or was the main home of your foster child for the entire year</li> <li>■ You must be able to claim an exemption for the child (Exception – non-custodial parent correctly claims exemption)</li> </ul>	<p>If <b>YES</b>, STOP. Your filing status is <b>Head of Household</b>. If <b>NO</b>, STOP. Your filing status is <b>Married Filing Separately</b>.</p>
<p>Step 5: Did your spouse die in 2002 or 2003?</p>	<p>If <b>YES</b>, go to Step 6. If <b>NO</b>, go to Step 7.</p>
<p>Step 6: Can you be considered a qualifying widow(er) with a dependent child?</p> <ul style="list-style-type: none"> <li>■ You were entitled to file a joint return with your spouse for the year your spouse died</li> <li>■ You did not remarry before the end of this tax year</li> <li>■ You have a dependent child you can claim as an exemption</li> <li>■ You paid more than half the cost of keeping up a main home for you and that child for the entire year</li> </ul>	<p>If <b>YES</b>, STOP. Your filing status is <b>Qualifying Widow(er) with Dependent Child</b>. If <b>NO</b>, go to Step 7.</p>
<p>Step 7: Do you have a qualifying person for Head of Household Filing status?</p> <ul style="list-style-type: none"> <li>■ You paid more than half the cost of keeping up a main home</li> <li>■ A qualifying person* lived with you more than half the year (Exception for dependent parent, foster child, and kidnapped child)</li> </ul>	<p>If <b>YES</b>, STOP. Your filing status is <b>Head of Household</b>. If <b>NO</b>, STOP. Your filing status is Single.</p>

\*See Exhibit 4, footnote 2, for a list of qualifying persons.





When using TaxWise to prepare a tax return, you will need to have the Social Security Number of anyone who qualifies the taxpayer for Head of Household filing status and is not the taxpayer's dependent.

For Qualifying Widow(er) filing status, you must enter the year of death of the deceased spouse.

For Married Filing Separate status, you will need the spouse's full name and Social Security number.

### ►► Summing Up This Section ◀◀

When completing their tax returns, taxpayers can use one of five filing statuses:

#### **Tax Status**

**(from lowest tax to highest tax)**

1. Married filing jointly\*
2. Qualifying widow(er) with dependent child\*
3. Head of household
4. Single
5. Married filing separately

\* Numbers 1 and 2 yield the same (lowest) tax.

Filing status is indicated on lines 1 through 5 of Forms 1040A and 1040. Selecting the correct filing status is one of the most important aspects of completing a tax return because the filing status factors in how much tax will be due. Remember that filing status requirements do not change, regardless of the tax form used. If a taxpayer is qualified to use more than one filing status, choose the one that will result in the lowest tax.

## Exercises

1. Carol and Roger were married in 2003. They are not divorced, but lived apart all of 2004. They are not legally separated under a decree of divorce or separate maintenance. They have no children. Can they use the married filing jointly status? \_\_\_\_\_
2. Martin does not know which filing status to use. You ask if he is married. He answers that he got divorced in December but supported his wife all year and has not remarried. Can Martin and his ex-wife file a joint return? \_\_\_\_\_
3. Ginger is single and paid more than half the cost of keeping up her home. Her grandmother lived with her all year. Ginger claims her grandmother as a dependent. What is Ginger's filing status? \_\_\_\_\_
4. Bill is single and lives alone. He paid over half the cost of maintaining a home for his father for the entire year. He claims his father as a dependent. What is Bill's filing status? \_\_\_\_\_
5. Franklin is single and lives alone. He paid over half the cost of maintaining a separate home for his father. He does not claim his father as a dependent. What is Franklin's filing status?  
\_\_\_\_\_
6. Mrs. Calvin tells you that she is divorced and that her 21-year-old unmarried son lived with her all year. She paid for their rent and food and provided over half of her son's total support. She cannot claim her son as a dependent because he earned \$4,000 and is not a student. Her son used his earnings to pay for his car, clothing, and entertainment. Can Mrs. Calvin file as head of household? \_\_\_\_\_
7. Kathy lived with her unemployed roommate, Sandra, for the entire year. Kathy had to pay more than half of the cost of keeping up their apartment. Can Kathy file as head of household?  
\_\_\_\_\_

8. Jack has lived apart from his wife for several years. Their children live with his wife but Jack pays over half the children's support. What filing status can Jack use? \_\_\_\_\_
9. Lily left her husband in August 2004. She took her children with her. She supported the children during all of 2004 and will claim them as dependents. Lily will not file a joint return with her husband. Which filing status should Lily use in 2004? \_\_\_\_
10. Rose and her husband separated in October 2004, but were still married on December 31, 2004. What filing status can she use?  
\_\_\_\_\_
11. Dick's wife died in 2002. Dick has not remarried. Dick provides all of the support for his two dependent children. What will be Dick's filing status for 2005? \_\_\_\_\_

**Exercise 1**

Yes

**Exercise 2**

No

**Exercise 3**

Head of household

**Exercise 4**

Head of household

**Exercise 5**

Single

**Exercise 6**

Yes

**Exercise 7**

No; Sandra is not a qualifying person.

**Exercise 8**

Married filing jointly or married filing separately.

**Exercise 9**

Married filing separately; she lived with her husband during part of the last six months of 2004.

**Exercise 10**

Either married filing jointly or married filing separately.

**Exercise 11**

Head of household; he could claim qualifying widower for 2003 and 2004 only.

# WHO MUST FILE—WHO SHOULD FILE

## WHO MUST FILE

To decide who must file a tax return, you will need to know the individual's:

- filing status,
- age,
- gross income,

and if:

- special taxes might be owed on different types of income,
- some of the income is excludable or exempt,
- the individual can be claimed as a dependent on another's tax return,
- the individual is blind, or
- the individual received advance earned income credit payments.

You may not be familiar with some of the terms used on the list. These terms will be explained in later lessons. For now, concentrate on learning how to use the charts and checklists.

## How to Use the Charts and Flowcharts

You will use a set of charts to determine who must file. An individual who cannot be claimed as a dependent on another tax-payer's return will use *Chart A—For Most People*. Based on the individual's circumstances, a person who can be claimed as a dependent on another taxpayer's return will use one of the other charts. *Chart C—Other Situations When You Must File* should be reviewed for every individual.

**Exhibit 5**

**POTENTIAL PITFALLS**



If a checklist or chart indicates that a person must file a return, he or she should do so even if no tax is owed. If a minor child must file a return but cannot do so, the child's parent or guardian must complete and sign a return for the child.

<b>Chart A—For Most People</b>		
<b>If your filing status is...</b>	<b>AND at the end of 2004 you were*</b>	<b>THEN file a return if your gross income** was at least...</b>
Single	Under 65	\$ 7,950
	65 or older	9,150
Married filing jointly***	under 65 (both spouses)	\$15,900
	65 or older (one spouse)	16,850
	65 or older (both spouses)	17,800
Married filing separately	Any age	\$ 3,100***
Head of household (see page 19)	Under age 65	\$10,250
	65 or older	11,450
Qualifying Widow(er) with dependent child (see page 19)	Under 65	\$12,800
	65 or older	13,750
<p>* If you turned age 65 on January 1, 2005, you are considered to be age 65 at the end of 2004</p> <p>** Gross Income means all income you received in the form of money, goods, property, and services that are not exempt from tax including any income from sources outside the United States (even if you may exclude part or all of it). Do not include social security benefits unless you are married filing a separate return and you lived with your spouse at any time in 2004.</p> <p>*** If you did not live with your spouse at the end of 2004 (or on the date your spouse died) and your gross income was at least \$3,100, you must file a return regardless of your age.</p>		

**Chart B—For Children and Other Dependents** (See the instructions for line 6c on page 18 to find out if someone can claim you as a dependent.)

If your parent (or someone else) can claim you as a dependent, use this chart to see if you must file a return. In this chart, **unearned income** includes taxable interest, ordinary dividends, and capital gain distributions. **Earned income** includes wages, tips, and taxable scholarship and fellowship grants. **Gross income** is the total of your unearned and earned income.



*If your gross income was \$3,100 or more, you usually cannot be claimed as a dependent unless you were under age 19 at the end of 2004 or a student and under age 24 at the end of 2004. For details, see **Pub. 501**.*

**Single dependents.** Were you **either** age 65 or older **or** blind?

- No.** You must file a return if **any** of the following apply.
  - Your **unearned income** was over \$800.
  - Your **earned income** was over \$4,850.
  - Your **gross income** was more than the **larger** of —
    - \$800 or
    - Your earned income (up to \$4,600) plus \$250.
- Yes.** You must file a return if **any** of the following apply.
  - Your unearned income was over \$2,000 (\$3,200 if 65 or older **and** blind).
  - Your earned income was over \$6,050 (\$7,250 if 65 or older **and** blind).
  - Your gross income was more than —

<u>The larger of:</u>	<u>Plus</u>	<u>This amount:</u>
<ul style="list-style-type: none"> <li>• \$800 or</li> <li>• Your earned income (up to \$4,600) plus \$250</li> </ul>	}	\$1,200 (\$2,400 if 65 or older <b>and</b> blind)

**Married dependents.** Were you **either** age 65 or older **or** blind?

- No.** You must file a return if **any** of the following apply.
  - Your unearned income was over \$800.
  - Your earned income was over \$4,850.
  - Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
  - Your gross income was more than the **larger** of —
    - \$800 or
    - Your earned income (up to \$4,600) plus \$250.
- Yes.** You must file a return if **any** of the following apply.
  - Your unearned income was over \$1,750 (\$2,700 if 65 or older **and** blind).
  - Your earned income was over \$5,800 (\$6,750 if 65 or older **and** blind).
  - Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
  - Your gross income was more than —

<u>The larger of:</u>	<u>Plus</u>	<u>This amount:</u>
<ul style="list-style-type: none"> <li>• \$800 or</li> <li>• Your earned income (up to \$4,600) plus \$250</li> </ul>	}	\$950 (\$1,900 if 65 or older <b>and</b> blind)

## ***DEPENDENTS WHO MUST OR SHOULD FILE A RETURN—CHECKLIST***

The dependents listed in the following checklist must or should file a return.

### **Exhibit 7**

#### **Checklist—Children and Other Dependents**

- A married dependent with at least \$5 of income whose spouse itemizes deductions on a separate return on Form 1040 must file a return.
- A dependent with at least \$400 of net self-employment income must file a return. **Self-employment income** is earned income from a trade, business, farming or profession that is not paid by an employer. For example, seamstresses and lawn-care workers who work for themselves (and not for someone else) are considered self-employed.
- A dependent who is not required to file but had income tax withheld should file a return to get a refund.
- A dependent who has to pay a tax, such as the alternative minimum tax, must file a return.

## ***OTHER SITUATIONS***

Remember to review the *Chart C—Other Situations When You Must File* chart after you use the other charts.



### Chart C — Other Situations When You Must File

You must file a return if any of the four conditions below apply for 2004.

1. You owe any special taxes, such as:
  - Social security and Medicare tax on tips you did not report to your employer,
  - Uncollected social security and Medicare or RRTA tax on tips you reported to your employer or on group-term life insurance,
  - Alternative minimum tax,
  - Recapture taxes (see the instructions for lines 43 and 62 that begin on pages 33 and 40), or
  - Tax on a qualified plan, including an individual retirement arrangement (IRA), or other tax-favored account. But if you are filing a return only because you owe this tax, you can file Form 5329 by itself.
2. You received any advance earned income credit (EIC) payments from your employer. These payments are shown in box 9 of your Form W-2.
3. You had net earnings from self-employment of at least \$400.
4. You had wages of \$108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes.

### WHO SHOULD FILE A RETURN?

The charts, noted previously in this lesson, may indicate that an individual does not have to file a tax return. However, in three instances, individuals *should* file a return:

- to claim a refund of withheld taxes,
- to claim a earned income credit, and
- to claim the additional child tax credit.

### HELPING THOSE WHO DON'T NEED TO FILE

The Reduce Unnecessary Filing Program (RUF) is intended to help certain individuals determine their need to file a federal income tax return. Use Form 9452, *Filing Assistance Program Worksheet*, to help potential unnecessary filers determine whether or not they need to file.

Thank you for helping to save time and effort for your VITA and TCE clients and for helping to reduce the cost to all taxpayers of processing unnecessary returns by helping your clients with Form 9452 and related materials, as needed.

### TAXWISE HINT

After completing the tax return refer back to the Main Information screen and select the appropriate tax form.

▶▶ **SUMMING UP THIS SECTION** ◀◀

Use the charts provided in this section to determine who *must* and who *should* file a tax return.

**Exercises**

- 12.** Emily is married and has one dependent child. She has not lived with her husband since May and is head of household. She is under 65 and not blind. Her gross income from wages is \$15,000. Is she required to file a tax return? \_\_\_\_\_
- 13.** Larry and Zelda are married but will not file a joint return. Both are under 65 and not blind. Larry's gross income from wages is \$30,150. Zelda's gross income is \$3,500.
- A.** Is Larry required to file? \_\_\_\_\_
- B.** Is Zelda required to file? \_\_\_\_\_

# ***WHO MUST FILE WHO SHOULD FILE***

## ***ANSWERS TO EXERCISES***

### **Exercise 12**

Yes

### **Exercise 13**

A. Yes

B. Yes

# WHICH FORM TO USE?



## FORM 1040EZ

**Form 1040EZ** is for single and joint filers with no dependents. The form instructions booklet has a worksheet for taxpayers who can be claimed as dependents.

## FORM 1040A

**Form 1040A** is a two-page form. Page 1 of the form shows the filing status, exemptions, income, and adjusted gross income. Page 2 of the form shows the standard deduction, exemption amount, taxable income, tax, credits, payments, amount owed or refund, and signature. Form 1040A may have four schedules. Use **Schedule 1** to report interest and/or dividend income that is more than \$1,500. Use **Schedule 2** to report child and dependent care expenses and to figure the credit. Claim the credit for the elderly or the disabled on **Schedule 3**. This credit is explained in Lesson 6. If the taxpayer can take the earned income credit and has a qualifying child, use **Schedule EIC** to give information about that child. Schedule EIC is discussed and illustrated in Lesson 10.

## FORM 1040

**Form 1040** is a two-page form. Page 1 of the form shows the filing status, exemptions, income, and adjusted gross income. Page 2 shows the standard deduction or itemized deductions, the exemption amount, taxable income, tax, credits, other taxes, payments, and the amount owed or refund due.

IRS *e-file* offers quick and easy options to traditional paper returns. These options include filing electronically through an authorized tax practitioner, over the telephone, and by personal computer. For those expecting a refund, these options all offer Direct Deposit to a bank account. For those with a balance due, paying is made easier with the option of payment by credit card or a direct debit to their bank account.

Why *e-file*? Because IRS *e-file* makes filing faster and more accurate and gets the taxpayer their refund in half the usual time....even faster with Direct Deposit!

As a volunteer, you should become familiar with these options as there will be occasions when you are called upon to answer questions from taxpayers regarding one or more of them. You may even have the opportunity to volunteer at a VITA or TCE site that has been set up to offer electronic tax filing. If so, you will receive additional specialized training on using return preparation software and on other procedures unique to this type of site.

## TeleFile

Eligible 1040EZ filers, single or married filing jointly, who receive a TeleFile tax booklet and have the same address as the previous year, can file their federal income taxes by using a touch tone telephone and dialing a toll-free telephone number found in the tax booklet. (Note: Taxpayers in Georgia, Indiana, Kentucky, Maryland, Oklahoma, Oregon, or West Virginia have the option to TeleFile both their federal **and** state tax returns in the same toll-free telephone call.)

Here's how it works: the taxpayer completes the TeleFile Tax Record found in the booklet before making the call. The call, which prompts the taxpayer through recorded instructions, takes less than ten minutes. The TeleFile system calculates the tax and refund (or balance due) and then files the tax return. If the taxpayer requests Direct Deposit, a refund can be issued in as little as 10 days. **TeleFile is completely paperless; no forms are mailed to IRS, not even W-2s!** The taxpayer "signs" the return with a special Customer Service Number (CSN) provided in the booklet.

TeleFile is available 24 hours a day, seven days a week, through August 15. It is also available to users of TDD/TTY equipment. Credit card and direct debit payment options are available for balance due returns.

Because TeleFile is so easy to use, and because it is completely paperless, its use should be encouraged at every VITA and TCE site that encounters an eligible taxpayer with a TeleFile tax booklet. Even if there is no touch tone telephone available at the site, you should do everything possible to convince the taxpayer to file from home, or wherever a touch tone phone is available.

**STUDENT NOTES**

### LESSON OVERVIEW AND OBJECTIVES

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.

Approximately 1 1/2 to 3 hours should be devoted to covering the objectives of this lesson. See the Suggested Class Schedule (Appendix B) for additional information.

After completing this lesson each student should be able to:

- 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.

### TRAINING MATERIALS AND ON-SITE REFERENCE GUIDE

This lesson will refer to the following IRS publications and forms. If you would like to provide your students with the most current revision of the publications or forms, you can download the files from [www.irs.gov](http://www.irs.gov).

- Form W-2, *Wage and Tax Statement*
- Form 1099-INT, *Interest Income*
- Form 1099-DIV, *Dividends and Distributions*
- Form 1099-G, *Certain Government Payments*
- Form 1040 EZ and Instructions
- Form 1040A and Instructions
- Schedule 1 (Form 1040A)
- Form 1040 and Instructions
- Schedule B (Form 1040)
- Schedule C-EZ (Form 1040)
- Schedule SE (Form 1040)
- Form 4137, *Social Security and Medicare Tax on Unreported Tip Income*
- Form 4852, *Substitute for Form W-2 or Form 1099R*
- Publication 4012, *Volunteer Reference Guide* is included in each student training kit. The publication is designed for both classroom and actual site usage. Direct the student to the tab

“Income Section” for this lesson and make sure the student is aware of the content of the tab and how it should be used when assisting taxpayers.

### **TEACHING TIPS — TAXABLE AND NONTAXABLE INCOME**

If students have difficulty answering the Guided Questions, direct their attention to the lists of taxable and nontaxable income. Point out that the exceptions to taxable interest income are listed under nontaxable income. Review with students questions in 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.

### **TEACHING TIPS — EARNED INCOME**

1. Make students aware that if the taxpayer paid cash wages of \$1,400 or more for the year to an employee working in his or her home, the taxpayer must pay the taxes on the employee’s wages with Form 1040. Taxpayers in this situation should be advised to seek paid professional tax assistance and refer to Publication 926, *Household Employer’s Tax Guide*. This topic is beyond the scope of the VITA/TCE Program.
2. If the taxpayer was a household employee who did not receive a Form W-2 because he or she was paid less than \$1,400, the income must still be included on line 1 (Form 1040EZ), or line 7 (Form 1040A or 1040).
3. In past years, some household employees have reported their wages on Form 4137, *Social Security and Medicare Tax on Unreported Tip Income*, when a Form W-2 was not given to them by their employer. Instructors should reinforce that wages of household employees should not be reported on Form 4137.
4. If, after requesting a Form W-2 from the employer, the household employee does not receive a Form W-2, then he or she should file a Form 4852, *Substitute for Form W-2, Wage and Tax Statement* or Form 1099-R, *Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRA’s, Insurance Contracts, Etc.* Form 4852 is used only to meet the filing deadline. Instructors may want to review the Form 4852 with the students, using an overhead projector. Many students may not know of the use and availability of this form.

### **TEACHING TIPS — TAX-EXEMPT INTEREST**

1. 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.
2. Students should refer to a paid professional tax preparer any taxpayer who has OID income under either of these two situations: (1) the taxpayer bought the obligation after its original





issue or (2) the taxpayer did not hold the obligation all year. IRS Publication 550, *Investment Income and Expenses*, and Publication 1212, *List of Original Issue Discount Instruments*, provide useful information about OID income in these situations.

3. Direct students' attention to box 4 on Form 1099-INT. Ask students to name the section (Payments) and the line (63) of Form 1040 on which federal income tax withheld should be reported.
4. Ask students to give examples of tax-exempt interest that can be shown on line 8b of Forms 1040 or 1040A. Check their answers against the list of nontaxable income.

### **TEACHING TIPS — STATE AND LOCAL TAX REFUNDS**

1. Caution students not to assume that because there is an entry in box 2 of a taxpayer's Form 1099-G, they must automatically make an entry on line 10 of Form 1040.
2. Remind students that if a taxpayer did not itemize deductions on his or her 2003 return and received a refund of 2003 state or local tax, the taxpayer does not have to include the refund in taxable income in 2004.

### **TEACHING TIPS — INCOME FROM BUSINESS (OPTIONAL TOPIC)**

1. It is important to stress that taxpayers must keep records of all expenses claimed even though they do not have to be individually listed on Schedule C-EZ.
2. Taxpayers cannot take depreciation and standard mileage at the same time for business use of a car. If they decide to take depreciation instead of standard mileage, the volunteer should refer this taxpayer to a paid professional tax preparer.

### **GUIDED QUESTIONS**

1. **Differentiate between taxable and nontaxable income.** (**Taxable income** is any income that is subject to tax. It must be reported on a tax return, unless the individual is not required to file a return. **Nontaxable income** is income that is exempt from tax. If a return must be filed, some types of nontaxable income will be shown on the return but will not be subject to tax.)
2. **Although interest is generally considered taxable income, identify some types of interest that are not taxable.** (Interest from state and local bonds and qualified Series EE and/or I savings bonds used to pay for higher education expenses.)

- 3. 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.)
- 4. When are long-term obligations considered to be issued at a discount?**  
(When they pay no interest before maturity.)
- 5. Define Original Issue Discount.**  
(Original Issue Discount is the difference between the principal amount [redemption price at maturity] of a long-term debt instrument, such as a bond or note, and its issue price.)
- 6. How does a taxpayer report taxable interest income from long-term obligations that pay no interest until maturity?**  
(Taxpayers report as interest income the portion of the Original Issue Discount each year until the obligation matures.)
- 7. Compare the two forms (sent to the taxpayer and the IRS) that report interest income.**  
(Form 1099-INT, *Interest Income*, reports interest income of \$10 or more; Form 1099-OID, *Original Issue Discount*, reports the amount of Original Issue Discount income that a taxpayer should report as interest income for the year.)
- 8. What corporate distributions do VITA and TCE cover?**  
(Ordinary and qualified dividends and capital gain distributions.)
- 9. Which type of dividends can be reported on Form 1040A?**  
(Ordinary and qualified dividends.)
- 10. On what form is dividend income reported to the taxpayer and to the IRS?**  
(Form 1099-DIV.)
- 11. Where on Form 1040 or Form 1040A are ordinary dividends reported?**  
(If the amount in box 1 of Form 1099-DIV totals \$1500 or less, the total is entered on line 9a. If the amount totals more than \$1500, each amount is listed on Schedule B, Form 1040 or Schedule 1, Form 1040A, Part II.)
- 12. Where on Form 1040 or Form 1040A are capital gain distributions reported?**  
(Taxpayers who have capital gain distributions can file a Form 1040 or 1040A. Capital gain distributions are reported on line 13a of Form 1040 or line 10a of Form 1040A, if the taxpayer has only capital gain distributions as evidenced by an entry



in box 2a of the 1099-DIV. If the taxpayer has gains from the sale of assets or entries in boxes 2b, 2c, 2d, 3 or 6 through 9 the capital gain distribution is reported on line 13a of Schedule D.)

**13. Which taxpayers meet the qualifications to use Schedule C-EZ?**

(Refer to bulleted list under Who Can Use Schedule C-EZ.)

**14. Where can the taxpayer find the Principal Business Code?**

(In the instructions for Schedule C.)

**15. On which line of Form 1040EZ, Form 1040A, or Form 1040 is unemployment compensation reported?**

(Unemployment compensation paid from the Federal Unemployment Trust Fund is reported on line 3 of Form 1040EZ, line 13 of Form 1040A, or line 19 of Form 1040. Supplemental benefits provided from an employer's fund to which the employee did not contribute are reported on line 1 of Form 1040EZ or on line 7 of Form 1040A or 1040.)

**16. What form is sent to recipients of unemployment compensation?**

(Form 1099-G)

### ***LESSON REVIEW — EARNED INCOME***

1. Students may wonder what procedure to follow when a Form W-2C is received after the return is filed. Explain that the taxpayer must file an amended return (Form 1040X) and attach Form W-2C to it. Timing is important in filing an amended return, so the taxpayer should contact the IRS with any questions.

### ***LESSON REVIEW — TIP INCOME***

Since tips may be paid in the form of jewelry, tickets, or meals, students may ask how such tips can be reported as taxable income. Explain that the taxpayer should report the fair market value of the property received as a tip.

### ***LESSON REVIEW — TAXABLE INTEREST INCOME***

Series I Bonds are inflation-indexed bonds designed to protect the purchasing power of the investment by providing a rate of return over and above the rate of inflation.



## **LESSON REVIEW — INCOME FROM BUSINESS**

1. Remind students that Schedule C-EZ can only be used by a taxpayer who operates one business as a self-employed individual.
2. Individuals who have more than one business must file separate Schedule Cs but combine the income on one Schedule SE. These individuals should be referred to a paid professional tax preparer.
3. Remind students that one-half of the self-employment tax may be claimed as an adjustment to income on line 30 of Form 1040.



### INTRODUCTION AND OBJECTIVES

In this lesson you will learn to distinguish between taxable and nontaxable income. You will also learn where to report the different types of income. In addition, you will learn to make income entries on Forms 1040EZ, 1040A, and 1040.

This lesson will help you achieve the following 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.

### TAXABLE AND NONTAXABLE INCOME

**Taxable income** is any income that is subject to tax. It must be reported on a tax return, unless the amount is so small that the individual is not required to file a return.

The following types of income are taxable:

- Wages, salaries, bonuses, and commissions
- Certain fringe benefits
- Tips and other compensation for personal services
- Interest\*
- Dividends
- Refunds of state and local taxes\*\*
- Alimony received or separate maintenance payments received
- Business income
- Hobby income (a hobby loss is not deductible)
- Capital gains
- Gain from the sale of property
- Pensions and annuities (part may be nontaxable)
- IRA distributions (part or all may be nontaxable)
- Rents received
- Royalties

- Estate or trust income
- Supplemental unemployment benefits
- Unemployment compensation
- Railroad retirement benefits (part may be taxable)
- Social security benefits (part may be taxable)
- Jury duty pay
- Executors' fees
- Gambling winnings (including lotteries, contests, raffles, etc.)
- Nonqualifying scholarships and fellowships
- Payments for punitive damages and compensatory damages not attributable to physical injuries or sickness
- Certain long-term care benefits. If the taxpayer received copy B of Form 1099-LTC, refer him or her to a paid professional preparer because some of the benefits may be taxable.

\*Some interest is not taxable (for example, interest on certain state and local bonds and on qualified Series EE and Series I savings bonds used to pay for higher education expenses).

\*\*Refunds of state and local taxes are taxable only if the taxpayer itemized deductions in the year the taxes were paid and the individual's tax liability was REDUCED because of the deduction.

**Nontaxable income** is income that is exempt from tax. If a return must be filed, some types of nontaxable income will be shown on the return but will not be added into the amount of income subject to tax.

The following types of income are nontaxable:

- Child support
- Federal income tax refunds
- Certain dividends on life insurance
- Gifts, bequests, and inheritances (may be subject to other taxes)
- Insurance and certain other payments for physical injury and sickness
- Interest on certain Series EE and Series I savings bonds redeemed to pay for qualified higher education expenses
- Interest on certain state and local obligations (municipal bonds)
- Most life insurance proceeds paid upon death (and certain accelerated death benefits or payments received under a life insurance contract on the life of a terminally or chronically ill individual before the individual's death)
- Public assistance payments (certain TANF payments)
- Certain railroad retirement benefits (part may be exempt)
- Social security benefits (part may be exempt)

- Veterans' disability benefits
- Workers' compensation
- Qualified scholarships and fellowships
- Certain dependent care services provided by employer
- Interest on insurance dividends left with the VA
- Certain employer-provided educational benefits (up to \$5,250)
- Employer-provided assistance for qualifying adoption expenses. (Refer taxpayers with adoption expenses to a paid professional tax preparer and to Publication 968, *Tax Benefits for Adoption*)
- Restitution payments and excludable interest received by Holocaust victims, their heirs, or their estates, for persecutions are not taxable.
- Certain long-term care benefits. If the taxpayer received copy C of Form 1099-LTC, he or she is not the policyholder. The form is for information only and should be disregarded because none of the benefits are taxable to him or her. If the taxpayer received copy B of Form 1099-LTC, refer him or her to a paid professional preparer because some of the benefits may be taxable.

### **Example 1**

Robert received the following income: wages, interest, child support, alimony, inheritance, workers' compensation, and lottery winnings.

The wages, interest, alimony, and lottery winnings are taxable income and will appear on Robert's tax return.

Child support, inheritance, and workers' compensation are nontaxable income and will not appear on Robert's tax return.

### Exercise 1

Indicate whether the income listed is taxable or nontaxable.

Type of Income	Nontaxable	Taxable
1. Wages	_____	_____
2. Dividends from stock	_____	_____
3. Veterans' disability benefits	_____	_____
4. Child Support	_____	_____
5. Credit union dividends	_____	_____
6. Cash bonuses	_____	_____
7. Inheritances	_____	_____
8. Tips	_____	_____
9. Worker's compensation	_____	_____
10. Veteran's life insurance dividends	_____	_____

### WHERE TO REPORT INCOME

Taxpayers can report only wages, salaries, tips, unemployment compensation, qualified state tuition program payments, Alaska Permanent Fund dividends, taxable scholarship and fellowship grants, and interest income of \$1,500 or less on Form 1040EZ.

In addition to the types of income that can be reported on Form 1040EZ, ordinary and qualified dividends, capital gains distribution, interest income greater than \$1,500, IRA distributions, pension and annuity income, and taxable social security and equivalent railroad retirement benefits can be reported on Form 1040A.

These and all other types of income can be reported on Form 1040.

### EARNED INCOME

#### Wages and Salaries

The total of wages, salaries, tips, and taxable scholarships and fellowships are reported on Form 1040EZ, line 1, Form 1040A or Form 1040, line 7.

Wages, salaries, and tips are primary examples of earned income received for services performed. Wages and salaries are compensation received. Tips are money and goods received as a gratuity by food servers, maids, porters, etc.



**Form W-2.** Form W-2, *Wages and Tax Statement*, shown in Exhibit 1, reports the employee's earned income for the year. Employers should issue Form W-2 to every employee and a copy to the Social Security Administration. Box 1, *Wages, tips, and other compensation*, shows the amount of payments received in cash, goods and services, bonuses, supplemental unemployment benefits, awards, and taxable employee benefits. This amount should be included on the return.

An individual taxpayer or a couple filing jointly might have one or more Forms W-2 from various employers. When the taxpayer and/or spouse receive Forms W-2 from their employers, add the amounts from Box 1 of each Form W-2 and report the total amount on the return.

Generally, if a **household employee** earned less than \$1,400 a year while working in the employer's home, the employer is not required to provide the taxpayer with a Form W-2 but, the income must be included on line 7 (Form 1040A or 1040) or line 1 (Form 1040EZ). However, a Form W-2 is required if the employer withheld federal income taxes.

If a taxpayer does not get a Form W-2, or if the one he or she gets is not correct, the taxpayer will have to contact his or her employer as soon as possible. Only an employer can **issue** a Form W-2 or a Form W-2c.

In the event that the employer prepared an incorrect W-2, a Form W-2c, *Corrected Wage and Tax Statement*, should be issued. Use the Form W-2c amounts on the return. Be sure to attach the Form W-2c to the taxpayer's return.

**All wage, salary, and tip income must be reported on the return, even if the employee did not receive a Form W-2.**

If the taxpayer does not receive a Form W-2 by January 31, he or she should first contact the employer and find out if or when the Form W-2 was mailed. If after allowing a reasonable amount of time for the employer to issue or reissue the Form W-2, the Form W-2 still has not been received, he or she should contact the IRS for assistance at 1-800-829-1040, but not before February 15.

If after requesting a Form W-2 from the employer the taxpayer does not receive it by the due date of the return, he or she should file a Form 4852, *Substitute for Form W-2, Wage and Tax Statement or Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRA's, Insurance Contracts, Etc.*

The taxpayer should keep a copy of Form 4852 for his or her records and file a copy with the Social Security Administration to ensure proper social security credit.

**POTENTIAL PITFALLS**



Volunteers should be alert to the following possible indications of fraudulent activity:

- 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)

**Exhibit 1**

a Control number		22222		Void <input type="checkbox"/>		For Official Use Only OMB No. 1545-0008	
b Employer identification number				1 Wages, tips, other compensation		2 Federal income tax withheld	
c Employer's name, address, and ZIP code				3 Social security wages		4 Social security tax withheld	
				5 Medicare wages and tips		6 Medicare tax withheld	
				7 Social security tips		8 Allocated tips	
d Employee's social security number				9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial		Last name		11 Nonqualified plans		12a See instructions for box 12	
f Employee's address and ZIP code				13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b	
				14 Other		12c	
						12d	
15 State		Employer's state ID number		16 State wages, tips, etc.		17 State income tax	
						18 Local wages, tips, etc.	
						19 Local income tax	
						20 Locality name	

**Form W-2 Wage and Tax Statement** **2004** Department of the Treasury Internal Revenue Service  
**Copy A For Social Security Administration** — Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable. For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D.  
 Cat. No. 10134D  
**Do Not Cut, Fold, or Staple Forms on This Page — Do Not Cut, Fold, or Staple Forms on This Page**

**Form 1099-MISC.** Taxpayers with earnings reported on Form 1099-MISC, Miscellaneous Income, shown in Exhibit 2, may be considered self-employed. These amounts are reported on Schedule C-EZ or Schedule C. Net losses and profits are reported on line 12 of Form 1040. Self-employment income is discussed later in this lesson.

Some employers misclassify workers as independent contractors and report their earnings on Form 1099-MISC. Taxpayers who believe they have been misclassified should contact the IRS.

**Exhibit 2**

9595       VOID       CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.		<b>1</b> Rents \$	OMB No. 1545-0115  <div style="font-size: 2em; font-weight: bold; text-align: center;">2004</div> Form <b>1099-MISC</b>	<b>Miscellaneous Income</b>	
		<b>2</b> Royalties \$	<b>3</b> Other income \$		<b>4</b> Federal income tax withheld \$
		PAYER'S Federal identification number      RECIPIENT'S identification number			<b>5</b> Fishing boat proceeds \$
RECIPIENT'S name		<b>7</b> Nonemployee compensation \$	<b>8</b> Substitute payments in lieu of dividends or interest \$	<b>Copy A For Internal Revenue Service Center</b>  File with Form 1096.  For Privacy Act and Paperwork Reduction Act Notice, see the <b>2004 General Instructions for Forms 1099, 1098, 5498, and W-2G.</b>	
Street address (including apt. no.)		<b>9</b> Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	<b>10</b> Crop insurance proceeds \$		
City, state, and ZIP code		<b>11</b>	<b>12</b>		
Account number (optional)	2nd TIN not. <input type="checkbox"/>	<b>13</b> Excess golden parachute payments \$	<b>14</b> Gross proceeds paid to an attorney \$		
<b>15</b>		<b>16</b> State tax withheld \$	<b>17</b> State/Payer's state no. \$		
		\$	\$	<b>18</b> State income \$	

Form **1099-MISC**      Cat. No. 14425J      Department of the Treasury - Internal Revenue Service

**Do Not Cut, Fold, or Staple Forms on This Page — Do Not Cut, Fold, or Staple Forms on This Page**

**Tip Income**

All tip income is taxable. Individuals who receive **\$20 or more per month in tips** while working one job must report their tip income to their employer. Tips that are reported to employers are included with wages on Form W-2, box 1. If the taxpayer received tip income of \$20 or more in a month and did not report all of those tips to the employer, he or she must report the social security and Medicare taxes on the unreported tips as additional tax on Form 1040. Form 4137, *Social Security and Medicare Tax on Unreported Tip Income*, should be used to compute and report the additional tax.

Individuals who receive **less than \$20 per month in tips** while working one job do not have to report their tip income to their employer. Additionally, noncash tips (for example, tickets or passes) do not have to be reported to the employer. Tips of less than \$20 per month or noncash tips are not subject to social security and Medicare taxes. However, this tip income is subject to federal income taxes and must be reported on line 7 of Form 1040 or Form 1040A, or line 1 of Form 1040EZ.

POTENTIAL PITFALLS

If the taxpayer fails to report tip income as required to the employer, the taxpayer may be subject to a penalty equal to 50% of the social security and Medicare taxes owed on unreported tips.

## POTENTIAL PITFALLS



The following individuals cannot file Form 1040EZ or 1040A; they must file Form 1040:

- (1) Individuals who received \$20 or more in tips in any month while working for one employer and who did not report the full amount to the employer. (These tips are subject to social security and Medicare tax.)
- (2) Taxpayers whose Form W-2 has an amount entered in box 8, *Allocated tips*, that they must report as income. For more information, see Publication 531, *Reporting Tip Income*.

**Allocated tips** are tips an employer assigns to an employee. They are in addition to the tips the employee reported to the employer. The taxpayer may have allocated tips if he or she worked in a restaurant, cocktail lounge, or similar business that must allocate tips to employees.

Allocated tips are shown separately in box 8 of Form W-2. They are not included in the amount in box 1. The taxpayer must report allocated tips on his or her tax return unless either of the following exceptions applies.

- 1) The taxpayer kept a daily tip record, or other evidence that is as credible and as reliable as a daily tip record, as required. (See Pub. 531, *Reporting Tip Income*).
- 2) The taxpayer's tip record is incomplete, but it shows that his or her actual tips were more than the tips reported to his or her employer plus the allocated tips.

If either exception applies, report actual tips on the return. Do not report the allocated tips.

If the taxpayer is required to report allocated tips on the return, the amount on Form W-2, box 8, should be added to the amount in box 1. The total is reported on line 7 of Form 1040. Allocated tips cannot be reported on Form 1040EZ or 1040A, and are subject to social security and Medicare taxes. Form 4137 should be used to compute and report the additional tax.

The taxpayer should keep a copy for his or her records and file a copy with the local Social Security Administration to ensure proper social security credit.

### Example 2

Fred works as a repairman during the week and as a barber on alternate Saturdays. His tips are less than \$20 in any month and he does not report them to his employer. The amounts from box 1 on his Forms W-2 show income of \$23,500 (repairman) and \$1,950 (barber). His unreported tip income was \$200.

Fred will report \$25,650 on Form 1040A, line 7. This is the total of his Forms W-2, box 1 income and his unreported tip income (\$23,500 plus \$1,950 plus \$200).

If Fred reported his tip income to his employer, the tips would be included in box 1 of the Form W-2. The amount in box 1 of that Form W-2 would be \$2,150 (\$1,950 plus \$200). Fred would still enter \$25,650 on line 7 (\$23,500 plus \$2,150).

### Scholarships and Fellowships

Some scholarships and fellowships may be partially taxable. If the taxpayer received a Form W-2 for the scholarship or fellowship, add the amount in box 1 to any other box 1 amounts. Enter the total on line 1, Form 1040EZ, or line 7, Form 1040A or 1040.

Even if the taxpayer did not receive a Form W-2 for the scholarship or fellowship, the taxable portion of the scholarship or fellowship must be reported. Add the taxable portion to other Form W-2, box 1 amounts and unreported tip income. Enter the total on line 7 (Form 1040 or 1040A) or line 1 (Form 1040EZ). Write "SCH" and the amount not reported on Form W-2 in the space to the left of line 7 or line 1, whichever applies.

### Exercise 2

- A.** Mike worked two jobs. He was a quality inspector during the week and a bartender on the weekends. He reported all of his tip income (\$3,000) to his employer. His Forms W-2, box 1, showed income of \$21,000 (quality inspector) and \$8,250 (bartender). What amount will Mike report on his Form 1040A, line 7? \_\_\_\_\_
- B.** John works as a food server in an expensive restaurant. He tells you that he did not report his tip income of \$18,100 to his employer. Can John file Form 1040A? \_\_\_\_\_
- C.** Randy had several employers during the tax year. On February 3, 2005, he comes into the VITA site to have his return prepared. He tells you that he has not received the Form W-2 for XYZ Inc. What should you tell Randy? \_\_\_\_\_

## INTEREST INCOME

Money earns interest when it:

- is deposited in accounts in banks, savings and loans, credit unions,
- is used to buy certificates of deposit or bonds, or
- is lent to another person or business.

Interest income is considered unearned income. Money, not a person, is working to earn the income.

## TAXABLE INTEREST INCOME

### Savings Accounts

Interest is reported in the year that it is credited to the taxpayer's account and is available for withdrawal by the taxpayer. The taxpayer should report all interest received during the year, even if the interest is not entered in the taxpayer's passbook.

### POTENTIAL PITFALLS

Some savings and loans, credit unions, cooperative banks, and mutual savings banks call their distributions "dividends." These "dividends" are really interest and are reported as interest. True dividends are different and will be discussed later in this lesson.

## U.S. Savings Bonds

Interest on U.S. savings bonds is earned in one of two ways.

- Some bonds are issued at a “discount” and the interest earned equals the increase in the bond’s value over a period of time.
- Some bonds pay interest at stated intervals of time.

**Series EE and Series I Bonds.** Series EE bonds are the most common type. They are issued at a discount; this means that the purchase price is less than the face value (the amount shown on the bond). The interest is the difference between the purchase price and the amount received when the bonds are redeemed (cashed in).

Series I bonds were first offered in 1998. They are issued at face value with a maturity period of 30 years. Interest on these bonds is paid when the bond is redeemed.

Taxpayers can choose one of two ways to report interest income from these bonds.

- Report the increase in value when the bond is cashed in or when the bond matures, whichever is earlier.
- Report the increase in the bond’s value each year.

Generally, taxpayers must use the same method for all Series EE and Series I bonds they own.

If a U.S. savings bond is issued in the names of co-owners, such as the taxpayer and child, or the taxpayer and spouse, interest on the bond is generally taxable to the co-owner who purchased the bond. To determine who is responsible for paying the tax on a bond see the table below.

**Exhibit 3**

<b>Who Pays Tax on U.S. Savings Bond Interest</b>	
<b>IF...</b>	<b>THEN tax on the bond interest must be paid by...</b>
You use your funds to buy a bond in your name and the name of another person as co-owners.	You.
You buy a bond in the name of another person, who is the sole owner of the bond.	The person for whom you bought the bond.
You and another person buy a bond as co-owners, each contributing part of the purchase price.	Both you and the other co-owner, in proportion to the amount each paid for the bond.
You and your spouse, who live in a community property state, buy a bond that is community property.	You and your spouse. If you file separate returns, both you and your spouse generally pay tax on one-half.

### Example 3

Barbara owns a \$500 U.S. Series EE savings bond. She paid \$250 for the bond. When the bond matures, Barbara will receive \$500. At the end of the first year, the bond was worth \$265.

Barbara can report interest income in one of two ways.

- She can report \$250 of interest income when the bond matures. This is the difference between the \$500 value at maturity and the \$250 she paid for the bond. Barbara would report interest income only once, at maturity.
- She can report \$15 of interest income at the end of the first year. This is the increase in value at the end of the year (\$265 minus \$250). Barbara would report interest income each year until maturity.

**Excludable Interest on U.S. Savings Bonds.** Taxpayers may be able to exclude from income all or part of the interest received from certain qualified U.S. savings bonds. The taxpayer must have paid for qualified higher education expenses the same year the bonds are cashed. The bonds must be either Series EE bonds issued after 1989 or Series I bonds in the taxpayer's name or, if married, the taxpayer's name or spouse's name. The individual in whose name the bonds were issued must be 24 years of age or older before the bonds were issued. The taxpayer cannot file married filing separately.

Qualified higher education expenses include tuition and fees paid to an eligible educational institution for the bond owner, the bond owner's spouse, or the bond owner's dependent for whom the bond owner claims an exemption. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education.

Qualified expenses include any **contribution** to a qualified state tuition program or to a Coverdell ESA. (For more information, see Publication 970, *Tax Benefits for Higher Education*).

Use Form 8815, *Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989 (For Filers with Qualified Higher Education Expenses)*, to report the exclusion of interest income. The excludable amount is transferred from Form 8815 to Part I, line 3 of Schedule 1 (Form 1040A) or to Schedule B (Form 1040).

**Series HH Bonds.** The interest on these bonds is paid twice a year. Report the interest on these bonds in the year in which it is received.

**Other U.S. Obligations.** Interest on other U.S. obligations, such as U.S. Treasury notes and bonds, is fully taxable when received.

## **Savings Certificates, Money Market Certificates, and Other Deferred Interest Accounts**

Interest that is paid at fixed intervals of one year or less is included in taxable income when it is received or when the taxpayer could receive it (that is, when it is credited to the account, even if it is not withdrawn) without paying a substantial penalty. If an account matures in one year or less and provides a single interest payment at maturity, include the interest in taxable income when the account matures and the interest is received.

### **Example 4**

Duane has a six-month certificate of deposit (CD) that matures in January 2005. He will receive \$75 in interest income.

Duane will report the interest income on the certificate of deposit on his 2005 tax return. It matures in one year or less with a single interest payment at maturity.

### **Certificates of Deposit with Maturities of Over One Year**

If interest on a CD is deferred for more than one year, the taxpayer must include a part of the interest in income each year. The taxpayer should receive Form 1099-INT stating the amount to report.

### **Example 5**

Deborah has a two-year CD that pays interest every three months. She bought the CD on March 1, 2004. It matures on February 29, 2006.

For 2004, Deborah reports the interest income earned from March through December. For 2005, she will report 12 months of interest. For 2006, she will report two months of interest.

**Original Issue Discount.** Long-term obligations that pay no interest before maturity are considered to be issued at a discount.

**Original Issue Discount (OID)** is the amount by which the principal amount (redemption price at maturity) of a long-term debt instrument, such as a bond or note, exceeds its issue price.

Taxpayers generally report a portion of the OID each year until the obligation matures.

### **Example 6**

Roger purchased a \$1,000 U.S. Treasury Zero Coupon Bond for \$350. When the bond matures, Roger will receive \$1,000. He will receive no interest income until the bond matures many years later.

The difference between the redemption amount (\$1,000) and the issue price (\$350) is the OID (\$650). Each year until maturity, Roger must recognize part of the OID as taxable interest income.



## Interest on Insurance Proceeds

Life insurance proceeds include interest. Taxpayers can receive life insurance policy benefits paid upon the death of the insured either in a lump sum or in installments. Generally, if the payments are received in installments, the portion that is interest must be included in the taxpayer's income. However, if the insured individual died before October 23, 1986, and was the taxpayer's spouse, the first \$1,000 of interest income received each year is not taxed if the payments are received in installments. This exclusion does not apply if proceeds are left on deposit with the insurance company and only interest is paid.

Life insurance dividends generally are not taxable. These dividends may be used to reduce life insurance premiums due, purchase additional paid-up insurance, or earn interest. In general, the interest earned on life insurance dividends is taxable when it is credited to the taxpayer's account.

Interest on insurance dividends that have been left on deposit with the Department of Veterans Affairs (VA) is **not** taxable. Do not include this interest in taxable income.

## COVERDELL ESA

Contributions to a Coverdell ESA are not deductible. Amounts in the ESA grow (tax deferred) until they are distributed. Generally, if the beneficiary has qualified education expenses that are greater than the distribution during the year, then no tax is due.

If the taxpayer received Form 1099-Q, showing a distribution from a Coverdell ESA, ask the taxpayer if the funds were used for qualified education expenses. Coverdell ESA qualified education expenses include elementary, secondary, and postsecondary (higher) education expenses.

If the entire amount of the distribution was spent on qualified elementary and secondary expenses, the distribution is tax-free. Tax-free distributions are not reported. If the taxpayer paid for qualified higher (postsecondary) education expenses, the taxpayer may be eligible for the Hope Credit or Lifetime Learning Credit, which may be more beneficial.

Refer the taxpayer/beneficiary to a paid professional tax preparer and/or Publication 970, *Tax Benefits for Higher Education*, if:

- The funds were not used for qualified education expenses.
- The distribution is more than the amount spent for qualified expenses.

- Part or all of the distribution is taxable and earnings must be computed.
- The taxpayer/beneficiary received other education benefits such as a distribution from a Qualified Tuition Program, employer provided educational assistance, or a scholarship, or used U.S. Savings Bonds to pay for qualified education expenses.
- If any amount needs to be reported, report it on Form 1040, line 21. Additional tax may be due. Use Part II of Form 5329, *Additional Taxes on Qualified Plans (including IRAs) and Other Tax Favored Accounts*, to figure any additional tax.

## **TAX-EXEMPT INTEREST**

Certain types of interest are exempt from federal income tax. Bonds issued by the following entities generally pay **tax-exempt interest**:

- State and political subdivisions (county or city),
- District of Columbia, and
- U.S. possessions and political subdivisions.

Examples of tax-exempt bonds are those issued by:

- Port authorities
- Toll-road commissions
- Utility service authorities
- Community redevelopment agencies
- Qualified volunteer fire departments
- Amounts indicated on broker statements as tax-exempt interest or dividends

Although tax-exempt interest is not taxable, the taxpayer must report all tax-exempt interest on Form 1040, 1040A or 1040EZ.

## **Form 1099-INT**

Interest income is reported to the taxpayer on Form 1099-INT, *Interest Income*, shown in Exhibit 4. A copy of Form 1099-INT is also sent to the IRS.

Box 1 shows taxable interest income from various institutions.

Some taxpayers withdraw funds from a time deposit before the maturity date of the account and, therefore, incur an interest penalty. The early withdrawal penalty is reported on Form 1099-INT in box 2. Report the total interest earned, shown in box 1 of Form 1099-INT, on line 8a of Form 1040. Do not subtract the penalty from the total interest. The early withdrawal penalty is an adjustment to income and is entered on line 33 of Form 1040.

Box 3 shows U.S. savings bond and Treasury obligations interest. Be sure to ask the taxpayer about this interest income. The amount shown on Form 1099-INT may be too high if the taxpayer was not the original owner of the bond or if the taxpayer has reported the interest income each year as it was earned.

Some Forms 1099-INT will have entries in box 4 indicating that federal income tax has been withheld from the interest paid. Be sure to include the amount shown in box 4 with other tax withheld on Form 1040EZ, line 7, Form 1040A, line 39, or Form 1040, line 63.

**Exhibit 4**

**Form 1099-INT**

9292 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED				OMB No. 1545-0112		<b>2004</b> Form <b>1099-INT</b>	<b>Interest Income</b>
PAYER'S name, street address, city, state, ZIP code, and telephone no.		Payer's RTN (optional)					
PAYER'S Federal identification number	RECIPIENT'S identification number	1 Interest income not included in box 3 \$		<b>Copy A</b> <b>For</b> <b>Internal Revenue</b> <b>Service Center</b> <b>File with Form 1096.</b> For Privacy Act and Paperwork Reduction Act Notice, see the <b>2004 General</b> <b>Instructions for</b> <b>Forms 1099, 1098,</b> <b>5498, and W-2G.</b>			
RECIPIENT'S name		2 Early withdrawal penalty \$	3 Interest on U.S. Savings Bonds and Treas. obligations \$				
Street address (including apt. no.)		4 Federal income tax withheld \$	5 Investment expenses \$				
City, state, and ZIP code		6 Foreign tax paid \$	7 Foreign country or U.S. possession				
Account number (optional)	2nd TIN not. <input type="checkbox"/>						
Form <b>1099-INT</b>		Cat. No. 14410K		Department of the Treasury - Internal Revenue Service			
<b>Do Not Cut, Fold, or Staple Forms on This Page — Do Not Cut, Fold, or Staple Forms on This Page</b>							

**Form 1099-OID**

Form 1099-OID, *Original Issue Discount*, reports the amount of Original Issue Discount income that a taxpayer should report as income for the year. A copy of Form 1099-OID is also sent to the IRS.

Box 1 shows the amount of interest (OID) for the year if the taxpayer bought the obligation at its original issue and held the issue all year.

Box 2 shows regular interest paid on the obligation other than the OID income.

## Reporting Interest Income

If the taxpayer is a **1040EZ** filer, taxable interest income is reported on line 2. 1040EZ filers should report tax-exempt interest by writing “TEI” and the amount of tax-exempt interest on line 2 as shown in the example below. Do not include tax-exempt interest in the *Dollars/Cents* portion of line 2. If the taxpayer’s interest income is more than \$1500, he or she cannot file a Form 1040EZ.

### Example 7

Jennifer received taxable interest income of \$65 and tax-exempt interest income of \$23. She would report her interest income on Form 1040EZ as shown in the exhibit below.

**Exhibit 5**

**Jennifer’s 1040EZ**

<b>Income</b> <b>Attach Form(s) W-2 here.</b> Enclose, but do not attach, any payment.	<b>1</b> Total wages, salaries, and tips. This should be shown in box 1 of your W-2 form(s). Attach your W-2 form(s).	1		
	<b>2</b> Taxable interest. If the total is over \$400, you cannot use Form 1040EZ. <b>TEI=\$23.00</b>	2	65	00
	<b>3</b> Unemployment compensation, qualified state tuition program earnings, and Alaska Permanent Fund dividends (see page 14).	3		
	<b>4</b> Add lines 1, 2, and 3. This is your <b>adjusted gross income</b> .	4		
<b>Note.</b> You must check	<b>5</b> Can your parents (or someone else) claim you on their return? <b>Yes.</b> Enter amount from <b>No.</b> If <b>single</b> , enter 7,450.00.			

Taxpayers who file **Forms 1040A or 1040**, report taxable interest income on line 8a and tax-exempt interest on line 8b.

If the taxpayer files Forms 1040A or 1040 and:

- Has interest income of more than \$1500,
- Wants to claim an exclusion for savings bond interest in the same year that he or she paid for qualified higher education expenses, or
- Receives a Form 1099-INT for tax-exempt interest,

Schedule 1, Part I (1040A) or Schedule B, Part I (1040) must be completed, before making an entry on line 8a or 8b.

If the tax-exempt interest is shown on a Form 1099-INT, and a Schedule 1 or B must be filed, the taxpayer must include tax-exempt interest on Schedule 1 or B. It should be reported on line 1 but it should not be included in the total on line 2. Instead, under the last entry on line 1, a subtotal of all interest listed should be made. Below the subtotal, the taxpayer should write “Tax-exempt interest” and show the amount. Subtract it from the subtotal and the result should be entered on line 2.

On Schedule 1 or Schedule B, Part I, list the interest payers’ names and the various amounts received for each form, even if there are two or more forms from the same source.

### Exercise 3

- A.** Randy and Ann have three Forms 1099-INT: Epping National Bank, \$62; Epping Credit Union, \$178; and Brenton Savings and Loan, \$760.
1. How much interest income will be reported on Schedule 1 (Form 1040A)? \_\_\_\_\_
  2. How much interest income will be reported on Form 1040A, line 8a? \_\_\_\_\_
- B.** Catherine received \$398 interest income this year. She files Form 1040EZ. How much interest income is reported on her return, and where is it reported? \_\_\_\_\_
- C.** Emily and Andrew file a joint return on Form 1040. They have the following interest income: City Savings and Loan (joint), \$320; Third National Bank (Andrew), \$100; U.S. Series HH Savings Bonds (joint), \$45; and Welder's Credit Union (Emily), \$30. \_\_\_\_\_
- How much interest is reported on their Form 1040, and where is it reported? \_\_\_\_\_

## ***DIVIDEND INCOME AND OTHER CORPORATE DISTRIBUTIONS***

**Dividends** are payments made by corporations to shareholders. Dividends can also be paid through partnerships, estates, or trusts.

There are several types of corporate distributions, including ordinary and qualified dividends, capital gain distributions, nontaxable distributions, stock dividends, and others. Ordinary dividends are paid out of the earnings and profits of a corporation and are ordinary income to you. Qualified dividends are the ordinary dividends received in tax years beginning after 2002 that are subject to the same 5% or 15% maximum tax rate that applies to net capital gain. Most dividends are paid in cash. Some dividends, however, are paid in property, services, or additional shares of stock. Only **ordinary and qualified dividends** can be reported on Form 1040A. Any other dividends or distributions received are reported on Form 1040. Taxpayers with dividend income may not use Form 1040EZ. Other types of dividends and distributions include the following:

- Dividend reinvestment — Through **dividend reinvestment**, instead of receiving cash (a dividend check), some stockholders ask the corporation to use their dividends to purchase more shares of the corporation's stock. The shareholders "reinvest" their dividends. The dividend is taxable at the time it would be paid if it were in cash.
- Capital gain distributions — Mutual funds (regulated investment companies) and real estate investment trusts (REITs) pass capital gains to their investors in the form of **capital gain**

**distributions.** Capital gain distributions are treated as long-term capital gains, regardless of how long the taxpayer holds the shares. See Lesson 12, *Sale of Stock*, for more information on capital gains.

- Return of capital — A **return of capital** represents a return of part of the taxpayer's investment in the stock of the company. A return of capital reduces the basis of the stock and is not taxed until the taxpayer's basis in the stock is fully recovered. Any return of capital in excess of basis is treated as a capital gain and is reported on Schedule D, *Capital Gains and Losses*.
- Stock dividends — **Stock dividends** increase the taxpayer's number of shares in the company. Generally, stock dividends are not taxable.

Other types of nontaxable dividends are:

- Exempt-interest dividends paid by mutual funds (This interest is listed on Form 1040, line 8b.)
- Dividends on insurance policies, as long as they do not exceed the total of all net premiums paid by the taxpayer
- Dividends on veterans' insurance
- Certain patronage dividends

## Reporting Dividends and Capital Gain Distributions

The payer reports dividends and certain other distributions on **Form 1099-DIV**, *Dividends and Distributions*.

**Ordinary dividends** are reported in box 1a of Form 1099-DIV. Add the amounts in box 1a from all the Forms 1099-DIV the taxpayer received. If the total is:

- \$1500 or less, enter the total on line 9a of Form 1040A or 1040.
- over \$1500, complete Schedule 1 (Form 1040A), Part II, or Schedule B (Form 1040), Part II. Transfer the result to line 9a of Form 1040A or 1040.

On Schedule 1 or Schedule B enter the payer's name and the amount received for each Form 1099-DIV even if the same corporation used separate forms to report more than one distribution. If the taxpayer has a substitute Form 1099-DIV from a brokerage firm, it may show a total for dividends received. Enter the brokerage firm as the payer of the dividends and enter the total dividend amount. Do not list the dividends individually.

Some taxpayers receive dividend income from shares that the husband and wife own jointly. If they file a joint return, enter the total dividend in the appropriate place on the return. If they file separate tax returns, divide the dividend by two. Report half on the husband's return and half on the wife's return.

**Qualified dividends.** Report qualified dividends (box 1b of Form 1099-DIV) on line 9b of Form 1040 or Form 1040A. Do not include any of the following on line 9b.

- Qualified dividends received as a nominee.
- Dividends on stock for which the holding period was not met.
- Dividends on any share of stock to the extent that there is an obligation to make related payments for positions in substantially similar or related property.
- Payments in lieu of dividends, but only if it is known or reason to have known that the payments are not qualified dividends.

See chapter 1 of *Publication 550* for further details.

If qualified dividends are reported, tax must be figured by completing either Schedule D (Form 1040) or the Qualified Dividends and Capital Gain Tax Worksheet in the Form 1040 or 1040 A instructions.

If no capital gain or loss are reported, including capital gain distributions from 1099-DIV, Schedule D (Form 1040) is not required; therefore, the Qualified Dividends and Capital Gain Tax Worksheet is used to figure the lower tax on qualified dividends. To see a copy of the Qualified Dividends and Capital Gain Tax Worksheet, refer to Lesson 12, Exhibit 9.

Capital gain distributions occur when a mutual fund (regulated investment company) sells assets for more than their cost, and the realized capital gain is distributed to the fund's shareholders. This should not be confused with a capital gain that occurs when the owner of a mutual fund or a capital asset sells shares in the fund or the asset for more than the cost and realizes a capital gain. For more information on capital gains and losses, see Lesson 12, *Sale of Stock*.

Payers report capital gain distributions in box 2a of Form 1099-DIV, see Exhibit 6. Taxpayers can report capital gain distributions directly on Form 1040A or Form 1040 if:

- The only amounts the taxpayer has to report on Schedule D are capital gain distributions (box 2a),
- The taxpayer does not have any qualified 5-year gain (box 2c) unrecaptured section 1250 gain (box 2d), or section 1202 gain (box 2e), and
- If the taxpayer files Form 4952, *Investment Interest Expense Deduction*, the amount on line 4e of Form 4952 is not more than zero.

9191 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED				<b>Dividends and Distributions</b>			
PAYER'S name, street address, city, state, ZIP code, and telephone no.		1a Total ordinary dividends	OMB No. 1545-0110	<div style="font-size: 2em; font-weight: bold;">2004</div> <div style="font-weight: bold;">Form 1099-DIV</div>			
		\$	1b Qualified dividends			\$	
		2a Total capital gain distr.	2b Unrecap. Sec. 1250 gain			\$	\$
PAYER'S Federal identification number	RECIPIENT'S identification number			<div style="font-weight: bold;">Copy A</div> <div style="font-weight: bold;">For Internal Revenue Service Center</div> <div style="font-weight: bold;">File with Form 1096.</div> <div style="font-size: 0.8em;">For Privacy Act and Paperwork Reduction Act Notice, see the <b>2004 General Instructions for Forms 1099, 1098, 5498, and W-2G.</b></div>			
RECIPIENT'S name		2c Section 1202 gain	2d Collectibles (28%) gain			\$	\$
Street address (including apt. no.)		3 Nontaxable distributions	4 Federal income tax withheld			\$	\$
			5 Investment expenses			\$	\$
City, state, and ZIP code		6 Foreign tax paid	7 Foreign country or U.S. possession			\$	\$
Account number (optional)	2nd TIN not. <input type="checkbox"/>	8 Cash liquidation distributions	9 Noncash liquidation distributions			\$	\$
Form 1099-DIV		Cat. No. 14415N		Department of the Treasury - Internal Revenue Service			
Do Not Cut, Fold, or Staple Forms on This Page — Do Not Cut, Fold, or Staple Forms on This Page							

If the taxpayer does not meet the requirements to report the capital gain distribution directly on Form 1040A or Form 1040, a Schedule D, *Capital Gains and Losses* must be filed. If a Schedule D is not required, the capital gain distributions can be reported directly on line 13 of Form 1040, or line 10 of Form 1040A. Capital gain distributions are not reported on Form 1040EZ.

If capital gain distributions are reported directly on Form 1040 or Form 1040A:

- Check the box next to line 13, Form 1040 and
- Use the Qualified Dividend and Capital Gain Tax Worksheet from either the Form 1040A or 1040 instruction booklet to compute tax.

The volunteer should be careful not to ignore other boxes on the Form 1099-DIV.

- Box 2c, *Qualified 5-year gain*. If the taxpayer has an entry in box 2c, see Lesson 12 for the proper treatment of the gain.
- Box 4, *Federal income tax withheld*. Be sure to include this amount on line 39 of Form 1040A or line 63 of Form 1040.



- **Box 5, Investment expenses.** If the taxpayer files Form 1040 and itemizes deductions on Schedule A, report the amount from box 5 as a miscellaneous itemized deduction subject to the 2%-of-adjusted-gross-income limit. (See *Itemized Deductions* in Lesson 4.)
- **Box 6, Foreign tax paid.** If the taxpayer has an entry in box 6, see Lesson 6 for the proper treatment of the tax. The taxpayer may be able to claim the Foreign Tax Credit.

A capital gain distribution is reported on a Schedule D when the taxpayer has more than capital gain distributions to report, for example when boxes 2b, 2c, 3, 8, or 9 have entries, or when the taxpayer has sold a capital asset. Capital gain distributions are always treated as long-term capital gains, regardless of how long the taxpayer holds the shares, and are reported on line 13, column (f) of the Schedule D.

### POTENTIAL PITFALLS

If the state or local income tax refund reflects any deductions, credits, or payments for years other than 2003, refer the taxpayer to a paid professional tax preparer.

## STATE AND LOCAL TAX REFUNDS

Taxpayers who receive a refund of state or local taxes may receive a Form 1099-G, *Certain Government Payments*, see Exhibit 7. If the taxpayer claimed the standard deduction on the 2003 return and received a refund of 2003 state or local tax, the taxpayer does not have to include the refund in taxable income for tax year 2004. However, if the taxpayer itemized deductions **and** received a state or local tax refund, the taxpayer may have to include part or all of the refund in taxable income in 2004. Use the *State and Local Income Tax Refund Worksheet—Line 10* in the Form 1040 instruction booklet to determine what part, if any, of the refund is taxable. Enter the taxable portion of state and local refunds on Form 1040, line 10.

Exhibit 7

Form 1099-G

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1 Unemployment compensation		OMB No. 1545-0120	
Georgia Department of Revenue		\$ 4,000.00		2004 Form 1099-G	
76 Butler Street		2 State or local income tax refunds, credits, or offsets			
New York, NY 10001		\$		4 Federal income tax withheld	
PAYER'S Federal identification number	RECIPIENT'S identification number	3 Box 2 amount is for tax year		\$ 400.00	
XX-XXXXXXX	XXX-XX-XXXX	5		6 Taxable grants	
RECIPIENT'S name		7 Agriculture payments		8 Box 2 is trade or business income <input type="checkbox"/>	
Clark Fisk					
Street address (including apt. no.)		\$		<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
87 Bluefield Ave.					
City, state, and ZIP code					
Raleigh, NC 27611		Account number (optional)			

Form 1099-G (keep for your records) Department of the Treasury - Internal Revenue Service

## ALIMONY RECEIVED

Alimony or separate maintenance payments made under a court decree are taxable income to the person receiving them. They are reported on Form 1040, line 11. The person making the payments deducts them on Form 1040, line 34a, as an adjustment to gross income.

Child support payments are not alimony. The person making the payments cannot deduct them. The person receiving child support payments does not have to include them in income.

### ALERT



The amount of allowable business expenses on Form 1040, Schedule C-EZ, Net Profit From Business was increased from \$2,500 or less to \$5,000 or less.

## INCOME FROM BUSINESS (OPTIONAL TOPIC)

Business income or loss is reported first on Schedule C (Form 1040), *Profit or Loss From Business*, or Schedule C-EZ, *Net Profit From Business*, and then transferred to Form 1040, line 12. Taxpayers who must file a Schedule C should see a paid professional tax preparer.

VITA and TCE volunteers who have received training on this topic, at the discretion of the site coordinator, may assist self-employed individuals who qualify to use Schedule C-EZ, shown in Exhibit 8.

### Who Can Use Schedule C-EZ

A taxpayer can use Schedule C-EZ only if he or she:

- Had business expenses of \$5,000 or less,
- Uses the cash method of accounting,
- Did not have an inventory at any time during the year,
- Did not have a net loss from his or her business,
- Had only one business as a sole proprietor,
- Had no employees during the year,
- Is not required to file Form 4562, *Depreciation and Amortization*, for this business (See the instructions for Schedule C, line 13, to find out if the taxpayer must file.),
- Does not deduct expenses for business use of his or her home, and
- Does not have prior year unallowed passive activity losses from this business.

### Completing Schedule C-EZ

Schedule C-EZ has three parts:

**Part I:** General Information

**Part II:** Figure Your Net Profit

**Part III:** Information on Your Vehicle

### POTENTIAL PITFALLS



Many taxpayers erroneously report amounts from Form 1099-MISC, Miscellaneous Income, with wages or other income. This income should instead be reported on Schedule C or C-EZ and on Schedule SE, Self-Employment Tax. If the income is reported incorrectly, IRS may later issue a notice of proposed tax increase for the self-employment income and tax.

## Part I: General Information

Part I is used to determine whether or not the taxpayer is eligible to use this form instead of Schedule C for reporting self-employment income. If all the criteria are met, the taxpayer then completes Part I.

**Line B**, Principal Business Code, is determined by looking at the code list in the *Instructions for Schedule C, Profit or Loss From Business*.

**Line D**, Employer ID Number, is a number that the Internal Revenue Service supplies to businesses and other professional activities. If the taxpayer does not have one, the space should be left blank. The taxpayer cannot use the taxpayer's social security number.

## Part II: Figure Your Net Profit

Gross receipts are all receipts from a trade or business including income reported on a Form 1099-MISC, *Miscellaneous Income*. All items of taxable income actually or constructively received during the year are included. Gross receipts are entered on line 1.

Total expenses include the total amount of all deductible business expenses actually paid during the year. Examples of these expenses include advertising, car and truck expenses, commissions, insurance, interest, legal and professional services and fees, office expense, rent or lease expense, repairs and maintenance, supplies, taxes, travel, 50% of business meals and entertainment, and utilities (including telephone). Total expenses of \$5,000 or less are entered on line 2.

If the taxpayer uses his or her car or truck for business purposes, he or she can deduct expenses related to using the car or truck. To determine the amount of car and truck expenses that can be deducted, the taxpayer must use either the:

- Standard Mileage Rate, or
- Actual Car Expenses.

**Standard Mileage Rate.** If the taxpayer can and does choose to use the standard mileage rate, business miles are multiplied by the applicable mileage rate and added to the deductible parking and tolls. Car expenses using the standard mileage rate are computed as follows:

Business miles incurred during the year × **37.5¢** per mile  
+ Parking and tolls incurred while on business

### ALERT



The 2004 rate for business use of your vehicle is 37.5 cents a mile.

**Actual Car Expenses.** If the taxpayer chooses to use the actual car expenses, only the business portion of the expenses is deductible. Deductible expenses under the actual method are computed as follows:

1. Compute the percentage of business use:

$$\frac{\text{Business miles}}{\text{Total miles}} = \% \text{ of business use}$$

2. Determine the deductible expenses:

$$\begin{aligned} & (\% \text{ of business use} \times \text{total actual expenses}) \\ + & \underline{\underline{\text{Parking and tolls incurred while on business}}} \end{aligned}$$

**NOTE:** If taxpayers depreciate their car or truck, or their total expenses are more than \$5,000, they cannot use Schedule C-EZ and should be referred to a paid professional tax preparer.

Subtract line 2 from line 1 and enter the net amount on line 3 to determine the net profit or loss.

If line 3 shows a profit, transfer this amount to Form 1040, line 12, and to Schedule SE, line 2 (except statutory employees). Attach Schedule C-EZ to Form 1040 in the correct sequence.

If line 3 is zero, show zero amount on Form 1040, line 12.

If line 3 shows a loss, the taxpayer cannot use Schedule C-EZ and should be referred to a paid professional tax preparer.

### **Part III: Information on Your Vehicle**

Part III should be completed if the taxpayer is claiming car and truck expenses in Part II.

SCHEDULE C-EZ (Form 1040)

Department of the Treasury Internal Revenue Service

Net Profit From Business

(Sole Proprietorship)

- Partnerships, joint ventures, etc., must file Form 1065 or 1065-B. Attach to Form 1040 or 1041. See instructions on back.

OMB No. 1545-0074

2004

Attachment Sequence No. 09A

Name of proprietor Coe Curry

Social security number (SSN) XXX : XX : XXXX

Part I General Information

You May Use Schedule C-EZ Instead of Schedule C Only If You:

- Had business expenses of \$5,000 or less. Use the cash method of accounting. Did not have an inventory at any time during the year. Did not have a net loss from your business. Had only one business as a sole proprietor.

And You:

- Had no employees during the year. Are not required to file Form 4562, Depreciation and Amortization, for this business. Do not deduct expenses for business use of your home. Do not have prior year unallowed passive activity losses from this business.

A Principal business or profession, including product or service Hair salon

B Enter code from pages C-7, 8, & 9 8 1 2 1 1 2

C Business name. If no separate business name, leave blank. Curry Hair Salon

D Employer ID number (EIN), if any

E Business address (including suite or room no.). Address not required if same as on Form 1040, page 1. 2525 Clemson Lane

City, town or post office, state, and ZIP code Columbia, SC 29201

Part II Figure Your Net Profit

Table with 3 rows: 1 Gross receipts (25,000), 2 Total expenses (1,400), 3 Net profit (23,600)

Part III Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 2.

- 4 When did you place your vehicle in service for business purposes? (month, day, year) 01 / 01 /2004
5 Of the total number of miles you drove your vehicle during 2004, enter the number of miles you used your vehicle for: a Business 10,000 b Commuting 15,000 c Other
6 Do you (or your spouse) have another vehicle available for personal use? Yes No
7 Was your vehicle available for personal use during off-duty hours? Yes No
8a Do you have evidence to support your deduction? Yes No
b If "Yes," is the evidence written? Yes No

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 14374D

Schedule C-EZ (Form 1040) 2004

## Self-Employment Tax

Self-employment tax is a social security tax for persons who work for themselves. It is similar to the social security tax and Medicare tax withheld from employees' wages.

Special exemptions from self-employment tax may apply to members of the clergy, members of certain religious sects, and certain nonclergy church employees.

The tax is computed on Schedule SE and transferred to the Form 1040 to be added to other taxes owed. The Schedule SE is attached to the Form 1040.

## Who Must File Schedule SE

A taxpayer must file Schedule SE if he or she has:

- Net earnings from self-employment of \$400 or more, other than church employee income (line 4 of Short Schedule SE),

**OR**

- Church employee income of \$108.28 or more (line 5a of Long Schedule SE).

**Exception:** If the only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner AND the taxpayer has filed Form 4361, Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners, and has received IRS approval not to be taxed on these earnings, he or she does not have to file Schedule SE. Instead, write "Exempt—Form 4361" on Form 1040, line 57.

Most taxpayers will need to complete only Section A of Schedule SE, also known as the Short Schedule SE. Follow the chart on the form to determine whether the taxpayer qualifies to file the short form. Anyone who does not qualify and who must file the long form should be referred to a paid professional tax preparer.

If the taxpayer qualifies for the short form, enter the net profit from Schedule C-EZ, line 3, on lines 2 and 3 of the Schedule SE.

Follow the instructions on the form to determine net earnings from self-employment on line 4 and the self-employment tax on line 5.

Enter the amount from line 5 on Form 1040, line 57.

## Deduction of Self-Employment Tax

Self-employed people may claim an adjustment to income of one-half of the social security and Medicare taxes they pay.

Enter the amount from Schedule SE, line 6, on Form 1040, line 30 as an adjustment to income.

<b>SCHEDULE SE</b> <b>(Form 1040)</b>  Department of the Treasury Internal Revenue Service	<b>Self-Employment Tax</b>  ▶ <b>Attach to Form 1040.</b> ▶ <b>See Instructions for Schedule SE (Form 1040).</b>	OMB No. 1545-0074  <div style="font-size: 2em; font-weight: bold; text-align: center;">2004</div> Attachment Sequence No. <b>17</b>
Name of person with <b>self-employment</b> income (as shown on Form 1040) <b>Coe Curry</b>		Social security number of person with <b>self-employment</b> income ▶ <b>XXX XX XXXX</b>

**Who Must File Schedule SE**

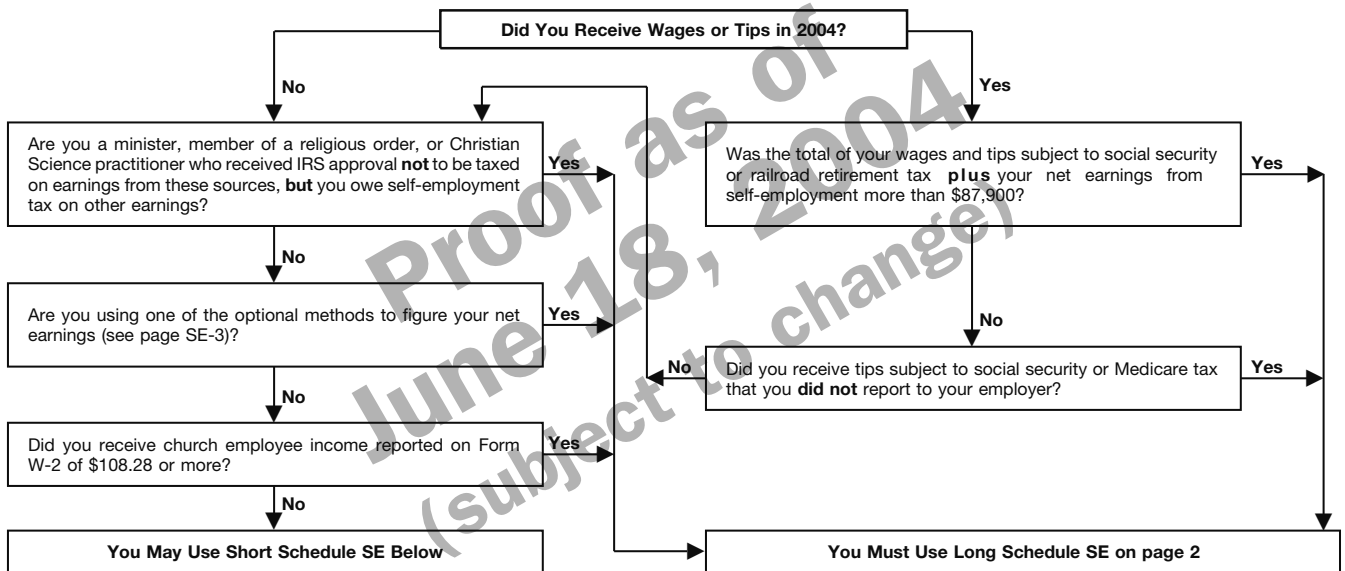
You must file Schedule SE if:

- You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of \$400 or more **or**
- You had church employee income of \$108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income (see page SE-1).

**Note.** Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either “optional method” in Part II of Long Schedule SE (see page SE-3).

**Exception.** If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write “Exempt-Form 4361” on Form 1040, line 57.

**May I Use Short Schedule SE or Must I Use Long Schedule SE?**



**Section A—Short Schedule SE. Caution.** Read above to see if you can use Short Schedule SE.

<b>1</b> Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A . . . . .	<b>1</b>		
<b>2</b> Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report . . . . .	<b>2</b>	23,600	
<b>3</b> Combine lines 1 and 2 . . . . .	<b>3</b>	23,600	
<b>4</b> <b>Net earnings from self-employment.</b> Multiply line 3 by 92.35% (.9235). If less than \$400, <b>do not</b> file this schedule; you do not owe self-employment tax . . . . . ▶	<b>4</b>	21,795	
<b>5</b> <b>Self-employment tax.</b> If the amount on line 4 is: • \$87,900 or less, multiply line 4 by 15.3% (.153). Enter the result here and on <b>Form 1040, line 57.</b> • More than \$87,900, multiply line 4 by 2.9% (.029). Then, add \$10,899.60 to the result. Enter the total here and on <b>Form 1040, line 57.</b>	<b>5</b>	3,335	
<b>6</b> <b>Deduction for one-half of self-employment tax.</b> Multiply line 5 by 50% (.5). Enter the result here and on <b>Form 1040, line 30</b> . . . . .	<b>6</b>	1,668	

## POTENTIAL PITFALLS



Form 1099-R reports pension income, not earned income. Form 1099-R amounts are not included on line 7 of Form 1040. They are reported on Form 1040A, lines 12a and 12b or Form 1040, lines 16a and 16b. You will learn how to report pensions in Lesson 14, *Pensions*.

## CAPITAL GAINS AND LOSSES

Both the sale of stock and the sale of a home are reported on Form 1040, line 13. The amount entered on Form 1040, line 13, is transferred from Schedule D (Form 1040), *Capital Gains and Losses*. See Lessons 12 and 13 for more information about these types of sales.

## SALE OF BUSINESS PROPERTY

The sale or involuntary conversion of business property is reported on Form 1040, line 14. If taxpayers are reporting the sale of business property, they should be referred to a paid professional tax preparer.

## PENSION AND ANNUITY INCOME

Generally, payers of pension and annuity income send Form 1099-R to the recipients. The total pension or annuity income is reported on Form 1040A, line 12a, or Form 1040, line 16a; the taxable portion is reported on line 12b (1040A) or 16b (1040). If all of the pension or annuity is taxable, make an entry on line 12b or 16b only.

For more information on pension and annuity income, see Lesson 14, *Pensions*.

## RENTS, ROYALTIES, PARTNERSHIPS, ESTATES, AND TRUSTS

Income from rental property, royalties, partnerships, estates, and/or trusts is reported on Form 1040, line 17. Refer any taxpayer who receives income from these sources to a paid professional tax preparer.

## FARM INCOME

Farm income is reported on Form 1040, line 18. Advise taxpayers with farm income to see a paid professional tax preparer.

## UNEMPLOYMENT COMPENSATION

Unemployment compensation includes benefits to unemployed individuals that a state or the District of Columbia paid from the Federal Unemployment Trust Fund. It is reported to the recipient on Form 1099-G, *Certain Government Payments*. All unemployment compensation is taxable. Transfer the amount in (See Exhibit 7) box 1 of Form 1099-G to line 3 of Form 1040EZ, line 13 of Form 1040A, or line 19 of Form 1040.

Supplemental benefits provided from an employer's fund to which the employee did not contribute are sometimes thought of as unemployment benefits also. They are reported to the employee on Form W-2. Include them on line 7 of Form 1040A or 1040, or on line 1 of Form 1040EZ.



## **TaxWise HINTS**

- When entering income for the taxpayer you have the following three choices:  
Go to Line 7 and click F9 (Link),  
Click the right mouse and select “Link” or  
Click on add form and select “W-2”.
- All the information entered into TaxWise should be exactly what is on the W-2.

**Note:** TaxWise automatically rounds numbers.

- When an entry is made for Alimony paid, TaxWise requires the Social Security Number of the spouse receiving the alimony.
- Form 4852, Substitute for Form W-2, Wage and Tax Statement or Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRA's, Insurance Contracts, etc. is available and can be completed in TaxWise.

## ▶▶ SUMMING UP THIS LESSON ◀◀

Form 1040EZ can be used to report only income from wages, salaries, tips, qualified tuition program earnings, Alaska Permanent Fund dividends, taxable scholarships and fellowship grants, interest of \$1500 or less, and unemployment compensation.

You can report several types of income on Form 1040A:

- ▶ Wages, salaries, tips, scholarships and fellowship grants, qualified tuition program payments, and Alaska Permanent Fund dividends
- ▶ Interest income
- ▶ Dividend income
- ▶ Capital gain distributions
- ▶ Unemployment compensation

Use Form 1040A, Schedule 1, or Form 1040, Schedule B, to report:

- ▶ Interest and/or dividend income over \$1500 and
- ▶ Interest from Series I and/or Series EE savings bonds, issued after 1989, that is excluded from taxable income.

Report any early withdrawal penalties on Form 1040, line 33, as an adjustment to income. Do not subtract penalties from interest income.

Report capital gain distributions directly on Form 1040, line 13a or Form 1040A, line 10, if the taxpayer is not required to file Schedule D.

State and local tax refunds are included in taxable income if:

- ▶ the taxpayer itemized deductions AND
- ▶ received a tax benefit by including the state and local tax in itemized deductions.

Alimony and separate maintenance payments are taxable income to the person receiving these payments. The person paying these payments can subtract them as an adjustment to income.

▶▶ **SUMMING UP THIS LESSON** ◀◀

*(continued)*

Business income or loss is generally beyond the scope of VITA or TCE. However, in some cases, trained volunteers may help self-employed taxpayers who qualify to use Schedule C-EZ.

Taxpayers with net self-employment income of \$400 or more must complete Schedule SE to compute self-employment tax.

Some nontaxable income is reported but is not included in taxable income:

- ▶ Tax-exempt interest
- ▶ Nontaxable portion of IRA distributions, including rollovers

Other income, such as prizes, awards, lottery winnings, and jury duty pay, is reported on line 21 of Form 1040, including the amount and description.

Volunteers should refer taxpayers with any of the following items to paid professional tax preparers:

- ▶ Sales of business property
- ▶ Income from rental property, royalties, partnerships, estates, or trusts
- ▶ Farm income

**Exercise 1**

1. Taxable
2. Taxable
3. Nontaxable
4. Nontaxable
5. Taxable
6. Taxable
7. Nontaxable
8. Taxable
9. Nontaxable
10. Nontaxable

**Exercise 2**

- (A) Mike will report \$29,250 on line 7. The tip income is included in the \$8,250.
- (B) No; John must file Form 1040 to pay social security and Medicare tax on his tip income.
- (C) Randy should be advised to contact the employer and request that a Form W-2 be issued or reissued. If after waiting a reasonable amount of time, it still has not been received, Randy should contact the IRS (but not before February 15th).

**Exercise 3**

- (A) 1. None  
2. \$1,000
- (B) \$398 is reported on line 2 of Form 1040EZ.
- (C) \$495 is reported on line 8a of Form 1040.

#### LESSON OVERVIEW

This lesson will explain the six adjustments to income covered in the VITA/TCE program. These adjustments are traditional IRA deductions; student loan interest deduction; tuition and fees deduction; penalty on early withdrawal of savings; alimony paid; and jury duty.

The remaining adjustments — moving expenses; self-employment health insurance deduction; and self-employed SEP, SIMPLE, and qualified plans — are beyond the scope of the VITA/TCE training. It is important to reiterate to the volunteers to refer taxpayers with these issues to a paid professional tax preparer.

See Appendix B for suggested class schedules and approximate teaching times.

#### MATERIALS

This lesson will refer to the following IRS publications and forms. If you would like to provide your students with the most current revision of the publications or forms, you can download the files from [www.irs.gov](http://www.irs.gov).

- Form 8606, *Nondeductible IRAs*
- Publication 590, *Individual Retirement Arrangements (IRAs)*
- *Traditional IRA Deduction Worksheet* (Form 1040 Instructions)
- *Tuition and Fees Deduction Worksheet* (Form 1040 Instructions)
- *Student Loan Interest Deduction Worksheet* (Form 1040 Instructions)

#### TEACHING TIP

##### IRA Contributions

A taxpayer who was 70 ½ years of age or older at the end of 2004 might ask volunteers to deduct those traditional IRA contributions that they made in 2004 prior to turning 70 ½. Volunteers should be prepared to explain that when a taxpayer is 70 ½ years old or older by the end of the tax year, NO traditional IRA contributions should have been made or can be deducted for the year.

## Student Loan Interest Deduction

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.

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; \$65,000 for single, head of household and qualifying widow; \$130,000 for married filing jointly)

## Alimony Paid

Emphasize to students the importance of entering on Form 1040, line 32b, the social security number of the person to whom the taxpayer paid alimony or separate maintenance payments. Volunteers should explain to taxpayers who wish to omit the recipient's social security number that the penalties for doing so include a disallowance of the deduction and a penalty.

## Jury Duty Pay Given to Employer

Students may question the fairness of requiring a taxpayer to report as income the total amount of jury duty pay he or she has received when that pay has been turned over to the employer. Remind students that the taxpayer will report the total amount of jury pay as an adjustment to income. Since adjustments to income are subtracted from income to yield adjusted gross income, the jury pay will not be included in the taxpayer's adjusted gross income (or taxable income).

## GUIDED QUESTIONS

1. **Explain the relationship between *adjustments* and *adjusted gross income*.** (Total income minus adjustments results in adjusted gross income.)



## IRA Contributions

2. **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.)
3. **When are earnings on traditional IRA contributions taxed?** (When they are withdrawn from the traditional IRA.)
4. **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.)
5. **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.)
6. **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 \$3,000 (\$3,500 if the taxpayer is age 50 or older).)
7. **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.)
8. **When would a taxpayer complete Form 8606?** (Each year that non-deductible contributions are made.)
9. **When are earnings and gains taxed on non-deductible contributions?** (Earnings and gains are not taxed until distributed.)
10. **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.)
11. **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.)



## Tuition and Fees Deduction

12. **What is included in qualified fees?** (Course related books, supplies, and equipment and student activity fees when required as a condition of enrollment or attendance.)

## Penalty on Early Withdrawal of Savings

13. **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.)
14. **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.)
15. **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 to more than the interest is earned.)

## LESSON REVIEW

To review students' understanding of adjustments and adjusted gross income as they pertain to taxpayers filing Form 1040 or Form 1040A, ask students if each of the adjustments listed below is within the scope of VITA/TCE Program. If it is within the scope, ask where on Form 1040 or Form 1040A the adjustment is reported.

1. **One-half self-employment tax** (Within the scope of the VITA/TCE Program; report on Form 1040, line 32.)
2. **Jury duty pay given to an employer** (Within the scope of the VITA/TCE Program; report on Form 1040, line 35, and write "jury pay" dotted on line.)
3. **Contributions to a traditional IRA** (Within the scope of the VITA/TCE Program; report on Form 1040, line 25, or on Form 1040A, line 17.)
4. **Self-employed SEP, SIMPLE, and qualified plans** (Outside the scope of the VITA/TCE Program.)
5. **Self-employed health insurance** (Outside the scope of the VITA/TCE Program.)
6. **Alimony paid** (Within the scope of the VITA/TCE Program; report on Form 1040, line 34a, along with recipient's social security number.)





- 7. Penalty on early withdrawal of savings** (Within the scope of the VITA/TCE Program; report on Form 1040, line, 33.)
- 8. Moving expenses** (outside the scope of the VITA/TCE Program.)
- 9. Student loan interest deduction** (Generally within the scope of the VITA/TCE Program; report on Form 1040, line 26, or on Form 1040A, line 18.)
- 10. Tuition and fees deduction** (Within the scope of the VITA/TCE Program; report on Form 1040, line 27 or on Form 1040A, line 19.)



**STUDENT NOTES**



### INTRODUCTION AND OBJECTIVES

In this lesson you will learn about adjustments to income. There are six adjustments covered in this lesson. They are traditional IRA deductions, student loan interest deduction, tuition and fees deduction, penalty on early withdrawal of savings, alimony payments, and jury duty. Lesson 3 discusses an additional adjustment to income covered in the VITA/TCE training — one-half of self employment tax.

The remaining adjustments — moving expenses; self-employed health insurance deduction; and self-employed SEP, SIMPLE, and qualified plans — are not covered in traditional VITA/TCE training. Taxpayers who need assistance with these adjustments should be referred to a paid professional tax preparer.

After completing this lesson you should be able to:

- Calculate and accurately report adjustments to income.
- Identify which IRA contributions are within the scope of the VITA/TCE program.
- Identify contribution limits for IRAs.

### ADJUSTMENTS TO INCOME

**Adjustments** are subtractions from total income. Total income minus adjustments results in **adjusted gross income (AGI)**, an important number for tax purposes. Adjusted gross income is used to figure some limitations. In addition, it is used to figure income tax in some states.

Taxpayers cannot take any adjustments to income on Form 1040EZ. On Form 1040EZ total income and adjusted gross income are the same. Form 1040A filers can take adjustments for contributions to a traditional IRA, the student loan interest deduction, and tuition and fees payments. Form 1040 filers can take any of the adjustments for which they are eligible.

## INDIVIDUAL RETIREMENT ARRANGEMENTS

An **Individual Retirement Arrangement (IRA)** is a tax-sheltered savings plan set up by the taxpayer, generally for retirement income. This lesson discusses only **traditional IRAs** (IRAs other than Roth IRAs, SIMPLE IRAs, or Coverdell education savings accounts (ESAs)). Contributions to the nontraditional IRAs are not deductible as adjustments to income.

Information on nontraditional IRAs can be found in Publication 590, *Individual Retirement Arrangements (IRAs)*.

Contributions to a traditional IRA can be either deductible or nondeductible. Earnings and gains on the contributions are not taxed until withdrawn from the traditional IRA account.

### Example 2

Anna contributed a total of \$2,500 over the last two years to her traditional IRA account. During 2004 she earned \$140 of interest on her traditional IRA. All of the interest was added to her traditional IRA savings account.

Anna will not have to pay tax on the interest until she withdraws it from her traditional IRA account.

### Contributions

Anyone under 70 1/2 years of age (at the end of the tax year) who has taxable compensation can contribute to a traditional IRA. If both the taxpayer and spouse have compensation and both are under age 70 1/2, each can set up an IRA. However, they cannot participate in the same IRA — they must have separate accounts.

**Compensation** includes wages, salaries, commissions, tips, bonuses, professional fees, and earnings from self-employment. Alimony or separate maintenance payments that are included in total income are also compensation for traditional IRA purposes. Compensation **does not include** interest, rents, dividends, pension and annuity income, deferred compensation received, or income you can exclude.

### General Contribution Limits

The most that can be contributed for any year to a traditional IRA is the lesser of:

- \$3,000 (\$3,500 if age 50 or older), or
- Compensation that is includible in gross income for the year.

If a taxpayer has more than one traditional IRA, the taxpayer must combine all of the traditional IRAs and treat them as one when figuring the amount that can be contributed for the year.

### Example 3

Dan, a college student, working part time earned \$1,500 in 2004. His IRA contributions for 2004 are limited to \$1,500 (the lesser of \$3,000 or compensation includible in income for the year).

### Example 4

George has three traditional IRA accounts. During 2004 he contributed \$1,000 to each. His total IRA contributions for 2004 will be \$3,000.

## Deemed IRAs

Employers who provide qualified employer retirement plans can maintain a separate account or annuity under the plan to receive voluntary employee contributions. This separate account is referred to as a deemed IRA. A deemed IRA can be a traditional IRA or a Roth IRA, and the same limits apply whether they are deemed or not. If a taxpayer has both a regular IRA and a deemed IRA, the taxpayer can divide contributions between them in any manner, but total contributions to both cannot exceed the \$3,000/\$3,500 limit.

## Spousal IRA limit

If taxpayers file a joint return and one spouse's compensation is less than that of the other spouse's compensation, the most that can be contributed for that spouse is the lesser of:

- 1) \$3,000 (\$3,500 if age 50 or older), or
- 2) The total compensation includible in the gross income of both spouses for the year, reduced by:
  - a) IRA contributions for the spouse with the greater compensation,
  - b) Any contribution for the year to a Roth IRA for the spouse with the greater compensation.

The total combined contributions to both traditional IRAs cannot exceed the lesser of:

- \$6,000 (\$7,000 if both individuals are age 50 or older), or
- The total taxable compensation of both spouses.

### Example 5

Kristen, a full time student with no taxable compensation, marries Jeremy during the year. Neither will be 50 by the end of the year. For the year, Jeremy has taxable compensation of \$30,000. He will contribute \$3,000 to a traditional IRA. If he and Kristen file a joint return, each can contribute \$3,000. This is because Kristen, who has no compensation, can add Jeremy's compensation, reduced by his IRA contribution ( $\$30,000 - \$3,000 = \$27,000$ ) to her own compensation (0) to figure her maximum contribution. In her case, \$3,000 is her contribution limit, because \$3,000 is less than \$27,000 (her compensation for purposes of the figuring the spousal IRA).

### Example 6

Tom and Darcy are married and both are 53. They both work and each has a traditional IRA. Tom earned \$1,800 and Darcy earned \$48,000 in 2004. Because of the spousal IRA limit rule, even though Tom earned less than \$3,500, they can contribute up to \$3,500 in each of their IRAs if they file a joint return. If they file separate returns, the amount that can be contributed to Tom's IRA is limited to \$1,800 (his taxable compensation).

### Excess Contributions

Generally, an excess contribution is the amount contributed to a traditional IRA that is more than the lesser of the:

- 1) Taxable compensation for the year, or
- 2) \$3,000 (\$3,500 if age 50 or older).

This limit applies whether the contributions are deductible or nondeductible. Contributions made in the year the taxpayer reaches age 70 1/2 and any later year are also excess contributions.

In general, if the excess contribution for a year and any earnings on it are not withdrawn by the due date of the tax return (including extensions), the taxpayer is subject to an additional 6% tax. The additional 6% tax must be paid each year on the excess amounts that remain in the traditional IRA at the end of the tax year. The tax cannot be more than 6% of the value of the IRA as of the end of the tax year. The excise tax is figured on Form 5329, *Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts*.

A taxpayer who has taxable compensation, but can no longer contribute to a traditional IRA because of age (70 1/2 years or older) may continue to contribute to a spouse's traditional IRA until the year in which the spouse reaches 70 1/2.

## Example 7

Eldridge is a 73-year-old attorney. He earned \$12,000 during the year.

Eldridge had compensation for traditional IRA purposes but he cannot make an IRA contribution because he is 70 1/2 or older. If Eldridge files a joint return with his spouse who is 68 years old, he can still contribute up to \$3,500 to his spouse's IRA.

### Exercise 1

- A. Liz receives alimony which is included in her total income. All of her other income is from interest and dividends. Can Liz make a traditional IRA contribution? Explain. \_\_\_\_\_  
\_\_\_\_\_
- B. David is 73 and works part time in a hardware store. David's wife, Mary, does not work outside of the home. Mary is 68. Can David make a traditional IRA contribution for Mary? Explain \_\_\_\_\_  
\_\_\_\_\_
- C. Carla receives all her income from a rental property, interest income, and dividends. Can Carla make a traditional IRA contribution? Explain. \_\_\_\_\_  
\_\_\_\_\_
- D. Joy is 62 years old. Most of her income comes from a pension. However, Joy did earn \$1,250 doing consumer testing. How much can Joy contribute to a traditional IRA? Explain. \_\_\_\_\_  
\_\_\_\_\_

## Deductible IRA Contributions

Generally, you can deduct the lesser of the contributions to your traditional IRA for the year or the general limit (or the spousal IRA limit, if it applies).

The actual deductible amount for a traditional IRA depends on the following:

- Whether or not the taxpayer or taxpayer's spouse is covered by a retirement plan set up by an employer for any part of the year,
- The taxpayer's **modified adjusted gross income**, and
- The taxpayer's filing status.

## Modified Adjusted Gross Income

Generally, **modified adjusted gross income** is the adjusted gross income without consideration of certain deductions. The modified adjusted gross income (MAGI) can be figured as follows:

AGI (Form 1040 Line 36) plus

- IRA deduction
- Student loan interest deduction
- Tuition and fees deduction
- Foreign earned income exclusion
- Foreign housing exclusion or deduction
- Exclusion of qualified savings bond interest shown on Form 8815
- Exclusion of employer-paid adoption expenses shown on Form 8839.

### Not covered by an employer retirement plan.

A taxpayer whose filing status is single, head of household, or qualifying widow(er), and who is not covered by an employer retirement plan, can take a full traditional IRA deduction of either his or her taxable compensation or \$3,000 (whichever amount is smaller). The \$3,000 amount is increased to \$3,500 if the taxpayer is age 50 or older.

### Example 8

Cyril is single and 40 years of age. His modified adjusted gross income is \$50,000. He is not covered by a retirement plan at work. Cyril's traditional IRA contribution of \$3,000 is deductible.

***Married taxpayers who file separate returns*** for a taxable year and who live apart at all times during the taxable year are treated as single and can take a full IRA deduction, if not covered by an employer plan. This is true even if the other spouse is covered by an employer retirement plan.

***Married taxpayers who file jointly or separately*** may each be able to take the full IRA deduction of \$3,000 (\$3,500 if age 50 or older) or taxable compensation (whichever amount is smaller), if they had taxable compensation and both were not covered by an employer retirement plan. The total deduction for a joint return cannot exceed \$6,000 (\$7,000 if both individuals are age 50 or older). ***When determining the allowable deduction each spouse figures the deduction separately.***

### Covered by an employer retirement plan.

If the taxpayer is covered by a retirement plan at work, the traditional IRA deduction will be reduced or eliminated, as shown in **Table 1**, depending on filing status and modified AGI.



**NOTE:** If Box 13, Retirement Plan, on Form W-2 is checked, the taxpayer is covered by an employer retirement plan. If taxpayers do not agree with the Form W-2 they must contact their employer. Volunteers cannot make a determination on whether or not a taxpayer is covered by an employer retirement plan. Refer taxpayers with questions on their employer retirement plans to their employer or Publication 590, Individual Retirement Arrangements (IRAs).

<b>Table 1.</b>			
<b>Traditional IRA Deduction Phaseout Chart</b>			
<b>(If taxpayer is covered by an employer retirement plan)</b>			
	Allowable traditional IRA deduction is...		
	reduced if modified AGI is:		zero when modified AGI is:
<b>Filing Status</b>	<b>at least</b>	<b>but less than</b>	
Single or Head of household	\$45,000	\$55,000	\$55,000 or more
Married filing jointly or Qualifying widow(er)	\$65,000	\$75,000	\$75,000 or more
Married filing separately <sup>1</sup>	\$0.01	\$10,000	\$10,000 or more
<sup>1</sup> If the taxpayer did not live with his or her spouse at any time during the year, his or her filing status is considered Single for this purpose.			

### **Example 9**

Emily, 36 years old, is single. Her modified AGI was \$54,900. She is covered by a retirement plan at work. Emily's \$3,000 traditional IRA contribution will be reduced or modified on her tax return because her modified AGI is between \$45,000 and \$55,000.

***If either the taxpayer or the taxpayer's spouse is covered by an employer retirement plan, he or she may be entitled to only a partial deduction or no deduction at all, depending on filing status and modified adjusted gross income, as shown in Table 2.***

**Table 2.**  
**Traditional IRA Deduction Phaseout Chart**  
**(If taxpayer is not covered, but the spouse is)**

Filing Status	Allowable traditional IRA deduction is...		
	reduced if modified AGI is:		zero when modified AGI is:
	more than	but less than	
Married filing jointly or Qualifying widow(er)	\$150,000	\$160,000	\$160,000 or more
Married filing separately <sup>1</sup>	\$0.01	\$10,000	\$10,000 or more

<sup>1</sup>The taxpayer is entitled to the full deduction if he or she did not live with their spouse at any time during the year.

**POTENTIAL PITFALLS**



When determining the allowable deduction, each spouse figures the deduction separately.

**Example 10**

David and Ruth are filing a joint return. David earned \$78,000 and is covered by his employer’s retirement plan. Ruth, age 32, is a homemaker, and has no compensation. David, age 36, contributed \$2,800 to his traditional IRA and \$3,000 to a traditional IRA for Ruth.

Because David is covered by his employer’s retirement plan, the modified AGI limits apply (Table 1). Based on Table 1, David is not allowed a deduction for his traditional IRA contributions. Because David made traditional IRA contributions for Ruth, they can take a deduction on the tax return for her IRA contributions. Ruth is not covered by an employer’s retirement plan. Their compensation for IRA purposes is \$78,000 and their modified AGI is not more than \$150,000 (see Table 2).

## Example 11

Assume still that David earned \$78,000 and is covered by his employer's retirement plan. Assume too that Ruth is employed; she earned \$66,000 and she is not covered by her employer's retirement plan. David cannot deduct his traditional IRA contribution, but Ruth can deduct hers. The modified AGI limits that apply to David are shown in Table 1. Table 2 modified AGI limits apply to Ruth's deduction. Her deduction would not be reduced unless the couple's modified AGI was more than \$150,000. It would not be eliminated unless their modified AGI was \$160,000 or more.

### Exercise 2

A. Angela and Joe are married and file a joint return. Joe, age 23, is covered by a retirement plan at work, but Angela, age 25, is not. Joe earned \$25,000 and Angela earned \$20,000; their modified AGI is \$45,000. Is any portion of Angela's traditional IRA contribution deductible, and why? \_\_\_\_\_  
\_\_\_\_\_

B. Annette, age 26, is single. She earned \$23,000, and her modified AGI is \$24,500. She made a \$500 contribution to a traditional IRA. Annette is covered by a retirement plan at work. Is any portion of her contribution deductible, and why? \_\_\_\_\_  
\_\_\_\_\_

C. Richard and Lynn are married and lived together during the year. They file separate returns. Richard is covered by a retirement plan at work. Lynn is not covered by a retirement plan at work. Richard, age 40, earned \$17,000 and contributed \$1,400 to a traditional IRA. Lynn, age 33, worked part-time and earned \$4,500. She contributed \$1,000 to a traditional IRA. Can Richard or Lynn deduct any of the IRA contributions, and why? \_\_\_\_\_  
\_\_\_\_\_

## When to Deduct Traditional IRS Contributions

Individuals may deduct traditional IRA contributions on their 2004 tax return if the contributions are made in 2004 or by April 15, 2005. Taxpayers may not deduct on their 2004 tax return contributions made in 2004 which were deducted on the 2003 tax return. The contributions do not have to be made before the return is filed. However, if the taxpayer deducts traditional IRA contributions on the 2004 tax return but does not make the traditional IRA contributions by April 15, 2005, for the exact amount deducted, the taxpayer must file an amended tax return.

## Using the Worksheet and Reporting the Deduction

Use the IRA Deduction Worksheet in the Form 1040A or Form 1040 instructions booklet to figure the traditional IRA deduction.

The traditional IRA deduction is reported on Form 1040A, line 17 or Form 1040, Line 25. On joint returns when both spouses are making deductible traditional IRA contributions, enter the total contribution.

### Example 12

Nick and Susan file a joint return. Both work, and Nick, age 27, was covered by a retirement plan, but Susan, age 25, was not. Nick earned \$12,300 and Susan earned \$10,990. Their total income (Form 1040, line 22) is \$23,400. Nick and Susan each contributed \$500 to a traditional IRA.

The completed worksheet is shown in Exhibit 1. The information for Nick is shown in the column for *Your IRA*. The information for Susan is shown in the column for *Spouse's IRA*.

IRA Deduction Worksheet—Line 17

Keep for Your Records

**Before you begin:** ✓ Be sure you have read the list on page 26.



	Your IRA	Spouse's IRA
1a. Were you covered by a retirement plan (see page 29)?	1a. <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
b. If married filing jointly, was your spouse covered by a retirement plan?		1b. <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<p><b>Next.</b> If you checked "No" on line 1a (and "No" on line 1b if married filing jointly), skip lines 2 through 6, enter \$3,000 (\$3,500 if age 50 or older at the end of 2004) on line 7a (and 7b if applicable), and go to line 8. Otherwise, go to line 2.</p>		
2. Enter the amount shown below that applies to you.		
<ul style="list-style-type: none"> <li>• Single, head of household, or married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter \$55,000</li> <li>• Qualifying widow(er), enter \$75,000</li> <li>• Married filing jointly, enter \$75,000 in both columns. But if you checked "No" on either line 1a or 1b, enter \$160,000 for the person who was not covered by a plan</li> <li>• Married filing separately and you lived with your spouse at any time in 2004, enter \$10,000</li> </ul>	2a. <u>75,000.00</u>	2b. <u>160,000.00</u>
3. Enter the amount from Form 1040A, line 15	3. <u>23,400.00</u>	
4. Enter the amount, if any, from Form 1040A, line 16	4. <u>          </u>	
5. Subtract line 4 from line 3. Enter the result in both columns	5a. <u>23,400.00</u>	5b. <u>23,400.00</u>
6. Is the amount on line 5 less than the amount on line 2?		
<input type="checkbox"/> No.  None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606.		
<input checked="" type="checkbox"/> Yes. Subtract line 5 from line 2 in each column. <b>If the result is \$10,000 or more, enter \$3,000 (\$3,500 if age 50 or older at the end of 2004) on line 7 for that column and go to line 8.</b> Otherwise, go to line 7	6a. <u>51,600.00</u>	6b. <u>136,600.00</u>
7. Multiply lines 6a and 6b by 30% (.30) (or by 35% (.35) in the column for the IRA of a person who is age 50 or older at the end of 2004). If the result is not a multiple of \$10, increase it to the next multiple of \$10 (for example, increase \$490.30 to \$500). If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200	7a. <u>3,000.00</u>	7b. <u>3,000.00</u>
8. Enter the amount from Form 1040A, line 7	8. <u>23,400.00</u>	
<p> <b>CAUTION</b> If married filing jointly and line 8 is less than \$6,000 (\$6,500 if one spouse is age 50 or older at the end of 2004; \$7,000 if both spouses are age 50 or older at the end of 2004), <b>stop here</b> and see Pub. 590 to figure your IRA deduction.</p>		
9. Enter traditional IRA contributions made, or that will be made by April 15, 2005, for 2004 to your IRA on line 9a and to your spouse's IRA on line 9b	9a. <u>500.00</u>	9b. <u>500.00</u>
10. On line 10a, enter the <b>smallest</b> of line 7a, 8, or 9a. On line 10b, enter the <b>smallest</b> of line 7b, 8, or 9b. This is the most you can deduct. Add the amounts on lines 10a and 10b and enter the total on Form 1040A, line 17. Or, if you want, you may deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)	10a. <u>500.00</u>	10b. <u>500.00</u>
<p> <b>TIP</b> You may also be able to take the retirement savings contributions credit. See the instructions for line 33 on page 37.</p>		

Need more information or forms? See page 7.

## **Nondeductible IRA Contributions**

Although the deductible amount of traditional IRA contributions can be reduced or eliminated because of the modified adjusted gross income limitation, a taxpayer can make nondeductible contributions to new or existing traditional IRAs. Earnings and gains on these contributions are not taxed until they are distributed to the taxpayer.

The total traditional IRA contribution, whether deductible or nondeductible, cannot be more than the taxpayer's taxable compensation or \$3,000 (\$3,500 if age 50 or older), whichever amount is smaller.

Taxpayers must complete Form 8606, *Nondeductible IRAs*, for each year that nondeductible contributions are made.

If taxpayers do not report nondeductible contributions, all of the contributions to a traditional IRA will be treated as deductible. This means all distributions will be taxed unless the taxpayer can show, with satisfactory evidence, that nondeductible contributions were made.

### **Example 13**


Rachel, age 35, is single and wants to contribute the maximum amount possible to her traditional IRA. She is covered by her employer's retirement plan and her total income, Form 1040, Line 22, is \$47,000. Her total basis in traditional IRAs from line 14 of her 2003 Form 8606 is \$10,000. The completed IRA Deduction Worksheet and Form 8606 are shown in Exhibits 2 and 3.




IRA Deduction Worksheet—Line 25

Keep for Your Records

**Before you begin:**

- ✓ Complete Form 1040, lines 28 through 34a, if they apply to you.
- ✓ Figure any write-in adjustments to be entered on the dotted line next to line 35 (see page 33).
- ✓ Be sure you have read the list that begins on page 29.



	Your IRA	Spouse's IRA
1a. Were you covered by a retirement plan (see above)?	1a. <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
b. If married filing jointly, was your spouse covered by a retirement plan?		1b. <input type="checkbox"/> Yes <input type="checkbox"/> No
<p><b>Next.</b> If you checked "No" on line 1a (and "No" on line 1b if married filing jointly), skip lines 2 through 6, enter \$3,000 (\$3,500 if age 50 or older at the end of 2004) on line 7a (and 7b if applicable), and go to line 8. Otherwise, go to line 2.</p>		
2. Enter the amount shown below that applies to you.		
<ul style="list-style-type: none"> <li>• Single, head of household, or married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter \$55,000</li> <li>• Qualifying widow(er), enter \$75,000</li> <li>• Married filing jointly, enter \$75,000 in both columns. But if you checked "No" on either line 1a or 1b, enter \$160,000 for the person who was not covered by a plan</li> <li>• Married filing separately and you lived with your spouse at any time in 2004, enter \$10,000</li> </ul>	2a. <u>55,000.00</u>	2b. <u>          </u>
3. Enter the amount from Form 1040, line 22	3. <u>47,000.00</u>	
4. Enter the total of the amounts from Form 1040, lines 23, 24, 28 through 34a, plus any write-in adjustments you entered on the dotted line next to line 35	4. <u>          </u>	
5. Subtract line 4 from line 3. Enter the result in both columns	5a. <u>47,000.00</u>	5b. <u>          </u>
6. Is the amount on line 5 less than the amount on line 2?		
<input type="checkbox"/> <b>No.</b>  None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606.		
<input checked="" type="checkbox"/> <b>Yes.</b> Subtract line 5 from line 2 in each column. <b>If the result is \$10,000 or more, enter \$3,000 (\$3,500 if age 50 or older at the end of 2004) on line 7 for that column and go to line 8.</b> Otherwise, go to line 7.	6a. <u>8,000.00</u>	6b. <u>          </u>
7. Multiply lines 6a and 6b by 30% (.30) (or by 35% (.35) in the column for the IRA of a person who is age 50 or older at the end of 2004). If the result is not a multiple of \$10, increase it to the next multiple of \$10 (for example, increase \$490.30 to \$500). If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200	7a. <u>2,400.00</u>	7b. <u>          </u>
8. Enter your wages, and your spouses if filing jointly, and other earned income from Form 1040, minus any deductions on Form 1040, lines 30 and 32. Do not reduce wages by any loss from self-employment	8. <u>47,000.00</u>	
<p> <b>CAUTION</b> If married filing jointly and line 8 is less than \$6,000 (\$6,500 if one spouse is age 50 or older at the end of 2004; \$7,000 if both spouses are age 50 or older at the end of 2004), <b>stop here and see Pub. 590 to figure your IRA deduction.</b></p>		
9. Enter traditional IRA contributions made, or that will be made by April 15, 2005, for 2004 to your IRA on line 9a and to your spouse's IRA on line 9b	9a. <u>3,000.00</u>	9b. <u>          </u>
10. On line 10a, enter the <b>smallest</b> of line 7a, 8, or 9a. On line 10b, enter the <b>smallest</b> of line 7b, 8, or 9b. This is the most you can deduct. Add the amounts on lines 10a and 10b and enter the total on Form 1040, line 25. Or, if you want, you may deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)	10a. <u>2,400.00</u>	10b. <u>          </u>
<p> <b>TIP</b> You may be able to take the retirement savings contributions credit. See the instructions for line 52 on page 39.</p>		

Form <b>8606</b> Department of the Treasury Internal Revenue Service	<b>Nondeductible IRAs</b> ▶ See separate instructions. ▶ Attach to Form 1040, Form 1040A, or Form 1040NR.	OMB No. 1545-1007 <div style="font-size: 2em; font-weight: bold; text-align: center;">2004</div> Attachment Sequence No. <b>48</b>
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Name. If married, file a separate form for each spouse required to file Form 8606. See page 5 of the instructions. Your social security number

**RACHEL GREEN** 000 : 00 : 6220

<b>Fill in Your Address Only if You Are Filing This Form by Itself and Not With Your Tax Return</b>	Home address (number and street, or P.O. box if mail is not delivered to your home)	Apt. no.
	City, town or post office, state, and ZIP code	

**Part I Nondeductible Contributions to Traditional IRAs and Distributions From Traditional, SEP, and SIMPLE IRAs**

Complete this part only if:

- You made nondeductible contributions to a traditional IRA for 2004,
- You took distributions from a traditional, SEP, or SIMPLE IRA in 2004 (other than a rollover, conversion, recharacterization, or return of certain contributions) **and** you made nondeductible contributions to a traditional IRA in 2004 or an earlier year, **or**
- You converted part, but not all, of your traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2004 (excluding any portion you recharacterized) **and** you made nondeductible contributions to a traditional IRA in 2004 or an earlier year.

1 Enter your nondeductible contributions to traditional IRAs for 2004, including those made for 2004 from January 1, 2005, through April 15, 2005 (see page 5 of the instructions) . . . . .	1	600					
2 Enter your total basis in traditional IRAs (see page 6 of the instructions) . . . . .	2	10,000					
3 Add lines 1 and 2 . . . . .	3	10,600					
<table border="0" style="width:100%;"> <tr> <td style="border: 1px solid black; padding: 5px;"> <b>In 2004, did you take a distribution from traditional, SEP, or SIMPLE IRAs or make a Roth IRA conversion?</b> </td> <td style="padding: 5px;"> <b>No</b> → Enter the amount from line 3 on line 14. Do not complete the rest of Part I.                 </td> </tr> <tr> <td></td> <td style="padding: 5px;"> <b>Yes</b> → Go to line 4.                 </td> </tr> </table>				<b>In 2004, did you take a distribution from traditional, SEP, or SIMPLE IRAs or make a Roth IRA conversion?</b>	<b>No</b> → Enter the amount from line 3 on line 14. Do not complete the rest of Part I.		<b>Yes</b> → Go to line 4.
<b>In 2004, did you take a distribution from traditional, SEP, or SIMPLE IRAs or make a Roth IRA conversion?</b>	<b>No</b> → Enter the amount from line 3 on line 14. Do not complete the rest of Part I.						
	<b>Yes</b> → Go to line 4.						
4 Enter those contributions included on line 1 that were made from January 1, 2005, through April 15, 2005 . . . . .	4						
5 Subtract line 4 from line 3 . . . . .	5						
6 Enter the value of <b>all</b> your traditional, SEP, and SIMPLE IRAs as of December 31, 2004, plus any outstanding rollovers (see page 6 of the instructions) . . . . .	6						
7 Enter your distributions from traditional, SEP, and SIMPLE IRAs in 2004. <b>Do not</b> include rollovers, conversions to a Roth IRA, certain returned contributions, or recharacterizations of traditional IRA contributions (see page 6 of the instructions) . . . . .	7						
8 Enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2004. <b>Do not</b> include amounts converted that you later recharacterized (see page 6 of the instructions). Also enter this amount on line 16 . . . . .	8						
9 Add lines 6, 7, and 8 . . . . .	9						
10 Divide line 5 by line 9. Enter the result as a decimal rounded to at least 3 places. If the result is 1.000 or more, enter "1.000" . . . . .	10	×					
11 Multiply line 8 by line 10. This is the nontaxable portion of the amount you converted to Roth IRAs. Also enter this amount on line 17 . . . . .	11						
12 Multiply line 7 by line 10. This is the nontaxable portion of your distributions that you did not convert to a Roth IRA . . . . .	12						
13 Add lines 11 and 12. This is the nontaxable portion of all your distributions . . . . .	13						
14 Subtract line 13 from line 3. This is <b>your total basis in traditional IRAs for 2004 and earlier years</b> . . . . .	14	10,600					
15 <b>Taxable amount.</b> Subtract line 12 from line 7. Also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b . . . . .	15						



### Exercise 3

Bill and Kathy are both employed and each earned \$15,000 in 2004. Both Bill and Kathy are age 32. Bill was covered by an employer retirement plan but Kathy was not. In July 2004, Bill contributed \$1,200 to his 2004 traditional IRA. In February 2005, he contributed \$800 to his 2004 traditional IRA. Kathy contributed \$400 to her 2004 traditional IRA. They file a joint return. Their total income on line 22 is \$30,000. They have no other adjustments to income.

Complete their IRA deduction worksheet (Exhibit 4).

### Additional Taxes and Penalties

Taxpayers are generally subject to additional taxes and penalties for:

- Contributing more to a traditional IRA than is allowed,
- Making traditional IRA withdrawals before age 59 1/2, and
- Not withdrawing enough traditional IRA funds after age 70 1/2.
- Investing in collectibles
- Prohibited transactions, such as borrowing money from one's own IRA or selling property to it.

There are penalties for overstating the amount of nondeductible contributions and for failure to file Form 8606, if required.

### Credit for Qualified Retirement Savings Contribution

Refer to Lesson 6 to determine if a taxpayer is also eligible to receive the credit for qualified retirement savings contributions based on their contributions to an IRA.

IRA Deduction Worksheet—Line 25

Keep for Your Records

**Before you begin:**

- ✓ Complete Form 1040, lines 28 through 34a, if they apply to you.
- ✓ Figure any write-in adjustments to be entered on the dotted line next to line 35 (see page 33).
- ✓ Be sure you have read the list that begins on page 29.



	Your IRA	Spouse's IRA
1a. Were you covered by a retirement plan (see above)?	1a. <input type="checkbox"/> Yes <input type="checkbox"/> No	
1b. If married filing jointly, was your spouse covered by a retirement plan?		1b. <input type="checkbox"/> Yes <input type="checkbox"/> No
<p><b>Next.</b> If you checked "No" on line 1a (and "No" on line 1b if married filing jointly), skip lines 2 through 6, enter \$3,000 (\$3,500 if age 50 or older at the end of 2004) on line 7a (and 7b if applicable), and go to line 8. Otherwise, go to line 2.</p>		
2. Enter the amount shown below that applies to you.	2a. <input style="width: 100px;" type="text"/>	2b. <input style="width: 100px;" type="text"/>
<ul style="list-style-type: none"> <li>• Single, head of household, or married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter \$55,000</li> <li>• Qualifying widow(er), enter \$75,000</li> <li>• Married filing jointly, enter \$75,000 in both columns. But if you checked "No" on either line 1a or 1b, enter \$160,000 for the person who was not covered by a plan</li> <li>• Married filing separately and you lived with your spouse at any time in 2004, enter \$10,000</li> </ul>		
3. Enter the amount from Form 1040, line 22	3. <input style="width: 100px;" type="text"/>	
4. Enter the total of the amounts from Form 1040, lines 23, 24, 28 through 34a, plus any write-in adjustments you entered on the dotted line next to line 35	4. <input style="width: 100px;" type="text"/>	
5. Subtract line 4 from line 3. Enter the result in both columns	5a. <input style="width: 100px;" type="text"/>	5b. <input style="width: 100px;" type="text"/>
6. Is the amount on line 5 less than the amount on line 2?		
<input type="checkbox"/> No.  None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606.		
<input type="checkbox"/> Yes. Subtract line 5 from line 2 in each column. <b>If the result is \$10,000 or more, enter \$3,000 if age 50 or older at the end of 2004 on line 7 for that column and go to line 8.</b> Otherwise, go to line 7	6a. <input style="width: 100px;" type="text"/>	6b. <input style="width: 100px;" type="text"/>
7. Multiply lines 6a and 6b by 30% (.30) (or by 35% (.35) in the column for the IRA of a person who is age 50 or older at the end of 2004). If the result is not a multiple of \$10, increase it to the next multiple of \$10 (for example, increase \$490.30 to \$500). If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200	7a. <input style="width: 100px;" type="text"/>	7b. <input style="width: 100px;" type="text"/>
8. Enter your wages, and your spouses if filing jointly, and other earned income from Form 1040, minus any deductions on Form 1040, lines 30 and 32. Do not reduce wages by any loss from self-employment	8. <input style="width: 100px;" type="text"/>	
<b>CAUTION</b> If married filing jointly and line 8 is less than \$6,000 (\$6,500 if one spouse is age 50 or older at the end of 2004; \$7,000 if both spouses are age 50 or older at the end of 2004), <b>stop here</b> and see Pub. 590 to figure your IRA deduction.		
9. Enter traditional IRA contributions made, or that will be made by April 15, 2005, for 2004 to your IRA on line 9a and to your spouse's IRA on line 9b	9a. <input style="width: 100px;" type="text"/>	9b. <input style="width: 100px;" type="text"/>
10. On line 10a, enter the <b>smallest</b> of line 7a, 8, or 9a. On line 10b, enter the <b>smallest</b> of line 7b, 8, or 9b. This is the most you can deduct. Add the amounts on lines 10a and 10b and enter the total on Form 1040, line 25. Or, if you want, you may deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)	10a. <input style="width: 100px;" type="text"/>	10b. <input style="width: 100px;" type="text"/>
<b>TIP</b> You may be able to take the retirement savings contributions credit. See the instructions for line 52 on page 39.		

## **STUDENT LOAN INTEREST DEDUCTION**

If a taxpayer paid interest on a student loan in 2004, he or she may be able to deduct up to \$2,500 of the interest paid.

If the taxpayer paid \$600 or more in interest to a single lender, the taxpayer should receive a statement from the lender showing the amount of interest paid. This information will assist you in completing the student loan interest deduction.

### **Qualified Student Loan Interest**

Generally, student loan interest is the interest paid during the year on a loan for qualified higher education expenses that were:

1. For the taxpayer, the taxpayer's spouse, or a person who was the taxpayer's dependent when the loan was obtained.
2. Paid within a reasonable period of time before or after obtaining the loan, and
3. For an eligible student.

Interest can be the interest paid during the life of the loan (voluntary and required interest payments), loan origination fees, capitalized interest, interest on revolving lines of credit, and interest on refinanced student loans.

Interest does not include interest on any of the following:

1. A loan from a related person.
2. A loan from a qualified employer plan.
3. A loan for which the taxpayer is not legally liable.

### **Who Can Claim the Deduction**

Generally, a taxpayer can claim the deduction if all the following requirements are met:

1. Taxpayer cannot use married filing separately filing status.
2. Taxpayer cannot be claimed as a dependent on someone else's return.
3. The interest is on a loan to pay tuition and other qualified higher education expenses for the taxpayer, the taxpayer's spouse, or someone whom the taxpayer can claim as a dependent, when the loan was taken out.
4. The education expenses were paid or incurred within a reasonable period of time before or after the loan was taken out.
5. The person for whom the expenses were paid or incurred was an eligible student.

## Qualified Higher Education Expenses

Generally, qualified higher education expenses include tuition and fees; room and board; books, supplies and equipment; and other necessary expenses.

These costs must be reduced by the following:

1. Employer provided educational assistance benefits.
2. Tax-free withdrawals from a Coverdell ESA.
3. Tax-free withdrawals from a qualified tuition program.
4. U.S. savings bond interest excluded from income because it is used to pay qualified higher education expenses.
5. Certain scholarships.
6. Veteran's educational assistance benefits.
7. Any other nontaxable payments (other than gifts, bequests, or inheritances) received for educational expenses.

## Eligible educational institution

An eligible educational institution is any college, university, vocational school or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education. It includes virtually all accredited public, nonprofit, and privately owned profit-making postsecondary institutions.

For the student loan interest deduction only, an eligible educational institution also includes an institution conducting an internship or residency program leading to a degree or certificate from an institution of higher education, hospital, or health care facility that offers postgraduate training.

If a taxpayer does not know if the educational institution is an eligible institution, the taxpayer should contact the school.

## Eligible student

An eligible student is a student who is enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential.

The standard for what is half the normal full-time work load is determined by each eligible educational institution.

## Deduction Limits

The student loan interest deduction is generally the smaller of \$2,500 or the interest payments paid in 2004.

This amount may be gradually reduced (phased out) or eliminated based on the taxpayer's filing status and modified adjusted gross income (MAGI). Table 3 depicts when the limits apply.

**Table 3**

<b>Limit on Student Loan Interest Deduction</b>		
If your filing status is	AND your modified AGI is	THEN...
Single, head of household, or qualifying widow(er)	\$50,000 or less	You can deduct all your interest, up to \$2,500
	More than \$50,000, but less than \$65,000	Your deduction is limited
	\$65,000 or more	You cannot claim this deduction.
Married filing jointly	\$100,000 or less	You can deduct all your interest up to \$2,500
	More than \$100,000, but less than \$130,000	Your deduction is limited
	\$130,000 or more	You cannot claim this deduction.

**Figuring the Deduction**

Use the Student Loan Interest Deduction worksheet found in the Form 1040 or Form 1040A instructions to figure the deduction.

**Claiming the Deduction**

The student loan interest deduction is entered on Form 1040, Line 26, or Form 1040A, Line 18.

**Example 14**

During 2004, Rick paid \$2,650 in qualified interest on his student loan. His total income, Form 1040, line 22, is \$35,000. He has no other adjustments to his income. His completed student loan interest deduction worksheet, Exhibit 5, shows Rick is entitled to \$2,500. Although his MAGI falls within the income limits, he is only entitled to a maximum \$2,500 deduction.

**Before you begin:**

- ✓ Complete Form 1040, lines 28 through 34a, if they apply to you.
- ✓ Figure any write-in adjustments to be entered on the dotted line next to line 35 (see page 33).
- ✓ See the instructions for line 26 that begin on this page.
- ✓ Be sure you have read the **Exception** above to see if you can use this worksheet instead of Pub. 970 to figure your deduction.



1. Enter the total interest you paid in 2004 on qualified student loans (defined above). <b>Do not</b> enter more than \$2,500	1.	2,500.00
2. Enter the amount from Form 1040, line 22	2.	35,000.00
3. Enter the total of the amounts from Form 1040, lines 23 through 25, 28 through 34a, plus any write-in adjustments you entered on the dotted line next to line 35	3.	
4. Subtract line 3 from line 2	4.	35,000.00
5. Enter the amount shown below for your filing status.		
• Single, head of household, or qualifying widow(er)—\$50,000	5.	50,000.00
• Married filing jointly—\$100,000		
6. Is the amount on line 4 more than the amount on line 5?	6.	
<input checked="" type="checkbox"/> <b>No.</b> Skip lines 6 and 7, enter -0- on line 8, and go to line 9.		
<input type="checkbox"/> <b>Yes.</b> Subtract line 5 from line 4		
7. Divide line 6 by \$15,000 (\$30,000 if married filing jointly). Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000	7.	.
8. Multiply line 1 by line 7	8.	
9. <b>Student loan interest deduction.</b> Subtract line 8 from line 1. Enter the result here and on Form 1040, line 26. <b>Do not</b> include this amount in figuring any other deduction on your return (such as on Schedule A, C, E, etc.)	9.	2,500.00

## **TUITION AND FEES DEDUCTION**

Taxpayers can deduct an amount equal to the qualified tuition and related expenses paid during the tax year as an adjustment to income. The adjustment is reported on Form 1040, Line 27, or Form 1040A, Line 19.

To claim the deduction the taxpayer must have incurred **qualified expenses** for an **eligible student** to attend an **eligible educational institution** during the tax year. In addition, the taxpayer must include on the tax return the name and taxpayer identification number of the qualified student.

### **Qualified Expenses**

Qualified tuition and related expenses include tuition and fees required for enrollment or attendance at an eligible educational institution and generally include fees for:

- Course-related books, supplies and equipment, and

The fees must be paid to the institution as a condition of enrollment or attendance.

Qualified tuition and related expenses do not include the cost of:

- Insurance,
- Medical expenses (including student health fees),
- Room and board,
- Student activities.
- Transportation or similar personal, living or family expenses, even if the fees must be paid to the institution as a condition of enrollment or attendance.
- Athletic fees.
- Other expenses unrelated to an individual's academic course of instruction.

### **Eligible Student**

The deduction can be claimed for the taxpayer, the taxpayer's spouse (if filing a joint return) and any dependent (for whom the taxpayer claims a dependency exemption).

***Married taxpayers that file as married filing separately cannot take the deduction.***

An individual who is the dependent of another taxpayer cannot claim the deduction.

### **Eligible Educational Institution**

An eligible educational institution is generally any accredited public, nonprofit, or private postsecondary institution eligible to participate in the student aid programs administered by the

Department of Education. It includes virtually all accredited, public, nonprofit, and privately owned profit-making post secondary institutions.

If the taxpayer does not know if the educational institution is an eligible institution, he or she should contact the school.

### Deduction Amount

The deduction amount is determined by the taxpayer's filing status and adjusted gross income. Table 4 depicts when the income limitations apply.

The total amount of qualified tuition and related expenses are reduced by:

- Distributions from qualified state tuition programs
- Distributions from Coverdell ESAs
- Interest from savings bonds used for higher education expenses

**Table 4. Limit on Tuition and Fees Deduction**

<b>IF your filing status is...</b>	<b>AND your modified AGI is...</b>	<b>THEN...</b>
Single, Head of Household, or Qualifying widow(er)	Equal to or less than \$65,000	You can deduct all of your qualified tuition and fees up to \$3,000.
	More than \$65,000	You cannot claim the credit
Married filing jointly	Equal to or less than \$130,000	You can deduct all of your qualified tuition and fees up to \$3,000
	More than \$130,000	You cannot claim the credit.
Married filing separately	Any amount	You cannot claim the credit.

Modified adjusted gross income for purposes of the deduction for qualified tuition and related fees is adjusted gross income before the deduction for qualified tuition and related fees and after adding back the following:

- Foreign earned income exclusion,
- Foreign housing exclusion or deduction,
- Exclusion of income for bona fide residents of Guam, Puerto Rico, American Samoa, or the Northern Mariana Islands.



## Figuring the Deduction


Use the Tuition and Fees Deduction worksheet found in the Form 1040 or Form 1040A instructions to figure the modified adjusted gross income and the resulting deduction amount.

### Example 15

Luis and Priscilla file a joint return for 2004. Their 1040 line 22 total income is \$49,620. In 2004, Priscilla paid \$1,300 for classes taken at the local university. She had allowable IRA deductions of \$1,500. Their allowable tuition and fees deduction is \$1,300, shown in Exhibit 6.

Exhibit 6

Luis and Priscilla's Tuition and Fees Deduction Worksheet

Tuition and Fees Deduction Worksheet—Line 27		<i>Keep for Your Records</i>
<p><b>Before you begin:</b></p> <ul style="list-style-type: none"> <li>✓ Complete Form 1040, lines 28 through 34a, if they apply to you.</li> <li>✓ Figure any write-in adjustments to be entered on the dotted line next to line 35 (see page 33).</li> <li>✓ See the instructions for line 27 above.</li> <li>✓ Be sure you have read the <b>Exception</b> above to see if you can use this worksheet instead of Pub. 970 to figure your deduction.</li> </ul>		
1. Enter the amount from Form 1040, line 22	1.	49,620.00
2. Enter the total of the amounts from Form 1040, lines 23 through 26, 28 through 34a, plus any write-in adjustments you entered on the dotted line next to line 35	2.	1,500.00
3. Subtract line 2 from line 1. If the result is more than \$80,000 (\$160,000 if married filing jointly),  You cannot take the deduction for tuition and fees	3.	48,120.00
4. <b>Tuition and fees deduction.</b> Is the amount on line 3 more than \$65,000 (\$130,000 if married filing jointly)?	4.	1,300.00
<input type="checkbox"/> <b>Yes.</b> Enter the total qualified tuition and fees (defined above) you paid in 2004. <b>Do not</b> enter more than \$2,000. Also, enter this amount on Form 1040, line 27.		

## No Double Benefits

A taxpayer cannot:

- Deduct qualified tuition and related expenses if the same expense is deductible on a different line of the return.
- Claim the Hope credit or the lifetime learning credit for an individual in the same year as a deduction for qualified tuition and related expenses are claimed.
- Claim a credit based on expenses paid with a tax-free scholarship, grant, or an employer-provided educational assistance.

## ONE-HALF OF SELF-EMPLOYMENT TAX

Report on Form 1040, Line 30, the adjustment for one-half of self-employment tax from Schedule SE. This subject was covered in Lesson 2, for volunteers who will be helping self-employed taxpayers.

## ***PENALTY ON EARLY WITHDRAWAL OF SAVINGS***

Depositors may withdraw funds from ordinary savings accounts any time they wish. However, if they withdraw funds from a time deposit (such as a certificate of deposit) before the maturity date, a penalty is charged. Form 1099-INT reports the interest earned as well as any early withdrawal penalties.

As you learned in Lesson 2, taxpayers must report the total amount of interest earned. They cannot subtract the early withdrawal penalty from the interest earned and report the difference. The early withdrawal penalty can be claimed as an adjustment only on Form 1040, Line 33. The entire penalty is deducted, even if it is greater than the interest income.

### **Example 16**

Arlene has one Form W-2 and one Form 1099-INT and no other income. Her Form 1099-INT shows both interest income and an early withdrawal penalty. Arlene does not pay alimony, and she did not make a contribution to a traditional IRA. She will not itemize deductions, and she cannot claim any tax credits. Normally, she would be able to file Form 1040A.

However, Arlene must file Form 1040 to claim the adjustment for the penalty on early withdrawal of savings.

## ***ALIMONY PAID***

As you learned in Lesson 2, alimony and separate maintenance payments are taxable to the person receiving these payments. The person paying the alimony or separate maintenance can claim it as an adjustment to income. This adjustment can be claimed only on Form 1040. The amount paid during the year and the recipient's social security number are entered on Line 34a and 34b, respectively. Claim the adjustment only for amounts paid during the tax year.

Child support is not the same as alimony or separate maintenance payments. Child support is not taxable to the recipient and cannot be claimed as an adjustment by the payer.

## ***JURY DUTY PAY GIVEN TO EMPLOYER***

As you learned in Lesson 2, *Income*, jury duty pay received by taxpayers is included in other income on line 21 of Form 1040.

Some employees receive their regular wages from their employers when they are serving on a jury instead of working at their jobs. Often the jury duty pay the employees receive is turned over to their employers. The amount given to the employer may be claimed as an adjustment to income. On the dotted line next to Line 35, write "jury pay" and the amount. Include jury duty pay with the adjustments claimed on Lines 23 through 35.

## **OTHER ADJUSTMENTS**

The other adjustments that can be claimed on Form 1040 are beyond the scope of the VITA/TCE Program. Taxpayers who have adjustments that aren't discussed in this lesson should be advised to seek paid professional tax assistance.

## **TOTAL ADJUSTMENTS AND ADJUSTED GROSS INCOME**

Add all adjustments and enter the total on Form 1040A, line 20, or Form 1040, line 35. Subtract the total adjustments from total income on Form 1040A, line 15, or Form 1040, line 22. Enter the result on Form 1040A, line 21, or Form 1040, line 36. This is **adjusted gross income** and is often referred to as **"AGI."** Adjusted gross income is used to compute some limitations, such as the medical and dental deduction on Schedule A and the credit for child and dependent care expenses.

## **TAXWISE HINTS**

TaxWise will quickly complete any worksheets needed to determine adjustments to income.

There is one worksheet for student loan interest deduction and tuition and fees deduction. You can link to this form from Form 1040, Lines 26 or 27.

Link to the Deductible and Non-deductible IRA Worksheet from Form 1040, Line 25. Once the IRA contribution is input for the taxpayer (and spouse if married), TaxWise will complete the Form 8606, if necessary, and input the entry on Form 1040, Line 25.

One half the self employment tax will be entered automatically when completing Schedule C or C-EZ.

The penalty on withdrawal from savings should be entered by linking to the Interest Received Worksheet. This worksheet is a link from Schedule B.

TaxWise breaks out the remaining adjustments. Simply input the appropriate amount.

## ▶▶ SUMMING UP THIS LESSON ◀◀

- An adjustment is an amount subtracted from total income. The result is adjusted gross income.
- Adjustments covered in the VITA program are:
  - ▶ Contributions to a traditional IRA
  - ▶ Student loan interest deduction
  - ▶ Tuition and fees paid
  - ▶ One-half of self-employment tax paid (volunteers trained to prepare Schedule C-EZ and SE can assist taxpayers claiming this adjustment)
  - ▶ Penalty on early withdrawal of savings
  - ▶ Alimony paid
  - ▶ Jury duty pay given to employer
  - ▶ The adjustments for traditional IRA contributions, student loan interest deduction, tuition and fees deduction, and educator expenses deduction can be claimed either on Form 1040A or Form 1040. The other adjustments can be claimed on Form 1040 only.
- Persons 70 1/2 years of age or older by the end of the tax year cannot make traditional IRA contributions for that tax year.
- Traditional IRA contributions generally cannot be more than the taxpayer's taxable compensation or \$3,000 (\$3,500 if age 50 or older), whichever amount is smaller.
- Individuals who are not covered by retirement plans at work may make deductible IRA contributions regardless of their modified adjusted gross income. Taxpayers who are covered by retirement plans at work may deduct all, part, or none of their traditional IRA contributions depending on their modified adjusted gross income and filing status.
- Taxpayers may be subject to additional tax for contributing more to a traditional IRA than is allowed, making traditional IRA withdrawals before age 59 1/2, and not withdrawing enough traditional IRA funds after 70 1/2.

**Exercise 1**

- (A) Yes; alimony is considered compensation for traditional IRA purposes.
- (B) Yes; But only if they file a joint return.
- (C) No; Carla has no compensation for traditional IRA purposes.
- (D) \$1,250; The lesser of taxable compensation or \$3,500.

**Exercise 2**

- (A) Yes; all of her contribution up to \$3,000 is deductible because their combined modified adjusted gross income is not more than \$150,000.
- (B) Yes; all of it is deductible because her modified adjusted gross income is less than \$45,000.
- (C) Richard may not deduct any of his contribution because his modified adjusted gross income is at least \$10,000. Lynn will be able to deduct a portion of her IRA contribution because she is not covered by an employer-sponsored retirement plan and her income is less than \$10,000.

Exercise 3

Bill and Kathy's IRA Deductions Worksheet

IRA Deduction Worksheet—Line 17

Keep for Your Records

**Before you begin:** ✓ Be sure you have read the list on page 26.



	Your IRA	Spouse's IRA
1a. Were you covered by a retirement plan (see page 29)?	1a. <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
b. If married filing jointly, was your spouse covered by a retirement plan?		1b. <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<p><b>Next.</b> If you checked "No" on line 1a (and "No" on line 1b if married filing jointly), skip lines 2 through 6, enter \$3,000 (\$3,500 if age 50 or older at the end of 2004) on line 7a (and 7b if applicable), and go to line 8. Otherwise, go to line 2.</p>		
2. Enter the amount shown below that applies to you.		
<ul style="list-style-type: none"> <li>• Single, head of household, or married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter \$55,000</li> <li>• Qualifying widow(er), enter \$75,000</li> <li>• Married filing jointly, enter \$75,000 in both columns. But if you checked "No" on either line 1a or 1b, enter \$160,000 for the person who was not covered by a plan</li> <li>• Married filing separately and you lived with your spouse at any time in 2004, enter \$10,000</li> </ul>	2a. <u>75,000.00</u>	2b. <u>160,000.00</u>
3. Enter the amount from Form 1040A, line 15	3. <u>30,000.00</u>	
4. Enter the amount, if any, from Form 1040A, line 16	4. <u>                    </u>	
5. Subtract line 4 from line 3. Enter the result in both columns	5a. <u>30,000.00</u>	5b. <u>30,000.00</u>
6. Is the amount on line 5 less than the amount on line 2?		
<input type="checkbox"/> No.  None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606.		
<input checked="" type="checkbox"/> Yes. Subtract line 5 from line 2 in each column. <b>If the result is \$10,000 or more, enter \$3,000 (\$3,500 if age 50 or older at the end of 2004) on line 7 for that column and go to line 8.</b> Otherwise, go to line 7	6a. <u>51,600.00</u>	6b. <u>130,000.00</u>
7. Multiply lines 6a and 6b by 30% (.30) (or by 35% (.35) in the column for the IRA of a person who is age 50 or older at the end of 2004). If the result is not a multiple of \$10, increase it to the next multiple of \$10 (for example, increase \$490.30 to \$500). If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200	7a. <u>3,000.00</u>	7b. <u>3,000.00</u>
8. Enter the amount from Form 1040A, line 7	8. <u>30,000.00</u>	
<b>CAUTION</b> If married filing jointly and line 8 is less than \$6,000 (\$6,500 if one spouse is age 50 or older at the end of 2004; \$7,000 if both spouses are age 50 or older at the end of 2004), <b>stop here and see Pub. 590 to figure your IRA deduction.</b>		
9. Enter traditional IRA contributions made, or that will be made by April 15, 2005, for 2004 to your IRA on line 9a and to your spouse's IRA on line 9b	9a. <u>2,000.00</u>	9b. <u>400.00</u>
10. On line 10a, enter the <b>smallest</b> of line 7a, 8, or 9a. On line 10b, enter the <b>smallest</b> of line 7b, 8, or 9b. This is the most you can deduct. Add the amounts on lines 10a and 10b and enter the total on Form 1040A, line 17. Or, if you want, you may deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)	10a. <u>2,000.00</u>	10b. <u>400.00</u>



**TIP** You may also be able to take the retirement savings contributions credit. See the instructions for line 33 on page 37.

#### LESSON OVERVIEW AND OBJECTIVES

This lesson presents information about reducing adjusted gross income by using the standard deduction or itemizing deductions. Approximately 2 to 2½ hours should be devoted to covering the objectives of this lesson. See the Suggested Class Schedules in Appendix B for additional information.

After completing this lesson you should be able to:

- 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.

#### TRAINING MATERIALS AND ON-SITE RESOURCE GUIDE

This lesson will refer to the following IRS publications and forms. If you would like to provide your students with the most current revision of the publications or forms, you can download the files from [www.irs.gov](http://www.irs.gov).

- Schedule A (Form 1040)
- Standard deduction, exemption amount, taxable income and tax lines (22-28) of Form 1040A
- *Standard Deduction Chart for People Age 65 or Older or Blind* (Form 1040 Instructions)
- *Standard Deduction Worksheet for Dependents* (Form 1040 Instructions)
- *Tax and Credits section of Form 1040*
- Form 2106, *Employee Business Expenses*
- Publication 4012, *Volunteer Resource Guide* is included in each student training kit. The publication is designed for both classroom and actual site usage. Direct the student to the tab entitled Standard Deductions for this lesson and make sure the student is aware of the content of the tab and how it should be used when assisting taxpayers. For additional technical information about this topic see the applicable chapter of Publication 17, *Your Federal Tax (For Individual)*.

## ADDITIONAL RESOURCES

- Publication 530, *Tax Information for First-Time Homeowners*
- Publication 529, *Miscellaneous Deductions*
- Publication 502, *Medical and Dental Expenses*
- Publication 463, *Travel, Entertainment, Gift, and Car Expenses*

## TEACHING TIPS — STANDARD DEDUCTIONS

Emphasize the criteria that apply for blindness listed below.

1. A taxpayer who was totally blind on the last day of 2004 should attach a statement to the tax return describing the blindness.
2. A taxpayer who was partially blind on the last day of 2004 must get a certified statement from an eye physician or registered optometrist, verifying that the taxpayer's vision in the best eye is not better than 20/200 with glasses or contact lenses, or that the field of vision is not more than 20 degrees. If the taxpayer's partial vision will never improve beyond one of these two conditions, he or she also must get a statement attesting to this. The taxpayer must keep the statement for his or her records.

## TEACHING TIPS — ITEMIZED DEDUCTIONS

1. **Explain the procedure to follow when you start page 2 of Form 1040A or 1040.**  
(Transfer the adjusted gross income from line 21 or 36 to line 22 or 37, respectively.)
2. **Identify at least two reference tools used to compute taxpayers' standard deduction.**  
(*Standard Deduction Chart for People Age 65 or Older or Blind, and Standard Deduction Worksheet for Dependents.*) Refer students to Publication 4012, Volunteer Resource Guide.
3. **Review with students that some taxpayers may itemize deductions even if the standard deduction is greater.**  
When this happens, volunteers should enter "IE" (itemized elected) next to line 39, Form 1040.
4. **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 buyer).** Any other points paid for a service (such as those paid for the lender's appraisal fee) are NOT considered interest, and, therefore, are not deductible.
5. **Students should be aware that taxpayers cannot deduct as charitable contributions any money spent buying raffle tickets, playing bingo, or playing other games of chance.**





6. **Taxpayers who have made deductible contributions based on fair market value may ask volunteers if they can deduct the appraisal fees they paid to find the fair market value of the items.** Volunteers should explain to taxpayers that appraisal fees are not deductible as contributions, but as miscellaneous expenses on Schedule A, line 22.

### **GUIDED QUESTIONS — STANDARD DEDUCTIONS**

1. **Name at least three factors that determine the taxpayer's standard deduction amount.**

(The taxpayer's filing status, whether the taxpayer or the taxpayer's spouse is 65 or older and/or blind, and whether the taxpayer can be claimed as a dependent on another taxpayer's return.)

2. **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 taxpayer's standard deduction in this case is zero; if the taxpayer wishes to itemize deductions, he or she should file Form 1040.)

3. **Mary is 68 years old and blind. She cannot be claimed as a dependent on another taxpayer's return. What reference will you use to figure her standard deduction?**

*(Standard Deduction Chart for People Age 65 or Older or Blind.)*

4. **Consuela is 14 years old and is claimed as a dependent on her father's return. What reference tool will you use to figure her standard deduction?**

*(You must use the Standard Deduction Worksheet for Dependents.)*

5. **Louis and Carmella are married filing separate returns. Louis itemized his deductions on Form 1040. Can Carmella take a standard deduction?**

*(Yes, but her standard deduction amount will be zero.)*

6. **Lu is blind. Her daughter and son-in-law claim her as a dependent. What reference tool will you use to figure Lu's standard deduction?**

*(Standard Deduction Worksheet for Dependents.)*

## **GUIDED QUESTIONS — ITEMIZED DEDUCTIONS**

- 1. How do standard deductions and itemized deductions affect adjusted gross income?**  
(They are subtracted from adjusted gross income and result in a smaller taxable income.)
- 2. When might a married taxpayer lose the option to either take the standard deduction or itemize deductions?**  
(If married taxpayers are filing separate returns and one spouse itemizes deductions, the other spouse should also itemize deductions. Otherwise, his or her standard deduction is zero.)
- 3. Should itemized deductions be figured on Schedule A before or after figuring adjusted gross income?**  
Explain. (Itemized deductions should be figured on Schedule A after figuring adjusted gross income. For some itemized deductions, only the portion that exceeds a specific percentage of adjusted gross income is deductible.)
- 4. What three conditions must be met in order for a tax to be deductible?**  
((1) The tax must be imposed on the taxpayer. (2) The tax must be paid by the taxpayer. (3) The tax must be paid during the tax year.)
- 5. Can a taxpayer deduct income taxes and real estate taxes paid to a state, local, or foreign government?** (Yes; a taxpayer can deduct income taxes and real estate taxes that are paid to any of these governments.)
- 6. Are all federal, state, and local taxes, including general sales tax, deductible?**  
(No; many federal, state, and local taxes, such as general sales tax, are not deductible.)
- 7. The amount of mortgage interest that a taxpayer can deduct depends upon what three conditions?**  
(The date of the loan, the amount of the loan, and the use of the proceeds of the loan.)
- 8. After what date do restrictions apply on the deductible amount of a taxpayer's mortgage interest debt?**  
(October 13, 1987.)
- 9. 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.)



- 10. How do taxpayers use the fair market value of a charitable contribution?**  
(Taxpayers can deduct the fair market value of clothing, furniture, etc. given to qualifying organizations, and they can deduct the amount of their contribution that was in excess of the fair market value for items such as merchandise and tickets to charity balls or sporting events.)
- 11. Are all deductible contributions reported on Schedule A on the same line?**  
(No; report cash and check contributions on line 15 [the car mileage deduction for charity is treated as a cash contribution]; report all other contributions on line 16.)
- 12. Taxpayers should be referred to a paid professional tax preparer if their non-cash contributions exceed what amount?**  
(\$500)
- 13. What constitutes *Total Itemized Deductions*, reported on line 28 of Schedule A?**  
(*Total Itemized Deductions* is the sum of these deductible amounts: medical and dental expenses (line 4), taxes (line 9), interest (line 14), gifts to charity (line 18), casualty and theft losses (line 19), job expenses and most other miscellaneous deductions (line 26), and other miscellaneous deductions (line 27).)
- 14. How is the amount of *Total Itemized Deductions* used to determine the amount entered on Form 1040, line 39?**  
(The amount of *Total Itemized Deductions* is compared with the standard deduction, and then the larger amount is entered on Form 1040, line 39.)

## **LESSON REVIEW**

1. Students may ask whether the attorney's fee for drawing up a will qualifies as "tax counsel and assistance" which is deductible on Schedule A as a miscellaneous itemized deduction. Explain to students that the attorney's fee for a will is considered a "personal legal expense," and, therefore, is not a deductible expense. Review with students that in order for a legal expense to qualify as a miscellaneous itemized deduction, the expense must be incurred in one of the following ways: to produce or collect income; to manage, conserve, or maintain property held for producing income; or to determine, contest, pay, or claim a refund of any tax.
2. Tell volunteers that the 2004 exemption amount is \$3,100 for each personal and dependency exemption the taxpayer can take. This information is built into the computation on the return forms (Form 1040, line 41; Form 1040A, line 26; Form 1040EZ, line 5).

**STUDENT NOTES**



# STANDARD AND ITEMIZED DEDUCTIONS, AND TAX COMPUTATION

## Lesson 5

### INTRODUCTION AND OBJECTIVES

In this lesson you will learn about the standard deduction, itemized deductions and tax computations. You will learn which expenses can be included in itemized deductions. You will also learn when the taxpayer will use the tax tables and the Qualified Dividends and Capital Gain Tax Worksheet to compute their total tax.

After completing this lesson you should be able to:

- 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.

### STANDARD DEDUCTION

The standard deduction is a dollar amount that reduces the amount of income on which you are taxed. The **standard deduction** depends on:

- the taxpayer's filing status,
- whether the taxpayer (or the taxpayer's spouse) is 65 or older and/or blind, and
- whether the taxpayer can be claimed as a dependent on another taxpayer's return.

Based on the taxpayer's situation, you will figure the standard deduction by using one of the following:

- *Standard Deduction Chart for Most People* (Exhibit 1),
- *Standard Deduction Chart for People Age 65 or Older or Blind*, (Exhibit 2) or
- *Standard Deduction Worksheet for Dependents* (Exhibit 3).

#### ALERT



Remind students that Publication 4012, Volunteer Resource Guide, has the Standard Deduction charts, and amounts.

**Exhibit 1 Standard Deduction Chart for Most People\***

If Your Filing Status is:	Your Standard Deduction is:
Single	\$4,850
Married filing joint return or Qualifying widow(er) with dependent child	9,700
Married filing separate return	4,850
Head of household	7,150

\*Do not use this chart if you were 65 or older or blind, or if someone else can claim an exemption for you (or your spouse if married filing jointly). Use Exhibit 2 or Exhibit 3 instead.

**Exhibit 2 Standard Deduction Chart for People Age 65 or Older or Blind\***

Check the correct number of boxes below. Then go to the chart.

You 65 or older  Blind

Your spouse, if claiming spouse's exemption 65 or older  Blind

**Total number of boxes you checked**

If Your Filing Status is:	And the Number in the Box Above is:	Your Standard Deduction is:
Single	1	\$6,050
	2	7,250
Married filing joint return or Qualifying widow(er) with dependent child	1	10,650
	2	11,600
	3	12,550
	4	13,500
Married filing separate return	1	5,800
	2	6,750
	3	7,700
	4	8,650
Head of household	1	8,350
	2	9,550

\*If someone can claim an exemption for you (or your spouse if married filing jointly), use Exhibit 3, instead.



If you are married filing a separate return and your spouse itemizes deductions, or if you are a dual-status alien, you cannot take the standard deduction even if you were 65 or older or blind.

**Exhibit 3 Standard Deduction Worksheet for Dependents\***

If you were 65 or older or blind, check the correct number of boxes below. Then go to the worksheet.

You 65 or older  Blind

Your spouse, if claiming spouse's exemption 65 or older  Blind

**Total number of boxes you checked**

1. Enter your earned income (defined below). If none, enter -0-.	1. _____
2. Additional amount	2. <u>\$250</u>
3. Add lines 1 and 2.	3. _____
4. Minimum amount.	4. <u>\$800</u>
5. Enter the larger of line 3 or line 4.	5. _____
6. Enter the amount shown below for your filing status. Single or Married filing separately—\$4,850 Married filing jointly or Qualifying widow(er) with dependent child—\$9,700 Head of household—\$7,150	6. _____
7. <b>Standard deduction.</b> a. Enter the smaller of line 5 or line 6. If under 65 and not blind, stop here. This is your standard deduction. Otherwise, go on to line 7b. b. If 65 or older or blind, multiply \$1,200 (\$950 if married or qualifying widow(er) with dependent child) by the number in the box above. c. Add lines 7a and 7b. This is your standard deduction for 2004.	7a. _____ 7b. _____ 7c. _____

*Earned income includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income.*

\*Use this worksheet only if someone else can claim an exemption for you (or your spouse if married filing jointly).

**Example 1**

Bob is 55 years old and is married to Janice, age 50. If they are filing a joint return and neither is blind, they can enter \$9,700 on either Form 1040 or Form 1040A for their standard deduction amount.

**Example 2**

John is 73 years old, blind, and files a single tax return. To find his standard deduction, use the *Standard Deduction Chart for People Age 65 or Older or Blind*. His standard deduction is \$7,250.

# PERSONAL EXEMPTION IN CONNECTION WITH STANDARD DEDUCTION ON FORM 1040EZ

If the taxpayer (or his or her spouse, if married filing a joint return) can be claimed as a dependent on another taxpayer's return, check the *Yes* box on line 5 of the Form 1040EZ. To fill in the amount on line 5 for this taxpayer, you must then turn the form over and complete the worksheet (Exhibit 4 shows a completed worksheet from Form 1040EZ, page 2).

If the taxpayer (or his or her spouse, if filing a joint return) cannot be claimed as a dependent on another taxpayer's return, check the *No* box on line 5. Enter on line 5 the amount shown below that applies to the taxpayer (and spouse, if married filing jointly).

- A.** Single, enter \$7,950. This is the total of the taxpayer's standard deduction (\$4,850) and personal exemption (\$3,100).
- B.** Married, enter \$15,900. This is the total of the taxpayer's and spouse's standard deduction (\$9,700), exemption for the taxpayer (\$3,100), and exemption for the taxpayer's spouse (\$3,100).

**Exhibit 4**

**Form 1040EZ, page 2**

<p><b>Worksheet for dependents who checked "Yes" on line 5</b></p> <p><small>(keep a copy for your records)</small></p>	<p>Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married filing jointly) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, use TeleTax topic 354 (see page 6).</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">A. Amount, if any, from line 1 on front</td> <td style="text-align: right; border-bottom: 1px solid black;">4,650.00</td> <td style="width: 5%;"></td> <td style="width: 10%;"></td> <td style="width: 15%;"></td> </tr> <tr> <td></td> <td style="text-align: right; border-bottom: 1px solid black;">+ 250.00</td> <td>Enter total ▶</td> <td>A.</td> <td style="text-align: right; border-bottom: 1px solid black;">4,900.00</td> </tr> <tr> <td>B. Minimum standard deduction</td> <td></td> <td></td> <td>B.</td> <td style="text-align: right; border-bottom: 1px solid black;">800.00</td> </tr> <tr> <td>C. Enter the <b>larger</b> of line A or line B here</td> <td></td> <td></td> <td>C.</td> <td style="text-align: right; border-bottom: 1px solid black;">4,900.00</td> </tr> <tr> <td>D. Maximum standard deduction. If <b>single</b>, enter \$4,850; if <b>married filing jointly</b>, enter \$9,700</td> <td></td> <td></td> <td>D.</td> <td style="text-align: right; border-bottom: 1px solid black;">4,850.00</td> </tr> <tr> <td>E. Enter the <b>smaller</b> of line C or line D here. This is your standard deduction</td> <td></td> <td></td> <td>E.</td> <td style="text-align: right; border-bottom: 1px solid black;">4,850.00</td> </tr> <tr> <td>F. Exemption amount.</td> <td></td> <td></td> <td rowspan="3" style="font-size: 3em; vertical-align: middle;">}</td> <td rowspan="3" style="border-bottom: 1px solid black;"></td> </tr> <tr> <td>    • If single, enter -0-.</td> <td></td> <td></td> </tr> <tr> <td>    • If married filing jointly and—         —both you and your spouse can be claimed as dependents, enter -0-.         —only one of you can be claimed as a dependent, enter \$3,100.</td> <td></td> <td></td> </tr> <tr> <td>G. Add lines E and F. Enter the total here and on line 5 on the front</td> <td></td> <td></td> <td>G.</td> <td style="text-align: right; border-bottom: 1px solid black;">4,850.00</td> </tr> </table> <p><b>If you checked "No" on line 5</b> because no one can claim you (or your spouse if married filing jointly) as a dependent, enter on line 5 the amount shown below that applies to you.</p> <ul style="list-style-type: none"> <li>• Single, enter \$7,950. This is the total of your standard deduction (\$4,850) and your exemption (\$3,100).</li> <li>• Married filing jointly, enter \$15,900. This is the total of your standard deduction (\$9,700), your exemption (\$3,100), and your spouse's exemption (\$3,100).</li> </ul>	A. Amount, if any, from line 1 on front	4,650.00					+ 250.00	Enter total ▶	A.	4,900.00	B. Minimum standard deduction			B.	800.00	C. Enter the <b>larger</b> of line A or line B here			C.	4,900.00	D. Maximum standard deduction. If <b>single</b> , enter \$4,850; if <b>married filing jointly</b> , enter \$9,700			D.	4,850.00	E. Enter the <b>smaller</b> of line C or line D here. This is your standard deduction			E.	4,850.00	F. Exemption amount.			}		• If single, enter -0-.			• If married filing jointly and— —both you and your spouse can be claimed as dependents, enter -0-. —only one of you can be claimed as a dependent, enter \$3,100.			G. Add lines E and F. Enter the total here and on line 5 on the front			G.	4,850.00
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### Example 3

Clarence is 22 years old and a full time student. He is single and can be claimed as a dependent on his parents' tax return. Clarence works part-time and earned \$4,650 during 2004. His savings account earned \$56 in interest. Clarence's standard deduction is \$4,850. See Exhibit 4 above.

## POTENTIAL PITFALLS



Entering an incorrect standard deduction amount is a frequently made error on tax returns. Take care to report the correct standard deduction amount.

### Exercise 1

Use Exhibits 1 thru 3 on page 5-2 to determine the standard deduction amounts below.

- A.** James is 37 years old. He has two children who live with him and he files as head of household. What is James' standard deduction? \_\_\_\_\_
- B.** Paul is 37 years old. He was divorced in 2004. He is blind and has no dependent children. What is Malcom's standard deduction? \_\_\_\_\_
- C.** Carl is 67 years old and married to Sue, who is 59 years old. Neither is blind. If they file a joint return, what is their standard deduction? \_\_\_\_\_
- D.** If they are filing separate returns, what is Carl's standard deduction? \_\_\_\_\_
- E.** If they are filing separate returns, what is Sue's standard deduction? \_\_\_\_\_
- F.** Shirley is 15 years old and is claimed as a dependent on her parents' tax return. She earned \$1,500 during the summer and deposited it all into her savings account, where she earned \$40 in interest. What is her standard deduction? \_\_\_\_\_
- \_\_\_\_\_

### ITEMIZED DEDUCTIONS

Taxpayers can either claim the standard deduction or itemize their deductions. Both the standard deduction and itemized deductions reduce adjusted gross income. Most taxpayers choose the larger of their itemized deductions or the standard deduction. However, there are some exceptions:

- A married taxpayer filing a separate return cannot claim the standard deduction if the taxpayer's spouse itemizes deductions, and
- Nonresident aliens cannot claim the standard deduction.

When itemizing, you should complete the taxpayer's return through line 37 of Form 1040. Then figure itemized deductions on Schedule A.



## Medical and Dental Expenses

Claim medical and dental expenses paid in 2004 on lines 1 through 4 of Schedule A. Include expenses incurred for:

- the taxpayer and spouse,
- dependents claimed on the return, and
- others who could have been claimed as dependents except that they had gross income of \$3,100 or more, or they filed a joint return.

If a child of divorced or separated parents is claimed as a dependent on either parent's return, each parent may deduct the medical expenses that he or she pays for the child.

**Deductible expenses** include:

- Prescription medicines and drugs (including insulin)
- Medical, dental, and nursing care, including amounts paid for unreimbursed qualified long-term care services
- Medical and hospital insurance premiums, including amounts paid for eligible long-term care (subject to certain limitations based on the insured person's age — see Exhibit 5, next page.)
- Prescription eyeglasses, hearing aids, crutches, wheelchairs, braces, and guide dogs
- Transportation for medical care at 14 cents a mile, or actual out-of-pocket expenses, plus parking fees and tolls
- Certain lodging expenses
- Certain home improvements made for medical care purposes or to make the home suitable for a disabled person
- Medicare A premiums for persons not enrolled in Social Security
- Medicare B
- Certain weight-loss programs to treat disease diagnosed by a physician, including obesity
- Unreimbursed costs of smoking-cessation programs, including the cost of prescription drugs designed to alleviate nicotine withdrawal
- Expenses for admission and transportation to a medical conference relating to the chronic disease of a dependent (if the costs are primarily for and essential to the medical care of the dependent).

Total medical and dental expenses must exceed 7.5 percent of a taxpayer's adjusted gross income (Form 1040, line 37) for Schedule A deduction.

### POTENTIAL PITFALLS



Explain to taxpayers that they can only deduct expenses in the year they are paid. They cannot deduct expenses that are owed but not paid.

### ALERT



The standard mileage rate for operating a vehicle for medical transportation is 14 cents a mile.

**Nondeductible expenses** include:

- Medical expenses paid from a medical savings account (MSA). [Refer taxpayers with MSAs to Publication 969, *Medical Savings Accounts (MSAs)*, Publication 502, *Medical and Dental Expenses*, and a paid professional tax preparer.]
- Payroll tax paid for Medicare A
- Life insurance policy premiums
- Babysitting, child care, and nursing care for a normal healthy baby
- Controlled substances
- Nonprescription drugs or medicines
- The cost of purchasing diet food items
- Nonprescription nicotine gum and patches designed to stop smoking
- Funeral, burial, or cremation costs
- Unnecessary cosmetic surgery (surgery that does not correct a congenital abnormality or an abnormality caused by injury or disease)
- Income protection policies, including nursing home policy premiums, if the policy ensures a maximum out-of-pocket expense per day
- Meals and lodging while attending a medical conference relating to the chronic disease of a dependent.

**Eligible Long-Term Care Premiums**

**Exhibit 5**

IF the person was, at the end of 2004, age . . .	THEN the most you may deduct is . . .
40 or under	\$260
41-50	\$490
51-60	\$980
61-70	\$2,600
71 or older	\$3,250

These figures should always be checked against the figures in the instructions for the Form 1040, Schedule A.

## Exercise 2

Sam and Paula Ferris file a joint return. Sam's social security number is xxx-xx-xxxx. Their adjusted gross income is \$40,000. They paid the following medical bills:

Unreimbursed doctor's bills	\$ 500
Unreimbursed orthodontist bill for braces	1,200
Hospital insurance premiums	300
Life insurance premiums	500
Unreimbursed prescription medicines	100
Vitamins	70
Hospital bill (before deducting \$500) reimbursed by insurance company)	2,000
Smoking cessation program	150

Complete the *Medical and Dental Expenses* section of Schedule A for the Ferris family.

## Exhibit 6

## Schedule A, lines 1 through 4

<p><b>SCHEDULES A&amp;B</b> <b>(Form 1040)</b></p> <p><small>Department of the Treasury Internal Revenue Service</small></p> <p><small>Name(s) shown on Form 1040</small></p>	<p><b>Schedule A—Itemized Deductions</b> (Schedule B is on back)</p> <p>▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).</p>	<p><small>OMB No. 1545-0074</small></p> <p style="font-size: 2em; font-weight: bold;">2004</p> <p><small>Attachment Sequence No. 07</small></p> <p><small>Your social security number</small></p>																																
<p><b>Medical and Dental Expenses</b></p>	<p><b>Caution.</b> Do not include expenses reimbursed or paid by others.</p> <p><b>1</b> Medical and dental expenses (see page A-2) . . . . .</p> <p><b>2</b> Enter amount from Form 1040, line 37 . . . . .</p> <p><b>3</b> Multiply line 2 by 7.5% (.075). . . . .</p> <p><b>4</b> Subtract line 3 from line 1. If line 3 is more than line 1, enter -0- . . . . .</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; border: 1px solid black; background-color: #cccccc;">1</td> <td style="width: 10%; border: 1px solid black;"></td> <td style="width: 10%; border: 1px solid black;"></td> <td style="width: 10%; border: 1px solid black;"></td> <td style="width: 10%; border: 1px solid black;"></td> <td style="width: 10%; border: 1px solid black;"></td> <td style="width: 10%; border: 1px solid black;"></td> <td style="width: 10%; border: 1px solid black;"></td> </tr> <tr> <td style="border: 1px solid black; background-color: #cccccc;">2</td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="border: 1px solid black; background-color: #cccccc;">3</td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> </tr> <tr> <td style="border: 1px solid black; background-color: #cccccc;">4</td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> <td style="border: 1px solid black;"></td> </tr> </table>	1								2								3								4							
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## Taxes

To be deductible, a tax must be imposed on and paid by the taxpayer. Taxpayers **cannot** deduct:

- a tax that they do not owe, but pay for someone else,
- a tax that they owe, but someone else pays, or
- a tax that was not paid in 2004.

Report deductible taxes on lines 5 through 9 of Schedule A.

**State and Local Taxes** — State and local taxes that are deductible are either withheld taxes, estimated tax payments, or other tax payments made during the year.

Taxpayers who receive a refund of state and local income taxes in a year after the year in which they were paid, may have to report the refund as income on line 10 of Form 1040, as taxable refunds.

If the taxpayer did not itemized their deductions in the previous year, then they are not required to include the refund as income.

If the taxpayer deducted taxes on Schedule A in the previous year, then the refund should be included on line 10 as taxable refunds.

**Real Estate Taxes** — State, local, or foreign taxes on real property, such as the taxpayer's house or land, are deductible. Real estate taxes are deductible when paid. If the taxes are paid with a mortgage payment and held in escrow, do not deduct the taxes until they are paid by the bank or mortgage lender.

Members of the clergy and military personnel can deduct real estate taxes even if they receive a housing allowance that is excluded from income. Also, they can deduct allowable mortgage interest even if the interest was paid from a nontaxable housing allowance.

Assessments to pave a street or install lighting or a sewer generally are not deductible.

**Personal Property Taxes** — Taxes that state and local governments charge on the value of personal property are deductible (for example, ad valorem taxes paid on car tags). A portion of the cost of personal vehicle registration may fall in this category.

**Nondeductible Taxes** — Many federal, state, and local government taxes are not deductible. The following taxes are not deductible:

- General sales tax
- Federal taxes—income tax, social security (FICA), Medicare, railroad retirement tax, gift tax, and excise taxes or customs duties
- Hunting licenses and dog licenses
- Water and sewer taxes
- Taxes on alcoholic beverages, cigarettes, and tobacco
- State, local, and federal taxes on gasoline, diesel, and other motor fuels used in a nonbusiness vehicle
- Utility taxes — telephone, gas, electricity, etc.

## Interest

Interest is the amount that is paid in order to borrow money. Only taxpayers who are legally liable for the debt can deduct the interest in the year it is paid or accrued. Interest expenses are reported on lines 10 through 14 of Schedule A.

**Home Mortgage Interest** — The amount of mortgage interest that a taxpayer can deduct depends on the:

- date of the loan,
- amount of the loan, and
- use of the proceeds of the loan.

**If the mortgage debt was incurred on or before October 13, 1987,** and was secured by a main or second home, the interest on that debt is fully deductible, regardless of the amount of the loan or the use of the loan proceeds.

**If the mortgage debt was incurred after October 13, 1987,** and was secured by a main or second home, the interest is fully deductible if:

- the loans plus any grandfathered debt do not exceed \$1 million (\$500,000 if married filing separate returns), and
- the proceeds were used to buy, build, or improve the home or homes.

In addition to loans used to buy, build, or improve a main or second home, taxpayers can deduct interest on other loans secured by a main or second home, regardless of the use of the proceeds, if:

- the total of these loans does not exceed \$100,000 (\$50,000 if married filing separate returns), and
- the total amount of the secured debt is not more than the home's fair market value minus any outstanding acquisition debt and any grandfathered debt on the home.

**Points.** Certain charges paid by a borrower and/or a seller to a lender to secure a loan are called points. They are also called loan origination fees (including VA and FHA loan origination fees), maximum loan charges, premium charges, loan discount, or discount points.

Points paid only for the use of money are considered prepaid interest. This interest, even if it qualifies as home mortgage interest, must be spread over the life of the mortgage and is considered paid and deductible over that period unless it meets the following exception.

**Exception.** A taxpayer may fully deduct points in the year he or she pays them only if all of the following conditions apply:

- The taxpayer itemizes deductions.
- The taxpayer's loan is secured by his or her main home. (The main home is the one the taxpayer lives in most of the time.)
- Paying points is an established business practice in the area where the loan was made.
- The points paid were not more than the points generally charged in that area.
- The taxpayer uses the cash method of accounting. (The cash method means that the taxpayer reports income in the year received and deducts expenses in the year paid.)
- The points were not paid in place of amounts that ordinarily are stated separately on the settlement statement, such as appraisal fees, inspection fees, title fees, attorney fees, and property taxes.

## POTENTIAL PITFALLS

Personal interest cannot be claimed as an itemized deduction. Personal interest includes interest on car loans, credit card balances, and installment plan loans that are incurred for personal use or for personal expenses.

- The taxpayer uses his or her loan to buy or build his or her main home.
- The points were computed as a percentage of the principal amount of the mortgage.
- The amount is clearly shown on the settlement statement (such as Form HUD-1) as points charged for the mortgage.
- The points may be shown as paid from either the taxpayer's or the seller's funds.
- The funds the taxpayer provided at or before closing, plus any points the seller paid, were at least as much as the points charged. The funds the taxpayer provided do not have to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds the taxpayer paid at or before closing for any purpose. The taxpayer cannot have borrowed these funds from his or her lender or mortgage broker.

Charges by the lender for specific services, such as appraisal fees, preparation costs, VA funding fees, or notary fees, may be called points. However, these charges are not considered interest and are not deductible.

Points paid by the seller are deductible as interest by the buyer.

Points paid to refinance a mortgage are generally not deductible in full in the year the taxpayer paid them (unless they are paid in connection with the improvement of a main home and the first seven statements, discussed earlier under Exception, are true).

Points paid in excess of those generally charged in the area and points paid to refinance a mortgage can be deducted over the life of the mortgage. Deduct points reported to the taxpayer on Form 1098 on line 10 of Schedule A (Form 1040). Deduct points not reported to the taxpayer on Form 1098 on line 12 of Schedule A (Form 1040).

**Investment Interest.** Interest that is paid on money borrowed to buy or carry property held for investment is called **investment interest**. Taxpayers with investment interest expense that exceeds investment income (interest and ordinary dividend income) should see a paid professional tax preparer.

**Interest that cannot be deducted.** Interest that cannot be deducted includes:

- Interest on car loans where the car is used for personal use and other personal loans,
- Credit investigation fees,
- Loan fees; aid for services necessary to get a loan,
- Interest on a debt the taxpayer is not legally liable to pay, and
- Finance charges on credit card purchases of personal items.

### Exercise 3

John and Shannon file a joint return. During the year, they paid the bank \$2,180 of interest on their home mortgage that was reported to them on Form 1098 (all qualified), \$400 in credit card interest, \$300 on an installment loan, and \$2,000 on a car loan. Complete the *Interest You Paid* section of Schedule A for John and Shannon.

#### Exhibit 7

#### Schedule A, lines 10 through 14

<b>Interest You Paid</b> <small>(See page A-3.)</small>  <b>Note.</b> <small>Personal interest is not deductible.</small>	<b>10</b>	Home mortgage interest and points reported to you on Form 1098	<b>10</b>				
	<b>11</b>	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address ▶	<b>11</b>				
	<b>12</b>	Points not reported to you on Form 1098. See page A-3 for special rules	<b>12</b>				
	<b>13</b>	Investment interest. Attach Form 4952 if required. (See page A-4.)	<b>13</b>				
	<b>14</b>	Add lines 10 through 13	<b>14</b>				

### Contributions

Taxpayers can deduct contributions to organizations that are:

- Organized and operated exclusively for religious, charitable, educational, scientific, or literary purposes,
- Organizations that work to prevent cruelty to children or animals, and
- Organizations that foster national or international amateur sports competition if they do not provide athletic facilities or equipment.

To be deductible, contributions must be made to an organization, not an individual. *Qualifying organizations* include:

- Churches, synagogues, temples, mosques, Salvation Army, Red Cross, CARE, United Way, Boy Scouts, Girl Scouts, World Wildlife Fund, etc.,
- Fraternal orders (if used for the purposes listed above),
- Nonprofit schools and hospitals,
- Nonprofit medical research organizations,
- Veterans' groups and certain cultural groups, and
- Federal, state, and local governments (if the gifts are exclusively for public purposes).

**Nonqualifying organizations** include:

- Business organizations, such as the Chamber of Commerce,
- Civic leagues and associations,

## POTENTIAL PITFALLS



If the taxpayer makes a contribution to a qualifying organization that is more than \$75 and is partly for goods or services, the qualifying organization must give the taxpayer a written statement. For more information, see Publication 526, *Charitable Contributions*.

- Political organizations and candidates,
- Social clubs,
- Foreign organizations,
- Homeowners' associations, and
- Communist organizations.

### **Deductible items** include:

- Money gifts,
- Dues, fees, and assessments paid to qualified organizations above the value of the benefits received (not country clubs or other social organizations),
- Fair market value (FMV is the price at which the property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of all the necessary facts.) of used clothing, furniture, (i.e., the price paid in used clothing stores, consignment shops, and thrift stores)
- Cost and upkeep of uniforms that have no general use but must be worn while performing donated services,
- Unreimbursed transportation expenses that relate directly to the services the taxpayer gave the qualified organization, including bus fare, parking fees, tolls, and either the actual cost of gas and oil or a standard mileage charge of 14 cents per mile, and
- The part of a contribution above the fair market value for items such as merchandise and tickets to charity balls or sporting events.

### **Nondeductible items** include:

- Cost of raffle, bingo, or lottery tickets,
- Tuition,
- Value of a person's time or service,
- Blood donated to a blood bank or the Red Cross,
- Car depreciation, insurance, general repairs, or maintenance,
- Direct contributions to an individual,
- Sickness or burial expenses for members of a fraternal society, and
- The part of a contribution that personally benefits the taxpayer (such as the fair market value of the meal eaten at a charity dinner).

Report cash and check contributions on Schedule A, line 15. Contributions other than cash or check are entered on line 16. Taxpayers with noncash contributions exceeding \$500 should see a paid professional tax preparer.



The taxpayer must keep records to prove the amount of the cash and noncash contributions he or she makes during the year.

A taxpayer can claim a deduction for any single contribution of \$250 or more **only** if he or she has a written acknowledgment of the contribution from the qualifying organization. You do not have to see the written acknowledgement, but you should ask the taxpayer if they have one.

### Exercise 4

Rose contributed \$600 to St. Martin's Church (church gave letter verifying amount), \$32 to the Girl Scouts, and \$40 to a family whose house burned. She purchased \$50 worth of lottery tickets and spent \$100 playing bingo at her church. She donated used furniture with a fair market value of \$200 to Goodwill.

Complete the *Gifts to Charity* section of Schedule A for Rose.

### Exhibit 8

### Schedule A, lines 15 through 18

<b>Gifts to Charity</b>	<b>15</b>	Gifts by cash or check. If you made any gift of \$250 or more, see page A-4 . . . . .	<b>15</b>					
	<b>16</b>	Other than by cash or check. If any gift of \$250 or more, see page A-4. You <b>must</b> attach Form 8283 if over \$500 . . . . .	<b>16</b>					
	<b>17</b>	Carryover from prior year . . . . .	<b>17</b>					
	<b>18</b>	Add lines 15 through 17 . . . . .				<b>18</b>		

## Casualty and Theft Losses

A casualty occurs when property is damaged as a result of a sudden, unexpected, or unusual event such as fire, storm, shipwreck, flood, earthquake, or automobile accident. Theft is the unlawful taking and removing of money or property with the intent to deprive the owner of it. Theft does not include the mere disappearance of money or property.

A casualty or theft may result in a gain if the insurance proceeds or other reimbursements exceed the adjusted basis of destroyed or stolen property.

Usually, however, a casualty or theft results in a loss. Part of a casualty or theft loss may be deductible if the taxpayer can prove that the casualty or theft occurred to property that the taxpayer owned. The taxpayer must also prove the dollar amount of the loss. Taxpayers with a casualty and theft loss should seek assistance from a paid professional tax preparer.

## Miscellaneous Itemized Deductions

Certain employee expenses, expenses of producing income, and other qualifying expenses are reported as miscellaneous itemized deductions on Schedule A. Miscellaneous itemized deductions that

exceed 2% of adjusted gross income are deductible. There are some miscellaneous itemized deductions that are deductible, regardless of a taxpayer's adjusted gross income.

Examples of deductions that are subject to the 2% limit and that are reported on lines 20 through 22 of Schedule A are:

- Union dues and fees,
- Professional society dues,
- Uniforms not adaptable to general use,
- Small tools and supplies,
- Professional books, magazines, journals,
- Employment-related educational expenses,
- Expenses of looking for a new job,
- Investment counsel fees,
- Investment expenses,
- Tax counsel and assistance,
- Fees paid to an IRA custodian, and
- Safe deposit box rental for investment documents.

Examples of deductions that are not subject to the 2% limit and that are reported on line 27 of Schedule A are:

- Unrecovered after-tax pension contributions (see Lesson 14).
- Gambling losses to the extent of gambling winnings, and
- Work-related expenses for an individual with a disability, such as attendant-care services at the individual's place of work, that are necessary for the person to work.

**Nondeductible expenses** include:

- Burial or funeral expenses,
- Wedding expenses,
- Fees and licenses, such as car and marriage licenses and dog tags,
- Fines and penalties, such as parking tickets,
- Home repairs, insurance, and rent,
- Illegal bribes and kickbacks,
- Insurance premiums (except medical insurance premiums),
- Losses from the sale of a taxpayer's home, furniture, or personal car,
- Lost or misplaced cash or property,
- Personal legal expenses, and
- Commuting expenses to and from work.

### Exercise 5

Robert is a janitor. His adjusted gross income is \$20,000. He wants to deduct the following items on his tax return:

2003 income tax preparation fee	\$ 100
Safe deposit box rental (used to keep bonds)	75
Life insurance premiums	300
Investment expenses	70
Loss on sale of personal home	800
Investment journals and newsletters	250
Investment advisory fees	200
Attorney fees for preparation of will	100

Complete Robert's Schedule A, line 20 through 26.

### Exhibit 9

### Schedule A, lines 20 through 26

<b>Job Expenses and Most Other Miscellaneous Deductions</b>  (See page A-5.)	<b>20</b>	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶				
		<b>20</b>				
	<b>21</b>	Tax preparation fees.				
		<b>21</b>				
	<b>22</b>	Other expenses—investment, safe deposit box, etc. List type and amount ▶				
		<b>22</b>				
	<b>23</b>	Add lines 20 through 22				
	<b>23</b>					
<b>24</b>	Enter amount from Form 1040, line 37					
	<b>24</b>					
<b>25</b>	Multiply line 24 by 2% (.02)					
	<b>25</b>					
<b>26</b>	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-					
	<b>26</b>					

### TOTAL ITEMIZED DEDUCTIONS

Schedule A, line 28, is *Total Itemized Deductions*. It is the sum of lines 4, 9, 14, 18, 19, 26, and 27.

Compare the amount on line 28 to the standard deduction, and enter the larger of the two on Form 1040, line 39.

## Exercise 6

Seth A. and Karen Yale's adjusted gross income is \$30,500. Seth's social security number is xxx-xx-xxxx. They gave you a list of their itemized deductions. They received no insurance reimbursement for medical expenses. They purchased their home in 1989, and a commercial mortgage company holds the mortgage. They have not refinanced the mortgage or increased the principal balance since they bought their home. They are both under age 65 and not blind. Neither can be claimed as a dependent by another taxpayer.

### Unreimbursed medical expenses:

Medical insurance premiums	\$350
Hospital	200
Doctors and dentists	1,000
Vitamins	100
Prescription drugs	300
Insulin	120

### Taxes:

State income tax	\$1,200
Federal income tax	3,000
Real estate tax	800
Ad valorem	200

### Interest:

Interest on mortgage (reported on Form 1098)	\$5,500
Car loan	900
Credit cards	500

### Contributions:

Church (gave Yales' letter verifying this amount)	\$1,200
Bingo costs	60
American Cancer Society	200
Canned goods donated to a food drive	15
Fair market value of donated used clothing	60

### Miscellaneous:

Union dues	\$50
IRA custodial fee	10
Traffic fine	100
Investment expenses	50

Complete Seth and Karen's Schedule A. Should they take the standard deduction or itemized deduction?

<p><b>SCHEDULES A&amp;B</b> <b>(Form 1040)</b></p> <p>Department of the Treasury Internal Revenue Service</p>	<p><b>Schedule A—Itemized Deductions</b> (Schedule B is on back)</p> <p>▶ <b>Attach to Form 1040.</b> ▶ <b>See Instructions for Schedules A and B (Form 1040).</b></p>	<p>OMB No. 1545-0074</p> <p style="font-size: 2em; font-weight: bold;">2004</p> <p>Attachment Sequence No. <b>07</b></p>
Name(s) shown on Form 1040		Your social security number
<p><b>Medical and Dental Expenses</b></p> <p><b>Caution.</b> Do not include expenses reimbursed or paid by others.</p>		
<b>1</b>	Medical and dental expenses (see page A-2)	<b>1</b>
<b>2</b>	Enter amount from Form 1040, line 37	<b>2</b>
<b>3</b>	Multiply line 2 by 7.5% (.075)	<b>3</b>
<b>4</b>	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	<b>4</b>
<b>Taxes You Paid</b>		
<b>5</b>	State and local income taxes	<b>5</b>
<b>6</b>	Real estate taxes (see page A-2)	<b>6</b>
<b>7</b>	Personal property taxes	<b>7</b>
<b>8</b>	Other taxes. List type and amount ▶	<b>8</b>
<b>9</b>	Add lines 5 through 8	<b>9</b>
<b>Interest You Paid</b>		
<b>10</b>	Home mortgage interest and points reported to you on Form 1098	<b>10</b>
<b>11</b>	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address ▶	<b>11</b>
<b>12</b>	Points not reported to you on Form 1098. See page A-3 for special rules	<b>12</b>
<b>13</b>	Investment interest. Attach Form 4952 if required. (See page A-4.)	<b>13</b>
<b>14</b>	Add lines 10 through 13	<b>14</b>
<b>Gifts to Charity</b>		
<b>15</b>	Gifts by cash or check. If you made any gift of \$250 or more, see page A-4	<b>15</b>
<b>16</b>	Other than by cash or check. If any gift of \$250 or more, see page A-4. You <b>must</b> attach Form 8283 if over \$500	<b>16</b>
<b>17</b>	Carryover from prior year	<b>17</b>
<b>18</b>	Add lines 15 through 17	<b>18</b>
<b>Casualty and Theft Losses</b>		
<b>19</b>	Casualty or theft loss(es). Attach Form 4684. (See page A-5.)	<b>19</b>
<b>Job Expenses and Most Other Miscellaneous Deductions</b>		
<b>20</b>	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶	<b>20</b>
<b>21</b>	Tax preparation fees	<b>21</b>
<b>22</b>	Other expenses—investment, safe deposit box, etc. List type and amount ▶	<b>22</b>
<b>23</b>	Add lines 20 through 22	<b>23</b>
<b>24</b>	Enter amount from Form 1040, line 37	<b>24</b>
<b>25</b>	Multiply line 24 by 2% (.02)	<b>25</b>
<b>26</b>	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-	<b>26</b>
<b>Other Miscellaneous Deductions</b>		
<b>27</b>	Other—from list on page A-6. List type and amount ▶	<b>27</b>
<b>Total Itemized Deductions</b>		
<b>28</b>	Is Form 1040, line 37, over \$142,700 (over \$71,350 if married filing separately)?	<b>28</b>
	<input type="checkbox"/> <b>No.</b> Your deduction is not limited. Add the amounts in the far right column for lines 4 through 27. Also, enter this amount on Form 1040, line 39.	▶
	<input type="checkbox"/> <b>Yes.</b> Your deduction may be limited. See page A-6 for the amount to enter.	

## ELECTING TO ITEMIZE

Even if the taxpayer's itemized deductions are less than the amount of his or her standard deduction, he or she may want to do this, for example, if the tax benefit of being able to itemize the deductions on his or her state tax return is greater than the tax benefit he or she loses on their federal return by not taking the standard deduction. To make this election, he or she must enter "IE" (itemized elected) on the dotted line next to line 39, Form 1040.

## FINDING THE TAX

Taxpayers with taxable income of less than \$100,000 use the Tax Table to find their tax. However, children under 14 years of age who have more than \$1,500 of investment income (interest, dividends, etc.) might not be able to use the Tax Table. Their income might have to be taxed at the parents' tax rate. These taxpayers should be referred to a paid professional tax preparer.

The Tax Table is in the back of this book. The tax is based on the person's filing status and taxable income. To find the tax, use the **taxable income** from the tax forms (1040EZ, line 6; 1040A, line 27; and 1040, line 42), and:

- locate the income bracket for the taxable income,
- read across that line until you reach the column for the appropriate filing status, and
- find the amount where the taxable income and filing status meet. This is the tax liability.

If the taxable income is the same as the ending amount in an income bracket, go to the next bracket to find the tax.

Qualifying widows(ers) use the married filing jointly column.

Enter the tax on Form 1040EZ, line 10, Form 1040A, line 28, or Form 1040, line 43.

**Double check** the amount entered. **Common errors** include:

- Using the wrong standard deduction,
- Incorrectly figuring the exemption amount,
- Using an amount other than taxable income to find the tax,
- Picking up the wrong number from the Tax Table, and
- Transposing the numbers when entering the tax amount.

## **TAXABLE INCOME COMPUTATION**

Once you have determined the standard deduction, compare it to the total itemized deductions. In most cases, you will enter the larger of the two amounts on Form 1040, line 39. Subtract line 39 from line 37 and enter the result on line 40. Then subtract the exemption deduction (line 41) to compute the taxable income.


If the taxpayer has capital gain distributions that are reported directly on Form 1040 or Form 1040A, the taxpayer should use the Qualified Dividends and Capital Gain Tax Worksheet to determine if the tax is less.

The taxpayer should:

- Check the box next to line 13, Form 1040 and
- Use the Qualified Dividends and Capital Gain Tax Worksheet (Exhibit 11) from either the Form 1040A or 1040 instruction booklet to compute tax.

### **Example 4**

Marjorie is a single taxpayer with taxable income of \$46,575. She files Form 1040 and does not have to file a Schedule D. In 2004, she received capital gain distributions of \$650 from XYZ Investments. Marjorie pays less tax by using the Qualified Dividends and Capital Gain Tax Worksheet (Exhibit 11).

Qualified Dividends and Capital Gain Tax Worksheet—Line 43	
<p><b>Before you begin:</b> ✓ See the instructions for line 43 on page 36 to see if you can use this worksheet to figure your tax. </p> <p>✓ If you do not have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Form 1040.</p>	
1. Enter the amount from Form 1040, line 42	1. <u>46,575.00</u>
2. Enter the amount from Form 1040, line 9b	2. <u>0.00</u>
3. Are you filing Schedule D?	
<input type="checkbox"/> <b>Yes.</b> Enter the <b>smaller</b> of line 15 or 16 of Schedule D, but do not enter less than -0-	} ... 3. <u>650.00</u>
<input checked="" type="checkbox"/> <b>No.</b> Enter the amount from Form 1040, line 13	
4. Add lines 2 and 3	4. <u>650.00</u>
5. If you are claiming investment interest expense on Form 4952, enter the amount from line 4g of that form. Otherwise, enter -0-	5. <u>0.00</u>
6. Subtract line 5 from line 4. If zero or less, enter -0-	6. <u>650.00</u>
7. Subtract line 6 from line 1. If zero or less, enter -0-	7. <u>45,925.00</u>
8. Enter the <b>smaller</b> of:	
<ul style="list-style-type: none"> <li>The amount on line 1 or</li> <li>\$29,050 if single or married filing separately,</li> <li>\$58,100 if married filing jointly or qualifying widow(er), or</li> <li>\$38,900 if head of household.</li> </ul>	} ... 8. <u>29,050.00</u>
9. Is the amount on line 7 equal to or more than the amount on line 8?	
<input checked="" type="checkbox"/> <b>Yes.</b> Skip lines 9 through 11; go to line 12 and check the "No" box.	} ... 9. <u>          </u>
<input type="checkbox"/> <b>No.</b> Enter the amount from line 7	
10. Subtract line 9 from line 8	10. <u>          </u>
11. Multiply line 10 by 5% (.05)	11. <u>          </u>
12. Are the amounts on lines 6 and 10 the same?	
<input type="checkbox"/> <b>Yes.</b> Skip lines 12 through 15; go to line 16.	} ... 12. <u>650.00</u>
<input checked="" type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 6	
13. Enter the amount from line 10 (if line 10 is blank, enter -0-)	13. <u>0.00</u>
14. Subtract line 13 from line 12	14. <u>650.00</u>
15. Multiply line 14 by 15% (.15)	15. <u>98.00</u>
16. Figure the tax on the amount on line 7. Use the Tax Table or Tax Computation Worksheet, whichever applies	16. <u>8,219.00</u>
17. Add lines 11, 15, and 16	17. <u>8,317.00</u>
18. Figure the tax on the amount on line 1. Use the Tax Table or Tax Computation Worksheet, whichever applies	18. <u>8,381.00</u>
19. <b>Tax on all taxable income.</b> Enter the <b>smaller</b> of line 17 or line 18. Also include this amount on Form 1040, line 43	19. <u>8,317.00</u>

**TAXWISE HINT**

If a taxpayer wants to determine whether the standard or itemized deduction is best for him or her, input Schedule A information. TaxWise will automatically select the deduction that is more beneficial.



## ▶▶ SUMMING UP THIS LESSON ◀◀

Both the standard deduction (or total itemized deductions, if greater) and exemption amounts are subtracted from adjusted gross income to arrive at taxable income.

The standard deduction depends upon:

- ▶ filing status,
- ▶ age, eyesight, and
- ▶ whether the taxpayer can be claimed as a dependent on another taxpayer's return.

Determine the standard deduction by using the:

- ▶ Standard Deduction amount for the appropriate filing status from the appropriate tax form, or
- ▶ *Standard Deduction Chart for Most People*
- ▶ *Standard Deduction Chart for People Age 65 or Older or Blind*, or
- ▶ *Standard Deduction Worksheet for Dependents*

Itemized deductions are specifically allowed by law. Claim itemized deductions on Schedule A (Form 1040).

Itemized deductions include:

- ▶ Medical and dental expenses
- ▶ Taxes paid
- ▶ Home mortgage and certain investment interest paid
- ▶ Charitable contributions
- ▶ Casualty and theft losses
- ▶ Miscellaneous itemized deductions.

Medical and dental expenses that exceed 7.5 percent of adjusted gross income are deductible.

To be deductible as a charitable contribution, a donation of \$250 or more must be acknowledged in writing by the charitable organization that received the donation.

Most miscellaneous itemized deductions that exceed 2% of adjusted gross income are deductible. However, there are certain miscellaneous itemized deductions that are fully deductible, regardless of gross income.

If deducted investment interest expense exceeds investment income, refer the taxpayer to a paid professional tax preparer.

If you are uncertain whether an expense qualifies as a deduction, do not guess. Use on site reference material to determine.

▶▶ **SUMMING UP THIS LESSON** ◀◀  
(continued)

Most taxpayers compare their total itemized deductions to their standard deduction and enter the larger amount on Form 1040, line 39.

Do not use the Tax Table for taxpayers with taxable income of \$100,000 or more.

Common errors include:

- ▶ Using the wrong standard deduction,
- ▶ Incorrectly figuring the exemption amount,
- ▶ Using an amount other than taxable income to find the tax,
- ▶ Picking up the wrong number from the Tax Table, and
- ▶ Transposing the numbers when entering the tax amount.

# STANDARD AND ITEMIZED DEDUCTIONS AND TAX COMPUTATION

## ANSWERS TO EXERCISES

### Exercise 1

- (A) \$7,150 (Exhibit 1)
- (B) \$6,050 (Exhibit 2)
- (C) \$10,650 (Exhibit 2)
- (D) \$5,800 (Exhibit 2)
- (E) \$4,850 (Exhibit 1)
- (F) \$1,750 (Exhibit 3)

### Exercise 2

#### Sam and Paula's Schedule A

<b>SCHEDULES A&amp;B</b> <b>(Form 1040)</b> <small>Department of the Treasury Internal Revenue Service</small>	<b>Schedule A—Itemized Deductions</b> (Schedule B is on back) ► Attach to Form 1040. ► See Instructions for Schedules A and B (Form 1040).	OMB No. 1545-0074 <div style="font-size: 2em; font-weight: bold; margin-top: 5px;">2004</div> Attachment Sequence No. 07
Name(s) shown on Form 1040 <b>Sam and Paula Ferris</b>		Your social security number <b>xxx xx xxxx</b>
<b>Medical and Dental Expenses</b>	<b>Caution.</b> Do not include expenses reimbursed or paid by others.	
<b>1</b> Medical and dental expenses (see page A-2)	1 3,750	
<b>2</b> Enter amount from Form 1040, line 37	2 40,000	
<b>3</b> Multiply line 2 by 7.5% (.075)	3 3,000	
<b>4</b> Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4	750

### Exercise 3

#### John and Shanon's Schedule A

<b>Interest You Paid</b> (See page A-3.)	<b>10</b> Home mortgage interest and points reported to you on Form 1098	10 2,180		
	<b>11</b> Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address ► ..... .....	11		
	<b>12</b> Points not reported to you on Form 1098. See page A-3 for special rules	12		
<b>Note.</b> Personal interest is not deductible.	<b>13</b> Investment interest. Attach Form 4952 if required. (See page A-4.)	13		
	<b>14</b> Add lines 10 through 13	14		2,180

# STANDARD AND ITEMIZED DEDUCTIONS AND TAX COMPUTATION

ANSWERS TO EXERCISES

## Exercise 4

Robert's Schedule A

<b>Gifts to Charity</b> If you made a gift and got a benefit for it, see page A-4.	<b>15</b>	Gifts by cash or check. If you made any gift of \$250 or more, see page A-4 . . . . .	<b>15</b>	632		
	<b>16</b>	Other than by cash or check. If any gift of \$250 or more, see page A-4. You <b>must</b> attach Form 8283 if over \$500 . . . . .	<b>16</b>	200		
	<b>17</b>	Carryover from prior year . . . . .	<b>17</b>			
	<b>18</b>	Add lines 15 through 17 . . . . .	<b>18</b>			832

## Exercise 5

Robert's Schedule A

<b>Job Expenses and Most Other Miscellaneous Deductions</b>  (See page A-5.)	<b>20</b>	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶ . . . . .	<b>20</b>			
	<b>21</b>	Tax preparation fees. . . . .	<b>21</b>	100		
	<b>22</b>	Other expenses—investment, safe deposit box, etc. List type and amount ▶ Safe deposit box \$75; Investment Expenses \$70; Investment Journals \$250; Investment advisory fees \$200 . . . . .	<b>22</b>	595		
	<b>23</b>	Add lines 20 through 22 . . . . .	<b>23</b>	695		
	<b>24</b>	Enter amount from Form 1040, line 37   <b>24</b>   20,000   . . . . .	<b>24</b>			
	<b>25</b>	Multiply line 24 by 2% (.02) . . . . .	<b>25</b>	400		
<b>26</b>	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0- . . . . .	<b>26</b>			295	

# STANDARD AND ITEMIZED DEDUCTIONS AND TAX COMPUTATION

## ANSWERS TO EXERCISES

### Exercise 6

### Schedule A

SCHEDULES A&B (Form 1040)		Schedule A—Itemized Deductions (Schedule B is on back)				OMB No. 1545-0074 <b>2004</b> Attachment Sequence No. 07	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).					
Name(s) shown on Form 1040 <b>Seth and Karen Yale</b>						Your social security number XXX : XX : XXXX	
<b>Medical and Dental Expenses</b>	<b>1</b>	Caution. Do not include expenses reimbursed or paid by others. Medical and dental expenses (see page A-2)	<b>1</b>	1,970			
	<b>2</b>	Enter amount from Form 1040, line 37 <b>2</b> 30,500					
	<b>3</b>	Multiply line 2 by 7.5% (.075)	<b>3</b>	2,288			
	<b>4</b>	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	<b>4</b>	0			
<b>Taxes You Paid</b> (See page A-2.)	<b>5</b>	State and local income taxes	<b>5</b>	1,200			
	<b>6</b>	Real estate taxes (see page A-2)	<b>6</b>	800			
	<b>7</b>	Personal property taxes	<b>7</b>				
	<b>8</b>	Other taxes. List type and amount ▶ <b>Ad valorem</b> \$200	<b>8</b>	200			
	<b>9</b>	Add lines 5 through 8	<b>9</b>	2,200			
<b>Interest You Paid</b> (See page A-3.)	<b>10</b>	Home mortgage interest and points reported to you on Form 1098	<b>10</b>	5,500			
	<b>11</b>	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address ▶ \$200	<b>11</b>				
	<b>12</b>	Points not reported to you on Form 1098. See page A-3 for special rules	<b>12</b>				
	<b>13</b>	Investment interest. Attach Form 4952 if required. (See page A-4)	<b>13</b>				
<b>14</b>	Add lines 10 through 13	<b>14</b>	5,500				
<b>Gifts to Charity</b> If you made a gift and got a benefit for it, see page A-4.	<b>15</b>	Gifts by cash or check. If you made any gift of \$250 or more, see page A-4	<b>15</b>	1,400			
	<b>16</b>	Other than by cash or check. If any gift of \$250 or more, see page A-4. You must attach Form 6283 if over \$500	<b>16</b>	75			
	<b>17</b>	Carryover from prior year	<b>17</b>				
	<b>18</b>	Add lines 15 through 17	<b>18</b>	1,475			
<b>Casualty and Theft Losses</b>	<b>19</b>	Casualty or theft loss(es). Attach Form 4684. (See page A-5.)	<b>19</b>	0			
<b>Job Expenses and Most Other Miscellaneous Deductions</b> (See page A-5.)	<b>20</b>	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See page A-5.) ▶	<b>20</b>	50			
	<b>21</b>	Tax preparation fees	<b>21</b>				
	<b>22</b>	Other expenses—investment, safe deposit box, etc. List type and amount ▶	<b>22</b>	60			
	<b>23</b>	Add lines 20 through 22	<b>23</b>	110			
	<b>24</b>	Enter amount from Form 1040, line 37 <b>24</b> 30,500	<b>24</b>				
	<b>25</b>	Multiply line 24 by 2% (.02)	<b>25</b>	610			
<b>26</b>	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-	<b>26</b>	0				
<b>Other Miscellaneous Deductions</b>	<b>27</b>	Other—from list on page A-6. List type and amount ▶	<b>27</b>	0			
<b>Total Itemized Deductions</b>	<b>28</b>	Is Form 1040, line 37, over \$142,700 (over \$71,350 if married filing separately)? <input checked="" type="checkbox"/> <b>No.</b> Your deduction is not limited. Add the amounts in the far right column for lines 4 through 27. Also, enter this amount on Form 1040, line 39. <input type="checkbox"/> <b>Yes.</b> Your deduction may be limited. See page A-6 for the amount to enter.	<b>28</b>	9,175			

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11330X

Schedule A (Form 1040) 2004

**STUDENT NOTES**

### LESSON OVERVIEW AND OBJECTIVES

In this lesson you will learn about four “miscellaneous credits.” The credit for the elderly or the disabled, the mortgage interest credit, the foreign tax credit and the credit for qualified retirement savings are covered in this lesson.

See Appendix B for suggested class schedules and approximate teaching times.

After completing this lesson you should be able to:

- Calculate the credit for the elderly or the disabled using Schedule R or Schedule 3.
- Calculate the credit for qualified retirement savings contributions by using Form 8880.
- Accurately report the foreign tax credit if Form 1116 is not required.
- Be aware of the mortgage interest credit.

Important tax terms presented in this lesson appear in boldfaced type in the student text. Emphasize these terms as they are introduced:

- credit rate
- maximum allowable contribution
- eligible contributions
- testing period

### MATERIALS

This lesson refers to a number IRS publications and forms. If you would like to provide your students with the most current revision of the publications and forms, you can download the files from [www.irs.gov](http://www.irs.gov).

- Publication 524, Credit for the Elderly or Disabled
- Schedule R (Form 1040), Credit for the Elderly or Disabled
- Schedule 3 (Form 1040A), Credit for the Elderly or Disabled

### TEACHING TIPS

Some elderly or disabled taxpayers may feel entitled to the tax credit even if they are ineligible. Advise students that it is important to be as tactful as possible when assisting these taxpayers. If the taxpayer becomes emotional, the volunteer should listen to what the taxpayer

has to say. Then, the volunteer should calmly explain why the taxpayer is ineligible, using actual information from the taxpayer's forms.

Students may ask whether a taxpayer is considered to be permanently and totally disabled if, because of a physical or mental condition, the taxpayer cannot engage in the trade or profession in which he or she is trained or experienced. Point out that, for the purposes of this tax credit, the taxpayer must not be able to perform any substantial gainful activity and a physician must have determined that the taxpayer's disabling physical or mental condition has lasted or can be expected to last continuously for at least a year or can lead to death.

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 for 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.

Emphasize to students that, as volunteers, they should not treat disabled taxpayers differently from other taxpayers. Even though it may be tempting to help disabled taxpayers with more than their taxes, explain to students that most disabled people are self-sufficient and resent being patronized. It is usually best to wait for the disabled person to ask for assistance.

Some taxpayers may be eligible to take a nonrefundable tax credit for first-time homebuyers if they buy a main home in the District of Columbia. The credit is based on the purchase price and cannot exceed \$5,000. To claim this credit, a taxpayer must file a Form 1040 and complete Form 8859, *District of Columbia First-Time Homebuyer Credit*. For additional information on this credit, see the instructions for Form 8859.

## **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.





## INTRODUCTION AND OBJECTIVES

In this lesson you will learn about four “miscellaneous credits”. The credit for the elderly or the disabled, the mortgage interest credit, the foreign tax credit and the credit for qualified retirement savings are covered in this lesson.

After completing this lesson you should be able to:

- Determine who is a qualified individual for the credit for the elderly or disabled and apply the income limits.
- Calculate the credit for the elderly or the disabled.
- Calculate the credit for qualified retirement savings contributions by using Form 8880.
- Accurately report the foreign tax credit if Form 1116 is not required.
- Be aware of the mortgage interest credit.

## CREDITS

A credit is a dollar-for-dollar reduction of the taxpayer’s tax liability. A **refundable** credit can be greater than the tax. Taxpayers not only can have their tax reduced to zero; they can also receive a “refund” of excess credit. A **nonrefundable credit** can also be greater than the tax, but the nonrefundable credit can only reduce the tax to zero. Therefore, taxpayers will not receive a refund for any excess nonrefundable credit. All of the credits discussed in this lesson are non-refundable.

## **CREDIT FOR THE ELDERLY OR THE DISABLED**

Elderly individuals and individuals who are permanently and totally disabled may be able to claim a special credit on their tax returns if they are a U.S. citizen or resident.

To be eligible for the credit, an individual must be:

- At least 65 years old by the end of the year, or
- Under age 65, retired on permanent and total disability by the end of the year and did not reach mandatory retirement age before this year. They must also have received taxable disability income for this year.

Although physician statements are no longer required to be attached to the return, they must be completed and kept with the taxpayer's records.

Certain work offered at qualified locations to persons with disabilities or with mental retardation is considered sheltered employment. Because a person has accepted sheltered employment is not proof of the person's ability to engage in substantial gainful activity.

**Exhibit 1** helps to determine if the taxpayer is a qualified individual for this credit.

### **Income Limits**

Taxpayers cannot exceed the income limits for their filing status (see **Exhibit 2**).

## **CALCULATE THE CREDIT**

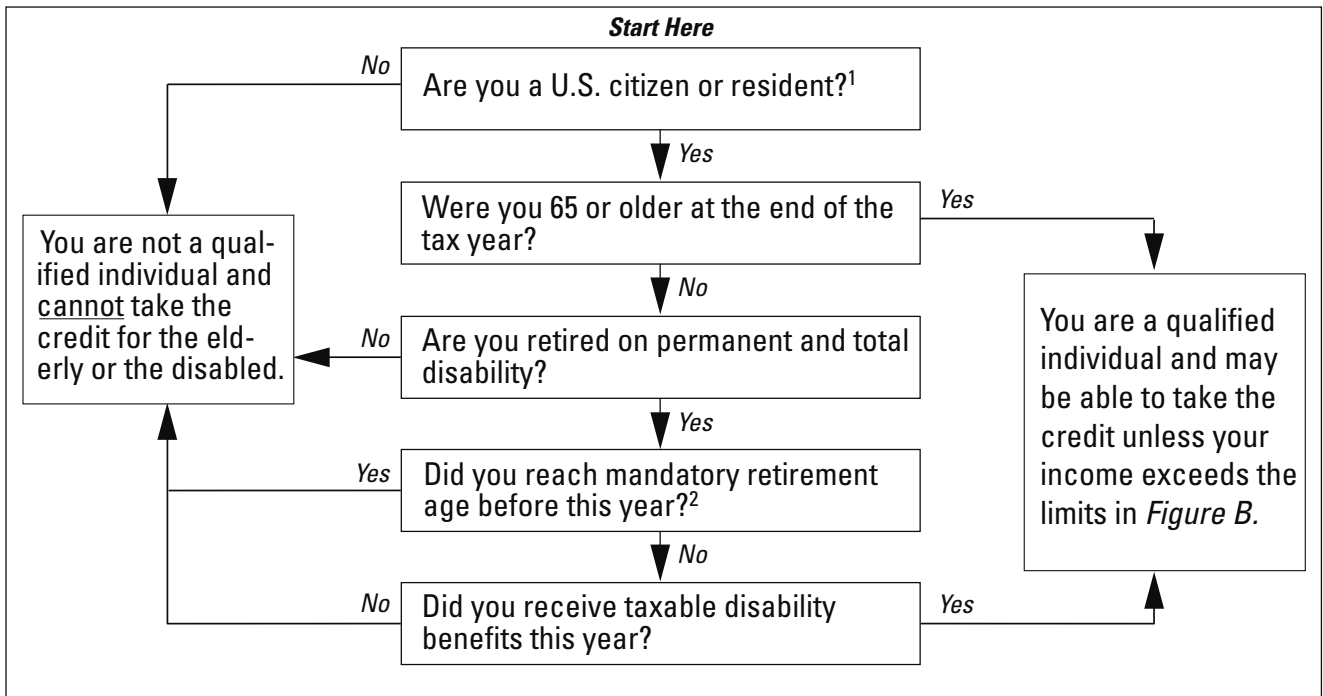
If the taxpayer is a qualified individual and meets the income limits, complete a Schedule 3 for 1040A filers or a Schedule R for 1040 filers. Schedule R (Form 1040) and Schedule 3 (Form 1040A) are nearly identical.

### **Example 1**

John (000-00-9850) and Sarah Hillsdale are married and file a joint return. Their respective ages are 66 and 68. They received nontaxable social security benefits of \$4,500 in 2004. They had adjusted gross income (line 36, Form 1040) of \$13,000. Parts I and III of the Schedule R will be completed and the schedule attached to their Form 1040 for 2004. (Part II need not be completed since both are age 65 or older.) See Exhibits 3 and 4.

**Exhibit 1**

Are you a Qualified Individual?



<sup>1</sup> If you were a nonresident alien at any time during the tax year and were married to a U.S. citizen or resident at the end of the tax year, see U.S. citizen or resident under *Qualified individual*. If you and your spouse both choose to be treated as U.S. residents, answer yes to this question.

<sup>2</sup> Mandatory retirement age is the age set by your employer at which you would have been required to retire, had you not become disabled.

**Exhibit 2**

Income Limits

Even if you qualify, you CANNOT take the credit if:		
Your filing status is	AND your adjusted gross income (AGI)* is equal to or more than	OR your nontaxable social security or other nontaxable pension(s) is equal to or more than
Single, Head of household, or Qualifying widow(er) with dependent child	\$17,500	\$5,000
Married filing a joint return and both spouses qualify in <i>Figure A</i>	\$25,000	\$7,500
Married filing a joint return and only one spouse qualifies in <i>Figure A</i>	\$20,000	\$5,000
Married filing a separate return and you did not live with your spouse at any time during the year	\$12,500	\$3,750

**Schedule R  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service

**Credit for the Elderly or the Disabled**

▶ Attach to Form 1040. ▶ See Instructions for Schedule R (Form 1040).

OMB No. 1545-0074

**2004**

Attachment  
Sequence No. **16**

Name(s) shown on Form 1040

John and Sarah Hillsdale

Your social security number

000 00 9850

You may be able to take this credit and reduce your tax if by the end of 2004:

- You were age 65 or older **or**
- You were under age 65, you retired on **permanent and total** disability, and you received taxable disability income.

But you must also meet other tests. See page R-1.

**TIP** In most cases, the IRS can figure the credit for you. See page R-1.

**Part I Check the Box for Your Filing Status and Age**

**If your filing status is: And by the end of 2004: Check only one box:**

Single,  
Head of household, or  
Qualifying widow(er)

1 You were 65 or older . . . . . **1**

2 You were under 65 and you retired on permanent and total disability **2**

Married filing  
jointly

3 Both spouses were 65 or older . . . . . **3**

4 Both spouses were under 65, but only one spouse retired on  
permanent and total disability . . . . . **4**

5 Both spouses were under 65, and both retired on permanent and total  
disability . . . . . **5**

6 One spouse was 65 or older, and the other spouse was under 65 and  
retired on permanent and total disability . . . . . **6**

7 One spouse was 65 or older, and the other spouse was under 65 and  
**not** retired on permanent and total disability . . . . . **7**

Married filing  
separately

8 You were 65 or older and you lived apart from your spouse for all of  
2004 . . . . . **8**

9 You were under 65, you retired on permanent and total disability, and  
you lived apart from your spouse for all of 2004 . . . . . **9**

**Did you check box 1, 3, 7, or 8?**

**Yes** —▶ Skip Part II and complete Part III on back.

**No** —▶ Complete Parts II and III.

**Part II Statement of Permanent and Total Disability** (Complete **only** if you checked box 2, 4, 5, 6, or 9 above.)

**If: 1** You filed a physician's statement for this disability for 1983 or an earlier year, or you filed or got a statement for tax years after 1983 and your physician signed line B on the statement, **and**

**2** Due to your continued disabled condition, you were unable to engage in any substantial gainful activity in 2004, check this box . . . . . **▶**

- If you checked this box, you do not have to get another statement for 2004.
- If you **did not** check this box, have your physician complete the statement on page R-4. You **must** keep the statement for your records.

**Part III Figure Your Credit**

<b>10 If you checked (in Part I):</b>		<b>Enter:</b>									
Box 1, 2, 4, or 7		\$5,000	}	<b>10</b>							
Box 3, 5, or 6		\$7,500									
Box 8 or 9		\$3,750									
<table border="1"> <tr> <td rowspan="2"><b>Did you check box 2, 4, 5, 6, or 9 in Part I?</b></td> <td>Yes</td> <td>→</td> <td>You <b>must</b> complete line 11.</td> </tr> <tr> <td>No</td> <td>→</td> <td>Enter the amount from line 10 on line 12 and go to line 13.</td> </tr> </table>		<b>Did you check box 2, 4, 5, 6, or 9 in Part I?</b>	Yes	→	You <b>must</b> complete line 11.	No	→	Enter the amount from line 10 on line 12 and go to line 13.			
<b>Did you check box 2, 4, 5, 6, or 9 in Part I?</b>	Yes		→	You <b>must</b> complete line 11.							
	No	→	Enter the amount from line 10 on line 12 and go to line 13.								
<b>11 If you checked (in Part I):</b>				<b>11</b>							
<ul style="list-style-type: none"> <li>Box 6, add \$5,000 to the taxable disability income of the spouse who was under age 65. Enter the total.</li> <li>Box 2, 4, or 9, enter your taxable disability income.</li> <li>Box 5, add your taxable disability income to your spouse's taxable disability income. Enter the total.</li> </ul>											
<b>TIP</b> For more details on what to include on line 11, see page R-3.											
<b>12</b> If you completed line 11, enter the <b>smaller</b> of line 10 or line 11; <b>all others</b> , enter the amount from line 10				<b>12</b>							
<b>13</b> Enter the following pensions, annuities, or disability income that you (and your spouse if filing a joint return) received in 2004.											
<b>a</b> Nontaxable part of social security benefits and Nontaxable part of railroad retirement benefits treated as social security (see page R-3).		<b>13a</b>	4,500 00								
<b>b</b> Nontaxable veterans' pensions and Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law (see page R-3).		<b>13b</b>									
<b>c</b> Add lines 13a and 13b. (Even though these income items are not taxable, they <b>must</b> be included here to figure your credit.) If you did not receive any of the types of nontaxable income listed on line 13a or 13b, enter -0- on line 13c		<b>13c</b>	4,500 00								
<b>14</b> Enter the amount from Form 1040, line 37	<b>14</b>		13,000 00								
<b>15 If you checked (in Part I):</b>		<b>Enter:</b>									
Box 1 or 2		\$7,500	}	<b>15</b>							
Box 3, 4, 5, 6, or 7		\$10,000									
Box 8 or 9		\$5,000									
<b>16</b> Subtract line 15 from line 14. If zero or less, enter -0-	<b>16</b>		3,000 00								
<b>17</b> Enter one-half of line 16	<b>17</b>		1,500 00								
<b>18</b> Add lines 13c and 17	<b>18</b>		6,000 00								
<b>19</b> Subtract line 18 from line 12. If zero or less, <b>stop</b> ; you <b>cannot</b> take the credit. Otherwise, go to line 20	<b>19</b>		1,500 00								
<b>20</b> Multiply line 19 by 15% (.15)	<b>20</b>		225 00								
<b>21</b> Enter the amount from Form 1040, line 43, minus the amount, if any, on line 46	<b>21</b>										
<b>22</b> Enter the amount, if any, from Form 6251, line 31 (page R-3)	<b>22</b>										
<b>23</b> Subtract line 22 from line 21. If zero or less, <b>stop</b> ; you <b>cannot</b> take the credit	<b>23</b>		0 00								
<b>24 Credit for the elderly or the disabled.</b> Enter the <b>smaller</b> of line 20 or line 23 here and on Form 1040, line 47	<b>24</b>		-0-								

## TAXWISE HINTS

The credit for the elderly will be calculated automatically. The software will check age, income, and filing status to determine eligibility. However, it is extremely important to input Social Security Benefit income even if you know it is not taxable. Without this information the software may incorrectly calculate the credit.

## CREDIT FOR QUALIFIED RETIREMENT SAVINGS CONTRIBUTIONS

If the taxpayer contributed to a retirement plan or an IRA, he or she may be eligible for the credit for qualified retirement savings contributions credit. The amount of the saver's credit is determined by the taxpayer's filing status, adjusted gross income, and his or her qualified contributions.

The credit is reported on line 52 of Form 1040, or line 33 of Form 1040A.

To be eligible for the saver's credit, the taxpayer:

- Must be age 18 or older by the end of the tax year,
- Cannot be claimed on another person's tax return, and
- Cannot be a full-time student.

A **full-time student** is anyone who attends school full-time for some part of each of five calendar months of the year. The five months need not be consecutive. An individual is a full-time student if he or she is enrolled for the number of hours or courses the school considers as full-time attendance.

## FIGURING THE CREDIT

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.

The credit rate is determined by using the following table.

<b>IF your filing status is...</b>	<b>AND your adjusted gross income is...</b>	<b>THEN your credit rate is...</b>
Married filing jointly	Less than \$30,001	50%
	Between \$30,001 and \$32,500	20%
	Between \$32,501 and \$50,000	10%
	Over \$50,000	0
Head of Household	Less than \$22,501	50%
	Between \$22,501 and \$24,375	20%
	Between \$24,376 and \$37,500	10%
	Over \$37,500	0
Single, Married filing separately, or qualifying widow(er)	Less than \$15,001	50%
	Between \$15,001 and \$16,250	20%
	Between \$16,251 and \$25,000	10%
	Over \$25,000	0

Adjusted gross income is determined without regard to:

- The foreign income exclusion
- The foreign housing exclusion or deduction
- Income from sources within Guam, American Samoa, and the Northern Mariana Islands
- Income from Puerto Rico

**Eligible contributions** are determined by reducing the taxpayer's **qualified retirement savings contributions** by the following distributions that were received during the **testing period**.

- Any distribution that is included in the taxpayer's gross income from a qualified retirement plan or from an eligible deferred compensation plan.
- Any distribution from a Roth IRA that is not a qualified rollover contribution.

If the distributions received by the taxpayer are for loans or for excess IRA contributions returned before the due date of the return, they are not used to reduce the taxpayer's qualified retirement savings contributions.

**Qualified retirement savings contributions** are contributions made to a traditional or Roth IRA and salary reduction contributions to a 401(k) plan (including a SIMPLE 401(k)), a tax-sheltered annuity (403(b)) plan, an eligible deferred compensation plan of a state or local government (457(b)) plan), a SIMPLE IRA plan, or a salary reduction SEP.

Qualified retirement savings contributions also include voluntary after-tax employee contributions to a tax-qualified retirement plan or a tax-sheltered annuity (403(b)) plan. For purposes of the credit, an employee contribution will be voluntary as long as it is not required as a condition of employment.

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).

### Example 1

Terry contributes \$3,000 to a 401(k) plan during 2004. In 2003, Terry withdrew \$500 from his IRA. In 2004, he withdrew \$900 from his IRA. Neither of these withdrawals were rolled over. In 2004, Terry's adjusted gross income was \$23,000 and his filing status was head of household. Based on these facts, Terry would figure his saver's credit as follows:

(Qualified retirement contributions – withdrawals) x credit rate  
(per table)

$$(\$3,000 - \$1,400) \times .20$$

$$\$1,600 \times .20 = \$320 \text{ saver's credit}$$

The credit is figured on **Form 8880**, *Credit for Qualified Retirement Savings Contributions*.

**Married filing jointly.** If the taxpayer is married filing a joint return, he or she and his or her spouse may both use the credit. Both the taxpayer and spouse are eligible for a credit of the maximum annual contribution amount of \$2,000.

If the taxpayers file a joint return, the qualified contribution is reduced by the taxable distributions received by the taxpayer or the taxpayer's spouse if the taxpayers filed jointly for both:

- the year a distribution was made, and
- the year the credit is claimed.

### Exercise 1

Jason is 22 and earned \$30,000 in 2004. He is single and contributed \$3,000 to his 401(k) plan at work. Is Jason eligible for the credit for qualified retirement savings contributions?

### Exercise 2

Martha Barnard (000-00-0088) is 32 and files as Head of Household. Her only income is wages of \$26,819. This year, she was able to contribute \$1,000 to her employer's 401(k) plan. She did not put any money in an IRA. Use Exhibit 1 to complete Martha's Form 8880 through line 10.



Form **8880**  
 Department of the Treasury  
 Internal Revenue Service

**Credit for Qualified Retirement Savings Contributions**

▶ Attach to Form 1040 or Form 1040A.  
 ▶ See instructions on back.

OMB No. 1545-1805  
**2004**  
 Attachment  
 Sequence No. 129

Name(s) shown on return

Your social security number



You **cannot** take this credit if **either** of the following applies.

- The amount on Form 1040, line 37, or Form 1040A, line 22, is more than \$25,000 (\$37,500 if head of household; \$50,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral **(a)** was born after January 1, 1987, **(b)** is claimed as a dependent on someone else's 2004 tax return, or **(c)** was a **student** (see instructions).

	(a) You		(b) Your spouse	
<b>1</b> Traditional and Roth IRA contributions for 2004. <b>Do not</b> include rollover contributions . . . . .	<b>1</b>			
<b>2</b> Elective deferrals to a 401(k) or other qualified employer plan, voluntary employee contributions, and 501(c)(18)(D) plan contributions for 2004 (see instructions) . . . . .	<b>2</b>			
<b>3</b> Add lines 1 and 2 . . . . .	<b>3</b>			
<b>4</b> Certain distributions received <b>after</b> 2001 and <b>before</b> the due date (including extensions) of your 2004 tax return (see instructions). If married filing jointly, include <b>both</b> spouses' amounts in <b>both</b> columns. See instructions for an exception . . . . .	<b>4</b>			
<b>5</b> Subtract line 4 from line 3. If zero or less, enter -0- . . . . .	<b>5</b>			
<b>6</b> In each column, enter the <b>smaller</b> of line 5 or \$2,000 . . . . .	<b>6</b>			
<b>7</b> Add the amounts on line 6. If zero, <b>stop</b> ; you cannot take this credit . . . . .			<b>7</b>	
<b>8</b> Enter the amount from Form 1040, line 37, or Form 1040A, line 22 . . . . .	<b>8</b>			
<b>9</b> Enter the applicable decimal amount shown below:				

If line 8 is—		And your filing status is—		
Over—	But not over—	Married filing jointly	Head of household	Single, Married filing separately, or Qualifying widow(er)
Enter on line 9—				
---	\$15,000	.5	.5	.5
\$15,000	\$16,250	.5	.5	.2
\$16,250	\$22,500	.5	.5	.1
\$22,500	\$24,375	.5	.2	.1
\$24,375	\$25,000	.5	.1	.1
\$25,000	\$30,000	.5	.1	.0
\$30,000	\$32,500	.2	.1	.0
\$32,500	\$37,500	.1	.1	.0
\$37,500	\$50,000	.1	.0	.0
\$50,000	---	.0	.0	.0

**Note:** If line 9 is zero, **stop**; you cannot take this credit.

<b>10</b> Multiply line 7 by line 9 . . . . .	<b>10</b>			
<b>11</b> Enter the amount from Form 1040, line 45, or Form 1040A, line 28 . . . . .	<b>11</b>			
<b>12</b> Enter the total of your credits from Form 1040, lines 46 through 51, or Form 1040A, lines 29 through 32 . . . . .	<b>12</b>			
<b>13</b> Subtract line 12 from line 11. If zero, <b>stop</b> ; you cannot take this credit . . . . .	<b>13</b>			
<b>14</b> <b>Credit for qualified retirement savings contributions.</b> Enter the <b>smaller</b> of line 10 or line 13 here and on Form 1040, line 52, or Form 1040A, line 33 . . . . .	<b>14</b>			

\*See Pub. 590 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.

For Paperwork Reduction Act Notice, see back of form.

Cat. No. 33394D

Form **8880** (2004)

## MORTGAGE INTEREST CREDIT

Taxpayers who hold qualified mortgage 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.

The credit is figured on Form 8396, *Mortgage Interest Credit*. Include the amount of the credit on Form 1040, Line 49. Also, check box a on Line 49 for Form 8396.

Any mortgage interest credit that the taxpayer cannot use in 2004 can be carried forward for up to three tax years. Figure the carry-forward credit in Part II of Form 8396.

Reduce the mortgage interest deduction claimed on Schedule A, Form 1040, by the amount shown on Line 3 of Form 8396.

**Caution:** If the taxpayer was issued (and used) a qualified mortgage credit certificate after 1990 for a home, the taxpayer may have to recapture (repay) all or part of the benefit if the taxpayer sells that home within 9 years. The recapture is figured on Form 8828, *Recapture of Federal Mortgage Subsidy*.

## FOREIGN TAX CREDIT

If the taxpayer paid income, war profits, or excess profits taxes to any:

- Foreign country,
- U.S. possession, or
- Any political subdivision, or agency or instrumentality of the country or possession, he or she may be able to take a **Foreign Tax Credit** (FTC) for taxes paid.

To determine if the tax paid is eligible for the foreign tax credit, the taxpayer **may** need to consult a paid professional preparer.

Generally, to claim the FTC, a taxpayer is required to file Form 1116, *Foreign Tax Credit (Individual, Estate, Trust, or Nonresident Alien Individual)*; however, the taxpayer does not have to file Form 1116 to take the credit if he or she meets all of the following requirements.

- All of the taxpayer's gross foreign source income is from interest and dividends that are reported on Form 1099-INT, or Form 1099-DIV (or substitute statement)
- If the taxpayer has dividend income from shares of stock, he or she held those shares for at least 16 days.
- The taxpayer is not filing Form 4563, *Exclusion of Income for Bona Fide Residents of American Samoa*, or excluding income from sources within Puerto Rico.
- The total of the taxpayer's foreign taxes is less than or equal to \$300 (\$600 if married filing jointly).

- All of the taxpayer's foreign taxes were:
  - Legally owed and not eligible for a refund, and
  - Paid to countries that are recognized by the United States and do not support terrorism.

For additional information, see *the Instructions for Form 1116*.

If the taxpayer meets all of the requirements listed above, enter the foreign tax credit on line 50 of Form 1040. Form 1116 is not required.

### **Example 2**

Tabitha received a 1099-DIV that shows \$219 of foreign taxes (box 6) in 2004. According to Tabitha she paid no other foreign taxes. She can claim the \$219 on line 50 of Form 1040.

### **Exercise 3**

Clyde comes to your site seeking help with his foreign tax credit. He is single and his 1099-DIVs show a total of \$423 of foreign tax. Does Clyde need Form 1116 to claim his credit?

## **HEALTH COVERAGE TAX CREDIT**

The Health Coverage Tax Credit (HCTC) is a federal tax credit established by the Trade Act of 2002 to assist

1. Workers who lose their jobs due to the effects of international trade and/or
2. People who receive benefits from the Pension Benefit Guaranty Corporation (PBGC) and are at least 55 years old.

The HCTC is beyond the scope of the Volunteer Return Preparation Program. Taxpayers who are potentially eligible should be referred to a paid preparer or to [www.irs.gov](http://www.irs.gov) for more information.

### **▶▶ SUMMING UP THIS LESSON ◀◀**

- ▶ Due to the income limitations, very few taxpayers are eligible to receive the credit for the elderly or disabled.
- ▶ The credit for the elderly or the disabled is based on filing status, age, and income.
- ▶ The credit is calculated and reported on Form 1040, Schedule R, or Form 1040A, Schedule 3.

### Exercise 1

No; Jason is not eligible for the credit because his income exceeds the threshold limit.

### Exercise 2

See the completed Form 8880 on the next page.

### Exercise 3

Yes, Clyde needs to complete a Form 1116 since his foreign taxes exceed \$300. Clyde will need to seek the assistance of a paid professional preparer.

### Credit for Qualified Retirement Savings Contributions

▶ Attach to Form 1040 or Form 1040A.  
▶ See instructions on back.

Name(s) shown on return

MARTHA BARNARD

Your social security number

000 00 0088



You **cannot** take this credit if **either** of the following applies.

- The amount on Form 1040, line 37, or Form 1040A, line 22, is more than \$25,000 (\$37,500 if head of household; \$50,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral **(a)** was born after January 1, 1987, **(b)** is claimed as a dependent on someone else's 2004 tax return, or **(c)** was a **student** (see instructions).

	(a) You	(b) Your spouse																																																												
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2 Elective deferrals to a 401(k) or other qualified employer plan, voluntary employee contributions, and 501(c)(18)(D) plan contributions for 2004 (see instructions) . . . . .	2 1,000																																																													
3 Add lines 1 and 2 . . . . .	3 1,000																																																													
4 Certain distributions received <b>after</b> 2001 and <b>before</b> the due date (including extensions) of your 2004 tax return (see instructions). If married filing jointly, include <b>both</b> spouses' amounts in <b>both</b> columns. See instructions for an exception . . . . .	4																																																													
5 Subtract line 4 from line 3. If zero or less, enter -0- . . . . .	5 1,000																																																													
6 In each column, enter the <b>smaller</b> of line 5 or \$2,000 . . . . .	6 1,000																																																													
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<table border="1"> <thead> <tr> <th colspan="2">If line 8 is—</th> <th colspan="3">And your filing status is—</th> </tr> <tr> <th>Over—</th> <th>But not over—</th> <th>Married filing jointly</th> <th>Head of household</th> <th>Single, Married filing separately, or Qualifying widow(er)</th> </tr> </thead> <tbody> <tr> <td>---</td> <td>\$15,000</td> <td>.5</td> <td>.5</td> <td>.5</td> </tr> <tr> <td>\$15,000</td> <td>\$16,250</td> <td>.5</td> <td>.5</td> <td>.2</td> </tr> <tr> <td>\$16,250</td> <td>\$22,500</td> <td>.5</td> <td>.5</td> <td>.1</td> </tr> <tr> <td>\$22,500</td> <td>\$24,375</td> <td>.5</td> <td>.2</td> <td>.1</td> </tr> <tr> <td>\$24,375</td> <td>\$25,000</td> <td>.5</td> <td>.1</td> <td>.1</td> </tr> <tr> <td>\$25,000</td> <td>\$30,000</td> <td>.5</td> <td>.1</td> <td>.0</td> </tr> <tr> <td>\$30,000</td> <td>\$32,500</td> <td>.2</td> <td>.1</td> <td>.0</td> </tr> <tr> <td>\$32,500</td> <td>\$37,500</td> <td>.1</td> <td>.1</td> <td>.0</td> </tr> <tr> <td>\$37,500</td> <td>\$50,000</td> <td>.1</td> <td>.0</td> <td>.0</td> </tr> <tr> <td>\$50,000</td> <td>---</td> <td>.0</td> <td>.0</td> <td>.0</td> </tr> </tbody> </table>			If line 8 is—		And your filing status is—			Over—	But not over—	Married filing jointly	Head of household	Single, Married filing separately, or Qualifying widow(er)	---	\$15,000	.5	.5	.5	\$15,000	\$16,250	.5	.5	.2	\$16,250	\$22,500	.5	.5	.1	\$22,500	\$24,375	.5	.2	.1	\$24,375	\$25,000	.5	.1	.1	\$25,000	\$30,000	.5	.1	.0	\$30,000	\$32,500	.2	.1	.0	\$32,500	\$37,500	.1	.1	.0	\$37,500	\$50,000	.1	.0	.0	\$50,000	---	.0	.0	.0
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For Paperwork Reduction Act Notice, see back of form.

Cat. No. 33394D

Form **8880** (2004)

**STUDENT NOTES**

Lined writing area for student notes.

## **LESSON OVERVIEW AND OBJECTIVES**

This lesson explains how to figure total federal income tax withheld. The lesson also covers how to figure and report estimated tax. In addition, the material covers how to determine the overpayment or the amount owed.

After completing this lesson you should be able to:

- Calculate and report federal income tax withheld from all sources.
- Calculate and report estimated tax payments.
- Calculate the refund due.
- Determine if estimated taxes should be paid.
- Determine if changes to the taxpayer's Form W-4 or Form W-4P should be suggested.

See Appendix B for suggested class schedules and approximate teaching times.

## **TRAINING MATERIAL AND ON-SITE REFERENCE GUIDE**

This lesson will refer to the following IRS publications and forms. If you would like the most current revision of the publications or forms, you can download the files from [www.irs.gov](http://www.irs.gov).

- Form W-2, Wage and Tax Statement
- Form W-4, Employee Withholding Allowance Certificate
- Form W-4P, Withholding Certificate for Pension or Annuity Payments
- Form 1040A, US Individual Income Tax Return
- Form 1040, US Individual Income Tax Return
- Form 1040ES, Estimated Tax for Individuals
- Form 1040-V, Payment Voucher
- Form 1099DIV, Dividends and Distributions
- Form 1099INT, Interest Income
- Form 1099R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRA, Insurance Contracts, etc.

## **TEACHING TIPS**

Review with students the two most common ways that federal income tax is paid: it is either withheld from wages and other types of payments, or it is paid through estimated tax payments. Remind students that estimated tax payments include part or all of the overpayment from the prior year's return that was applied to 2004 estimated tax and estimated tax payments made after January 15, 2004 and through January 15, 2005. To complete line 63 of Form 1040 or line 39 of Form 1040A, volunteers must know the total federal income tax withheld from Forms W-2, 1099-R, 1099-INT, and 1099-DIV. For example, to complete line 64 or line 40, volunteers must know the amounts and payment dates of estimated tax payments, including any refund applied from the taxpayer's 2003 return to his or her 2004 tax.

## **GUIDED QUESTIONS — TAXES PAID**

- 1. In what two ways is most federal income tax paid?** (It is either withheld from wages and other types of payments, or it is paid through estimated tax payments.)
- 2. In how many installments can estimated tax payments be paid?** (Taxpayers can pay their estimated tax in one payment or they can make up to four quarterly payments. However, additional estimated tax payments may be paid; if necessary).
- 3. Does an amount due and paid with the tax return qualify as an estimated tax payment?** (No; do not include as an estimated tax payment the amount due with the tax return.)

## **GUIDED QUESTIONS — ESTIMATED TAXES**

- 1. Under what circumstances do taxpayers make estimated tax payments?** (When income is not subject to withholding or when the tax withheld is expected to be inadequate.)
- 2. Explain the procedure for determining the amount of the total estimated tax payment.** (Figure the expected tax for the coming year and subtract expected credits, deductions, and tax withheld.)





## **GUIDED QUESTIONS — OVERPAYMENT/ESTIMATED TAXES APPLIED TO NEXT YEAR AND PENALTY**

- 1. Under what circumstances will an amount be entered on line 45a and/or on line 46 of Form 1040A, or line 72a and/or 73 of Form 1040?** If the taxpayer has an overpayment (refund) on line 44 of Form 1040A, or line 71 of Form 1040, then he or she should complete lines 45a and/or 46 of Form 1040A or lines 72a and/or 73 of Form 1040.
- 2. Under what circumstances will an amount be entered on line 48 of Form 1040A or line 75 of Form 1040, estimated tax penalty?** (If line 47 or line 74 is \$1,000 or more and it is more than 10 percent of the tax shown on the return, or if the taxpayer underpaid his or her 2004 estimated tax liability, the taxpayer may owe a penalty for underpayment of estimated tax. If no exceptions apply and a penalty is owed, it should be entered on line 48 or line 75 and included in the amount shown on line 47 or line 74.)

## **LESSON REVIEW — ESTIMATED TAXES AND REFUND OF LESS THAN \$1.00**

1. Students may inquire about the circumstances under which federal income tax is usually withheld from dividend and interest payments. Tell them that tax is usually withheld if the taxpayer does not provide his or her social security number to the payer.
2. If a taxpayer has not rounded the amounts reported on a tax form, 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.



## TEACHING TIPS — ESTIMATED TAXES

1. Many taxpayers who pay estimated tax are self-employed, either on a full-time or a part-time basis. Volunteers should remember that self-employment situations, other than those reported on Schedule C-EZ, are beyond the scope of the VITA/TCE Program and that these taxpayers should be referred to paid professional tax preparers.
2. Explain to volunteers that nonresident aliens are also required to make estimated tax payments. Nonresident aliens who must make estimated tax payments should file Form 1040-ES(NR), *U.S. Estimated Tax for Nonresident Alien Individuals*. These filers should be referred to paid professional tax preparers.
3. To help students figure the estimated tax payment due per quarter, copy the following equation onto a chalkboard or flip-chart:

### PAYMENT CALCULATION

$$\frac{\text{Total Estimated Tax}}{4} = \text{Amount of each equal quarterly payment due}$$

### THEN:

Multiply the quarterly payment by the number of quarters due and past due at time of first payment.

4. Students should be aware that a recently retired taxpayer may owe estimated tax for the first time. Retirees may owe tax on pension, interest, or annuity income. Advise volunteers to be careful when determining whether there will be any tax withheld from the taxpayer's payments and to figure the estimated tax accordingly.

## LESSON REVIEW — WITHHOLDING

1. Students may wonder what advice to give to taxpayers who had too much tax withheld because they did not claim all the allowances to which they were entitled.

A taxpayer in this situation should submit a new Form W-4 to his or her employer. The employer, however, cannot reimburse the taxpayer for any of the tax withheld under the old Form W-4.

2. Some taxpayers may try to claim more withholding allowances than they are entitled to in order to increase their take-home pay. Explain to students that, as volunteers, they should inform taxpayers that there are penalties for *willfully* supplying false or fraudulent information on Form W-4 or for *willfully* failing to supply information that would increase the amount withheld.



## LESSON REVIEW — NAME CHANGE/ESTIMATED TAX PAYMENT

1. Students may ask how to clear up confusion caused by a taxpayer changing his or her name after making estimated tax payments using another name. A taxpayer in this situation should attach a brief statement to the front of the tax return indicating the following: when payments were made, the amount of each payment, the address(es) to which each payment was sent, the name under which each payment was made, and the taxpayer's social security number.
2. 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. Continue the activity until all groups have asked their questions.

You may wish to take some time to review any points that students found difficult.

## TEACHING TIPS — FINISHING THE TAX RETURN

1. Remind students a *Quality Review Checklist* should be used to verify the completeness and accuracy of every tax return.
2. Volunteers should inform taxpayers who have a substantial overpayment (line 44 of Form 1040A or line 71 of Form 1040) that they might wish to file a new Form W-4, *Employee's Withholding Allowance Certificate*, to reduce the amount of income tax withheld from their pay. Conversely, volunteers should inform taxpayers who owe a substantial amount of tax (line 47 of Form 1040A or line 74 of Form 1040) that they might wish to file a new Form W-4 to increase the amount of tax withheld from their pay or pay estimated taxes.
3. If the taxpayer filed a joint return in 2003 and is filing a joint return for 2004 with the same spouse, the taxpayer should enter his or her name and SSN and that of his or her spouse in the same order as on the 2003 return.
4. Remind students to make certain that taxpayers understand that their decision to contribute \$3 to the Presidential Election Campaign Fund will not increase or decrease the amount owed to the IRS or decrease the amount that they will receive as a refund.

## LESSON REVIEW — QUALITY REVIEW

Students sometimes wonder what specific kinds of information the IRS quality review program has yielded.

You may wish to share these statistics with the class: Of all the mistakes made on Form 1040EZ, the most common were math errors—committed, collectively, by the taxpayers, their paid preparers, and VITA/TCE volunteers.

## GUIDED QUESTIONS — FINISHING THE RETURN

- 1. When should the taxpayer identification section be completed?** (After the rest of the return has been completed.)
- 2. If there are errors on the taxpayer's pre-addressed label, should the label be discarded?** (No; mark through any errors and print the correct information on the label.)
- 3. Is it important to have the taxpayer sign the return?** (Yes; an unsigned return is not considered valid and cannot be processed.)
- 4. If an amount is owed, how should you end the interview?** (Remind the taxpayer not to attach payments to the return. The check or money order should be made payable to the United States Treasury and placed loose in the envelope. The taxpayer can also pay by credit card or by authorizing a direct debit from his or her checking or savings account on the date he/she chooses—by April 15, 2005. If the taxpayer is a Form 1040 filer, he or she should voluntarily send Form 1040-V, *Payment Voucher*, with the payment. Form 1040-V should also be placed loose in the envelope. This will allow the IRS to process the payment more accurately and efficiently. The instructions for completing the voucher appear on the Form 1040-V. The check or money order should include the taxpayer's name, address, social security number, daytime telephone number, and the notation "2004 Form 1040 (or 1040A or 1040EZ, whichever applies)." Tell the taxpayer to mail the return by April 15. If the taxpayer cannot pay the full amount owed on his/her return, he/she may ask permission to make monthly installment payments. The taxpayer should file Form 9465, *Installment Agreement Request*, and pay a nonrefundable processing fee. File Form 9465 with the tax return.)
- 5. How does a taxpayer request direct deposit?** (To choose direct deposit, the taxpayer should fill in lines 11b, c, and d of Form 1040EZ, or lines 45b, c, and d of Form 1040A, or lines 72b, c, and d of Form 1040.)



## **LESSON REVIEW — REFUND/BALANCE DUE**

- 1. Federal income tax is withheld only from payments that are earned income.** (Disagree; federal income tax can also be withheld from other kinds of payments, including distributions from pensions, annuities, IRAs, interest income, and dividends.)
- 2. Taxpayers who have overpaid their tax must receive a complete refund.** (Disagree; taxpayers can opt to apply all or part of the overpayment to next year's estimated tax.)
- 3. The method of payment that a taxpayer should follow in paying tax is the same whether the taxpayer uses Form 1040 or Form 1040A except the words "2004 Form 1040" should be written on the payment for filers of Form 1040; whereas the words "2004 Form 1040A" should be written on the payment for filers of Form 1040A.** (Agree)
- 4. If a taxpayer owes a penalty for underpayment of tax, he or she can enter the amount of the penalty on Form 1040, line 75 or leave line 75 blank so that the IRS figures the amount of the penalty, as with Form 1040A, line 48.** (Agree)

**STUDENT NOTES**

Lined area for student notes.



# FINISHING THE RETURN

## Lesson 7

### INTRODUCTION AND OBJECTIVES

In this lesson you will learn how to report federal income tax payments and figure the overpayment or balance due. You will also learn how to determine if estimated taxes should be paid. Additionally, you will learn how to finish the return and have the taxpayer sign the return.

After completing this lesson you should be able to:

- Calculate and report federal income tax 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 taxpayer's W-4 or W-4P should be suggested.

**Please pay close attention to the section about identifying the returns that you work on. It is critical for you to enter the correct site identification number in the preparer's signature section of the return. The number goes in the designated area on the forms with the pre-printed "S" followed by 8 digits or in the PTIN/SSN field of the return.**

This lesson will provide detailed information on how to finish the tax return. The following checklist is provided as a quick reference of the steps needed to finish the return.

### CHECKLIST FOR FINISHING THE RETURN

#### Withholdings, Payments and Other Credits:

- Add all Federal Income Tax Withholding from Form W-2, box 2, and include on return.
- Add all Federal Income Tax Withholding from box 4 of Forms 1099R, 1099INT, 1099DIV and 1099G. Include in the payments section of the return.
- Include all estimated tax payments in the payment section.

#### POTENTIAL PITFALLS

Form W-2, box 4, shows social security tax withheld and box 6 shows Medicare tax withheld. These are not the same as federal income tax withheld. Do not report the amounts in box 4 and box 6 as federal income tax withheld.

#### POTENTIAL PITFALLS

When a taxpayer worked for more than one employer during the year, add up the amounts shown in box 4 of all Forms W-2. If the total in box 4 of all forms exceeds \$5,449.80 the taxpayers should claim a refund of excess social security tax withheld. Use the worksheet in Pub. 505, *Tax Withholding and Estimated Tax* to compute the refund.

#### ALERT

The letter "P" in the site identification number has been replaced by the letter "S". This change was made to better track the number of volunteer prepared returns.

- Include the amount of last year's refund that was applied to this year in the payment section. Note: If you need assistance with how to do this with TaxWise®, ask your site coordinator or computer specialist.
- Calculate all of the refundable credits (covered in later lessons) that the taxpayer is entitled to and include them in the payments section of the return. Using TaxWise® software will help you determine what credits that the taxpayer is entitled to.
- Add all payments together and enter them on the total payments line. TaxWise® will do this step for you.
- Subtract the total payments from the total tax. TaxWise® will also complete this step for you.
- Record the account number and the routing number for taxpayers who want their refund direct deposited. Note: TaxWise® will ask you for this information on the Main Information screen and on the tax form. This is to help ensure that you have keyed in the correct information. Complete the line to apply part of the refund to next year, if the taxpayer wishes to use this option.

### **Paying Taxes or Adjusting Withholding Taxes if Balance Due:**

- Explain the payment option (check, credit card, direct debit and installment agreement) to a taxpayer who owes money.
- Inform the taxpayer about the identifying information to include on payments made by check.
- Explain that interest and penalties continue to accrue on the unpaid balance even if the taxpayer has a valid installment agreement.
- Explain estimated taxes to taxpayers who expect to owe tax in 2005.
- Assist the taxpayer with completing form 1040ES for 2005. TaxWise® can do this for you. It will even print the vouchers for the payments. **See publication 4012, Volunteer Resource Guide for further guidelines.**
- Provide the taxpayer with the mailing address for the estimated payments. (Some sites provide unstamped envelopes for the taxpayers.)
- Encourage taxpayers to consider adjusting their withholding (on Form W-4 or W-4P) if they have a large refund or owe more than \$1,000 on the return.

### **Advance Earned Income Tax Credit (AEIC):**

- Inform taxpayers about the Advance Earned Income Credit, if they were eligible for EIC this year and have at least one qualifying child. Be prepared to give the taxpayer a Form W-5, if they request it.



## **Name, Address, and Taxpayer Identification Section of Return:**

- Complete the name and address section of the tax return. Use the taxpayer's label (if available) on a return prepared by hand. For computer generated returns, this section will be completed based on the information you entered in the Main Information section of the TaxWise® software.
- Make sure that you include the Taxpayer Identification Number for all taxpayers and dependents listed on the return. Note: If you are using TaxWise®, you will get an error when you run diagnostics if you have not included the identifying number. TaxWise® also has a diagnostic feature that helps you check the accuracy of the identifying number by comparing it to a database of information from the Social Security Administration. This does not guarantee that the name and social security number match. You should always look at the actual Social Security cards if possible. To validate the identity of the taxpayer you should also ask to see an official picture identification item.
- Mark the Presidential Election Campaign Box for the taxpayer. Note: If the taxpayer has a total tax of zero, the presidential campaign box should be marked no.

## **Return Assembly and Copy:**

- Assemble the return. If filing a paper return for the taxpayer, forms should be in the order of the sequence number in the upper right corner. Procedures on assembling electronic returns may vary from site to site. Please ask your site coordinator for this information.
- Retain an electronic copy of all returns e-filed. Remember that you are not allowed to retain copies of the tax returns at your site past the end of the filing season. The retained copies should be forwarded to your local IRS territory office, where they will be retained until the end of the calendar year (as prescribed by the electronic filing regulations). For exception see Publication 4299, Privacy and Confidentiality.

## **Site Identification Number on Forms 1040, 1040A, & 1040EZ**

Congress annually asks the IRS to provide the number of returns that were filed by volunteer tax assistance sites. For statistical purposes, the IRS requests that all Federal returns be identified with a Site Identification Number. The Site Identification Number is entered in the Paid Preparer's section of the tax return. The Internal Revenue Service Submission Processing Center will count each return processed using this data.

More about this topic is covered later in this lesson.

### **On Site Quality Review:**

- Submit the completed return to the quality reviewer at your site. Note: Not all sites have enough volunteers to have a designated quality reviewer. In this case, ask another volunteer to review the form you prepared. Using TaxWise® is not a substitute for quality review.

### **Signing the Return and Third Party Designation:**

- Mark the area where the taxpayer should sign the return or Form 8453. Publication 3189 will contain additional information on how to use the PIN program to sign electronic returns.
- Complete the third party designation section of the return if the taxpayer wishes to allow someone else to discuss the return with the IRS. (**You cannot designate yourself.**)

### **Taxpayer Question:**

- Ask the taxpayer if they have any additional questions.

### **Where to Mail Paper Returns:**

- Tell the taxpayer where to mail the return (if filing by paper). Electronically filed returns are automatically transmitted to the correct IRS Processing Center. Paper tax returns must be mailed in by the taxpayer to the IRS processing Center for the area (state) where the taxpayer resides. Each tax package contains a pre-addressed envelope for a particular area based on the last address filed with the IRS. If the taxpayer has moved or does not have a pre-addressed envelope the address and other mailing information is located in the individual federal tax package and in your Volunteer Resource Guide, Publication 4012. Some sites provide unstamped pre-addressed envelope for their taxpayers. (You might be able to get the envelopes donated from a local office supply store. Your site receptionist could address the envelopes or you could print computer labels to use on them.)

## **PAYMENTS**

The federal government has a pay-as-you-earn tax system. The information for the payments section of the return has three sources: federal income tax withholdings, estimated tax payments, and refundable credits.

**Income tax withheld** can appear on:

- Form W-2, *Wage and Tax Statement*, in box 2
- Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, in box 4
- Form 1099-INT, *Interest Income*, in box 4
- Form 1099-DIV, *Dividends and Distributions*, in box 4
- Form W-2G, *Certain Gambling Winnings*, in box 2
- Form 1099-G, *Certain Government and Qualified State Tuition Program Payments*, box 4
- SSA-1099, Social Security Benefits
- RRB-1099, Railroad Retirement Benefits Tier 1
- RRB-1099R, Railroad Retirement Benefits Tier 2
- Form 1099B, *Proceeds from Broker and Barter Exchange Transactions*


## Example 1

Kamica has one Form W-2 (Exhibit 1).

The entry in Box 1 of Form W-2 goes on line 7, Form 1040EZ, line 39, Form 1040A, or line 63, Form 1040, is \$988.

### Exhibit 1

### Kamica's Form W-2

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use  Visit the IRS Web Site at <a href="http://www.irs.gov">www.irs.gov</a> .	
b Employer identification number 10-0864213			1 Wages, tips, other compensation 12,350.00	2 Federal income tax withheld 988.00	
c Employer's name, address, and ZIP code XYZ Associates 2112 Third Street Tampa, FL 33621			3 Social security wages 12,350.00	4 Social security tax withheld 765.70	
			5 Medicare wages and tips 12,350.00	6 Medicare tax withheld 179.08	
			7 Social security tips	8 Allocated tips	
			d Employee's social security number XXX-XX-XXXX		
e Employee's first name and initial Last name Kamica A. Howard 134 Dawes Blvd. Tampa, FL 33621			11 Nonqualified plans		12a See instructions for box 12
			13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b	
			14 Other		12c
					12d
f Employee's address and ZIP code					
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name

Form **W-2** Wage and Tax Statement **2004** Department of the Treasury—Internal Revenue Service  
 Copy B To Be Filed with Employee's FEDERAL Tax Return. For Privacy Act Notice, see back of Copy D.  
 This information is being furnished to the Internal Revenue Service.

## Example 2

Lucas has a Form 1099-INT (Exhibit 2), a Form 1099-R (Exhibit 3), and a Form 1099-DIV (Exhibit 4). His total income tax withheld is entered on line 39, Form 1040A. It is \$1,247.

**Exhibit 2**

Lucas's Form 1099-INT

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0112		<b>2004</b> <b>Interest Income</b>
PAYER'S name, street address, city, state, ZIP code, and telephone no.  Second Federal Bank 210 Miller Avenue Denver, CO 86011		Payer's RTN (optional)		
PAYER'S Federal identification number <b>10-4213597</b>	RECIPIENT'S identification number <b>000-00-4213</b>	<b>1</b> Interest income not included in box 3 <b>\$ 935.00</b>		<b>Copy B</b> <b>For Recipient</b> <small>This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.</small>
RECIPIENT'S name  Lucas B. George		<b>2</b> Early withdrawal penalty  \$	<b>3</b> Interest on U.S. Savings Bonds and Treas. obligations  \$	
Street address (including apt. no.) <b>1360 Shannon Avenue</b>		<b>4</b> Federal income tax withheld <b>\$ 187.00</b>	<b>5</b> Investment expenses  \$	
City, state, and ZIP code <b>Denver, CO 86011</b>		<b>6</b> Foreign tax paid  \$	<b>7</b> Foreign country or U.S. possession	
Account number (optional)				
Form <b>1099-INT</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service

**Exhibit 3**

Lucas's Form 1099-R

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0119		<b>2004</b> <b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
PAYER'S name, street address, city, state, and ZIP code  APEX Triangles 213 Hickory Meadows Denver, CO 86011		<b>1</b> Gross distribution <b>\$ 12,000.00</b>		
PAYER'S Federal identification number <b>10-9753124</b>		<b>2a</b> Taxable amount  \$		<b>Copy B</b> <b>Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.</b>  <small>This information is being furnished to the Internal Revenue Service.</small>
RECIPIENT'S identification number <b>000-00-4213</b>		<b>2b</b> Taxable amount not determined <input type="checkbox"/> Total distribution <input type="checkbox"/>		
RECIPIENT'S name  Lucas B. George		<b>3</b> Capital gain (included in box 2a)  \$	<b>4</b> Federal income tax withheld <b>\$ 960.00</b>	
Street address (including apt. no.) <b>1360 Shannon Ave.</b>		<b>5</b> Employee contributions or insurance premiums  \$	<b>6</b> Net unrealized appreciation in employer's securities  \$	
City, state, and ZIP code <b>Denver, CO 86011</b>		<b>7</b> Distribution code	<b>8</b> Other	
Account number (optional)		<b>9a</b> Your percentage of total distribution %	<b>9b</b> Total employee contributions \$	
		<b>10</b> State tax withheld \$	<b>11</b> State/Payer's state no.	<b>12</b> State distribution \$
		<b>13</b> Local tax withheld \$	<b>14</b> Name of locality	<b>15</b> Local distribution \$
Form <b>1099-R</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service

<input type="checkbox"/> CORRECTED (if checked)			2004		Dividends and Distributions
PAYER'S name, street address, city, state, ZIP code, and telephone no. Denver Sheet Metal 214 16th Street Denver, CO 86013	1 Ordinary dividends \$ 500.00	2a Total capital gain distr. \$	2b 28% rate gain \$	OMB No. 1545-0110  Form <b>1099-DIV</b>	
PAYER'S Federal identification number 10-2846731	RECIPIENT'S identification number 000-00-4213	2c Qualified 5-year gain \$	2d Unrecap. sec. 1250 gain \$	Copy B For Recipient  This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
RECIPIENT'S name  Lucas B. George  Street address (including apt. no.) 1360 Shannon Avenue  City, state, and ZIP code Denver, CO 86011		2e Section 1202 gain \$	3 Nontaxable distributions \$		
Account number (optional)		4 Federal income tax withheld \$ 100.00	5 Investment expenses \$		
		6 Foreign tax paid \$	7 Foreign country or U.S. possession		
		8 Cash liquidation distr. \$	9 Noncash liquidation distr. \$		
Form <b>1099-DIV</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service	

### Estimated Tax Payments

Add all estimated tax payments made by the taxpayer for the year. Be sure to include:

- Payment made from last year's overpayment (see last year's tax return.)
- Quarterly payments made using the Form 1040ES, including the one made in January of the current tax year.

Record total estimated tax payments on Line 40 of Form 1040A or Line 64 of Form 1040.

### Refundable Credits

Make sure that any refundable credits you have calculated are entered on the proper lines. The Earned Income Credit is reported on line 8 of the Form 1040 EZ, Line 41 of the Form 1040A, and Line 65 of the Form 1040. Any refundable Child Tax Credit is reported on Line 42 of the Form 1040A and Line 67 of the Form 1040. If excess Social Security deductions were made because of multiple employers, that amount is shown on Line 66 of the Form 1040.

### Total Payments

Add the total of withholdings, estimated tax payments made, and refundable credits together. Enter this total on Line 9 of the Form 1040EZ, Line 43 of the Form 1040A, or Line 70 of the Form 1040.

# FIGURING THE OVERPAYMENT OR THE TAX DUE

## Overpayments

If there has been more tax payments made than the amount of tax liability (line 10, Form 1040EZ, line 38, Form 1040A, or line 62, Form 1040), this is considered an overpayment. A taxpayer may wish to have a portion of the overpayment applied to next year's taxes. If so, then enter the amount to be applied to the following year on line 46 of the Form 1040A or line 73 of the Form 1040. Subtract this amount from the total overpayment and enter the remainder on line 45a of the Form 1040A or line 72a of the Form 1040.

Only a total refund can be entered on the Form 1040EZ, line 12a. Any overpayment on Form 1040EZ must be refunded; It cannot be applied to next year's taxes.

### Example 3

Exhibit 5 shows Form 1040A, lines 28 through 46, for Zxavien. His total tax is \$3,491. His total payments are \$5,000. Zxavien overpaid and wants \$900 to be applied to his 2005 estimated tax. Note that line 45a plus line 46 equals the amount on line 44.

Exhibit 5

Zxavien's 1040A, page 2

<b>28</b>	<b>Tax</b> , including any alternative minimum tax (see page 35).	28	3,491.00
<b>29</b>	Credit for child and dependent care expenses. Attach Schedule 2.	29	
<b>30</b>	Credit for the elderly or the disabled. Attach Schedule 3.	30	
<b>31</b>	Education credits. Attach Form 8863.	31	
<b>32</b>	Retirement savings contributions credit. Attach Form 8880.	32	
<b>33</b>	Child tax credit (see page 38).	33	
<b>34</b>	Adoption credit. Attach Form 8839.	34	
<b>35</b>	Add lines 29 through 34. These are your <b>total credits</b> .	35	0.00
<b>36</b>	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.	36	3,491.00
<b>37</b>	Advance earned income credit payments from Form(s) W-2.	37	
<b>38</b>	Add lines 36 and 37. This is your <b>total tax</b> .	38	3,491.00
<b>39</b>	Federal income tax withheld from Forms W-2 and 1099.	39	2,600.00
<b>40</b>	2003 estimated tax payments and amount applied from 2002 return.	40	2,400.00
<b>41</b>	<b>Earned income credit (EIC)</b> .	41	
<b>42</b>	Additional child tax credit. Attach Form 8812.	42	
<b>43</b>	Add lines 39 through 42. These are your <b>total payments</b> .	43	5,000.00
<b>44</b>	If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you <b>overpaid</b> .	44	1,509.00
<b>45a</b>	Amount of line 44 you want <b>refunded to you</b> .	45a	609.00
<b>b</b>	Routing number <input type="text"/>	<b>c</b>	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
<b>d</b>	Account number <input type="text"/>		
<b>46</b>	Amount of line 44 you want <b>applied to your 2004 estimated tax</b> .	46	900.00
<b>47</b>	<b>Amount you owe</b> . Subtract line 43 from line 38. For details on how to pay, see page 53.	47	0.00
<b>48</b>	Estimated tax penalty (see page 53).	48	

## Refunds

If the taxpayer wants an overpayment refunded, advise that a check should be mailed within 6-8 weeks after the return is filed. Remind the taxpayer of the availability to have the refund deposited directly into a financial account, such as a bank account.

## Direct Deposit

Instead of getting a paper check, taxpayers may choose to have their refund deposited directly into their account at a bank or other financial institution such as a mutual fund, brokerage firm, or credit union.

**Note.** Taxpayers should check with their financial institution to make sure their direct deposit will be accepted and to get the correct routing and account number.

**Exhibit 6** shows the general location of the routing and account number on a sample check. The routing number must be nine digits (the first two digits must begin with 01 through 12 or 21 through 32, otherwise the direct deposit will be rejected and a check sent instead). The account number can be up to 17 characters (both numbers and letters). It can include hyphens but not spaces or special symbols. The number should be entered from left to right with any unused boxes left blank.

**Exhibit 6**

The diagram shows a sample check with the following details:

- Payor:** LERON BROWN, RENA BROWN, 123 Main Street, Anyplace, CA 10000
- Payee:** PAY TO THE ORDER OF
- Amount:** \$ [ ] DOLLARS
- Bank:** ANYPLACE BANK, Anyplace, NY 10000
- Routing number:** 250250025 (labeled as (lir(line 72b)))
- Account number:** 202020 86 (labeled as (lir(line 72d)))
- Check number:** 1234
- Microprint:** 15-00000000
- Annotations:** A "SAMPLE" watermark is present. A note says "Do not include the check number".

## Tax Due

If there are less tax payments than the amount of tax liability, then there is tax due to be paid with the return. When this happens, remind the taxpayer to make the check or money order payable to the "United States Treasury." Taxpayers can also pay by credit card or by authorizing a direct debit from their checking or savings account on the date they choose (anytime up to April 15, 2005). Encourage a 1040 filer to voluntarily send Form 1040-V, *Payment Voucher*, with his or her payment. The instructions for completing the voucher appear on the 1040-V. The taxpayer should write his or her name, address, social security number, daytime telephone number, and "2004 Form 1040 (or 1040A or 1040EZ, whichever applies)"



on the check or money order. The payment and Form 1040-V should be enclosed, but not attached to the tax return. Taxpayers should not mail cash with their returns.

To help IRS process the payment, the taxpayer should enter the amount on the right side of the check like this: \$XXX.XX. Do not use dashes or lines (for example, do not enter “\$XXX—” or “\$XXX<sup>XX</sup>/<sub>100</sub>”).

## Electronic Payment Options

If the taxpayer owes an amount on his or her return, he/she can make the payment electronically. To pay by credit card, the taxpayer must use one of the service providers listed in the instructions for Forms 1040, 1040A, or 1040EZ. The taxpayer can also pay by authorizing a direct debit out of his/her checking or savings account by April 15, 2005.

If the taxpayer cannot pay the full amount owed shown on his/her return, the taxpayer may ask permission to make monthly installment payments. To ask for an installment agreement, the taxpayer should file Form 9465, *Installment Agreement Request*, with the tax return.

**Estimated Tax Penalty.** If line 12, Form 1040EZ, line 47, Form 1040A, or line 74, Form 1040, is \$1,000 or more and it is more than 10 percent of the tax shown on the return, or if the taxpayer underpaid his or her 2004 estimated tax liability, the taxpayer can owe a penalty for underpayment of estimated tax. If so, report the penalty on line 48 for Form 1040A or line 75 of Form 1040. Line 47 or line 74 should include the amount owed with the return plus the penalty reported on line 48 of Form 1040A or line 75 of Form 1040, respectively.

Because the Form 2210, *Underpayment of Estimated Tax by Individuals, Estates, and Trusts*, used to compute estimated tax penalty is complicated, the IRS encourages taxpayers to let the IRS figure the penalty for them. The IRS will figure the penalty for underpayment of estimated tax and, if a penalty is owed, the taxpayer will be sent a bill. If taxpayers want the IRS to figure the penalty for them, the taxpayers should leave the penalty line on their return blank and **should not** complete Form 2210. As long as the taxpayer files the return by April 15, 2005, the IRS will not charge interest on the penalty if the bill is paid by the date specified on the bill.

## FIGURING ESTIMATED TAX FOR NEXT YEAR

**Estimated tax** is the amount a taxpayer expects to owe for the year after deducting any tax credits or federal income tax withheld. In other words, it is the amount the taxpayer anticipates will be owed on his or her 2005 federal income tax return.

If a taxpayer is an employee, the taxpayer's employer generally must withhold income, Medicare, and social security taxes on the wages paid. Also, most payers of taxable pensions withhold income tax and pay it to the government. However, a taxpayer may receive many types of taxable income that are not subject to having tax withheld.

A taxpayer who receives interest, dividends, alimony, unemployment compensation, rent, gains from the sale of assets, prizes, or awards, generally will have no income tax withheld on the payments. As a result, the taxpayer may find that he or she owes estimated tax. Most self-employed taxpayers will also find they are required to pay estimated tax.

### Who Must Pay Estimated Tax

Estimated tax payments are required if certain conditions are met. Generally a taxpayer must make payments of estimated tax if:

1. He or she expects to owe \$1,000 or more in tax for 2005 after subtracting federal income tax withheld and credits from taxable income,

**AND**

2. He or she expects the 2005 tax withheld and credits to be less than the smaller of:
  - a) 90 percent of the tax to be shown on his or her 2005 tax return, or
  - b) 100 percent of the tax shown on his or her 2004 tax return. The return must cover all 12 months.

#### POTENTIAL PITFALLS



When figuring estimated tax, be sure to include all taxes, such as tax on lump-sum distributions and self-employment tax.

Married taxpayers can pay estimated tax either separately or jointly. How they pay their estimated tax will not affect their choice of filing a joint return or separate returns for the year. Joint estimated tax payments may be divided between the spouses if they later choose to file separate returns.

## Example 4

Jayne is single and retired. She works part time as an usher in a movie theater. She estimates her 2005 income will be \$16,421, which includes \$3,500 of interest income from which there will be no tax withheld. Jayne calculates that she expects to owe \$1,008 (after taking into account her expected tax withheld and credits). Jayne meets condition 1 (mentioned earlier) and may have to pay estimated tax. Further checking tells Jayne that her expected 2005 tax withheld will be less than 100 percent of the tax shown on her 2004 return and less than 90 percent of the tax she will show on her 2005 tax return. Since Jayne also meets condition 2 (mentioned earlier), she is required to pay estimated tax.

**Limit on the use of prior year's tax.** Married taxpayers with joint AGI exceeding \$150,000 or \$75,000 if married filing separately cannot use 100% of their 2004 tax to figure their 2005 estimated tax payments.

For more information, see Publication 505, *Tax Withholding and Estimated Tax*.

## How to Figure Estimated Tax

Estimated tax is paid by using Form 1040-ES, *Estimated Tax For Individuals*. Form 1040-ES also contains a worksheet that can be used in figuring a taxpayer's estimated tax. The taxpayer should keep the worksheet for his or her records.

To figure the estimated tax, the taxpayer must first figure his or her expected adjusted gross income, taxable income, taxes, and credits for 2005. All available facts that will affect those items during the year must be taken into account. Use the 2004 tax return as a starting point for estimating 2005 income, deductions, and credits. However, be careful to make adjustments both for anticipated changes in the taxpayer's situation and for recent changes in the tax law.

Form 1040-ES contains both the 2005 Tax Rate Schedules and the 2005 standard deduction and exemption amounts. Be sure to use the 2005 figures when figuring the estimated tax.

## When to Pay Estimated Tax

For estimated tax purposes, the year is divided into four payment periods. Each period has a specific due date.

Date taxpayer receives income	Due date of first installment	No. of payments
January 1– March 31	April 15, 2005	4
April – May 31	June 16, 2005	3
June 1 – August 31	September 15, 2005	2
September 1 – December 31	January 16, 2006	1

### POTENTIAL PITFALLS



Advise the taxpayer to use the pre-addressed envelopes that came with his or her Form 1040-ES package, or mail payment vouchers to the address shown in the Form-ES instructions for the place where he or she lives. *Do not* use the address shown in the Form 1040 or Form 1040A instructions.

Most of the taxpayers that you assist will pay their estimated tax in four equal installments. However, a taxpayer does not have to make estimated tax payments until he or she has income on which tax is owed. If a taxpayer receives income after one or more of the payment periods have passed, he or she will begin making payments during the period when the income is received.

The minimum payment due during the period when the income is received is one-fourth of the total estimated tax for the year, generally, plus an additional fourth of the yearly total for each period which has already passed. The balance of the estimated tax will be paid during the remaining periods (one-fourth of the yearly total for each remaining period).

The taxpayer also has the option of paying all the estimated tax at once. Instead of paying by installments, he or she may choose to pay the entire amount by the due date of the period during which the income is received.

Some taxpayers choose to pay all of their estimated tax with the first payment, April 15, 2005. It alleviates the need for them to remember to make the remaining payments.

Also, a taxpayer can apply all or part of an overpayment from his or her 2004 Form 1040 or Form 1040A to the estimated tax for 2005. The overpayment amount to be credited is entered on Form 1040, line 73, or Form 1040A, line 46. All of the credit can be applied to the first payment or it can be spread out among any or all of the payments.

If any due date falls on a Saturday, Sunday, or legal holiday, the payment is due on the next business day.

If a taxpayer files his or her 2005 Form 1040 or Form 1040A by January 31, 2006, and pays the entire amount of tax owed at that time, he or she is not required to make the estimated tax payment that would be due on January 16, 2006.

## How Much Estimated Tax to Pay

The computed estimated tax is based on expected income and deductions and should take into account all facts known at the time the estimate is made. If the taxpayer is unsure about the accuracy of the estimate, he or she may want to pay more than the required minimum 90 percent of the 2005 estimated tax. Taxpayers who do not pay enough tax by the due date of each payment period may be charged a penalty, even if the filed 2005 return shows a refund. Generally, the simplest and safest procedure is to make sure that the total of tax withheld plus the amount of estimated tax for each payment period during 2005 is at least one-fourth of the tax shown on the 2004 return. For more information, see Publication 505.

## How to Pay Estimated Tax

Estimated tax payments can be sent electronically to the IRS by direct debit payment from the taxpayer's checking or savings account, by credit card, or can be sent along with a payment voucher from Form 1040-ES. Each voucher is inscribed with its due date. Be sure to use the correct voucher for each payment. For more information on electronic filing and payments, see Form 1040-ES instructions.

If the taxpayer paid estimated tax in 2004, he or she should have received a Form 1040-ES package containing preprinted vouchers. These vouchers show the taxpayer's preprinted name, address, and social security number. To use them, simply enter the amount of the payment on the appropriate line. If a taxpayer does not have the preprinted forms, use a set of blank vouchers from Form 1040-ES and enter the information on the appropriate lines. Advise the taxpayer to write his or her social security number and "2004 Form 1040-ES" on the check or money order (payable to the "United States Treasury") when paying estimated tax.

## **FORMS W-4 AND W-4P**

An employer withholds tax based on wages paid and information the employee provides on Form W-4, *Employee's Withholding Allowance Certificate*. The employee uses his or her expected income, deductions, adjustments to income, and credits to figure the total withholding allowances to claim on Form W-4. In addition, an employee can claim extra allowances in certain situations.

A taxpayer who receives distributions from a pension, an annuity, an IRA, a stock bonus plan, or certain deferred compensation plans should use Form W-4P, *Withholding Certificate for Pension or Annuity Payments*, to notify the payer whether, and how much, income tax should be withheld.

Income, deductions, and credits should be estimated carefully. Taxpayers who do not have enough federal income tax withheld can be subject to interest and penalties. Taxpayers who have a very large refund or who owe should consider adjusting their withholding.

Some taxpayers want their withholding to be high enough to ensure that they receive a tax refund. They do not want to pay an additional amount when filing their tax return. If a taxpayer wishes, it is legal to claim fewer allowances than he or she is allowed. More tax than required will be withheld each pay period and, at the end of the year, the taxpayer should be eligible for a refund of overpaid taxes.

Forms W-4 and W-4P also contain:

- Instructions
- *Personal Allowances Worksheet*
- *Deductions and Adjustments Worksheet*
- *Two-Earner/Two-Job, Multiple Pension/More Than One Income Worksheets*
- Tables

The worksheets incorporate the number of allowances, adjustments, deductions, and credits that the employee expects on his or her 2005 income tax return. Some or all of these additional worksheets will then be used by the employee in completing the allowance certificate.

If an employee has a working spouse or income from two jobs, only one set of Form W-4 Worksheets should be completed. Complete the Form W-4 Worksheets using the combined expected income (from all sources and for both spouses if filing a joint return), adjustments, deductions, and exemptions. The number of total allowances from this Form W-4 can then be divided among all jobs. Withholding will usually be the most accurate when an employee claims zero allowances on all jobs except for the highest paying one. **Reminder:** A separate Form W-4 is needed for each job.

Certain events can occur during the year that can change an employee's marital status, exemptions, allowances, deductions or credits. When this happens, the employee may have to change his or her withholding allowances by submitting a new Form W-4 to the employer. The original Form W-4 remains in effect until the employee changes it.

For more information on withholding, refer to Publication 919, *How Do I Adjust My Tax Withholding?*

### **W-5, Advance Earned Income Credit (AEIC)**

At this time, you as the preparer have the opportunity and the means to assist the taxpayer with the Form W-5, *Earned Income Credit Advance Payment Certificate*. The amount of the AEIC

payments are based on wages by payroll cycle. Only persons with at least one qualifying child can get AEIC payments. If the taxpayer qualifies for the Earned Income Credit for 2004 refer them to Publication 596, *Earned Income Credit* or Form W-5 for additional information.

## Completing and Assembling the Return

After all the decisions have been made regarding payments, overpayments, and estimated taxes, you should complete the taxpayer identification section, assemble the return, and submit it for quality review. When the review is completed, have the taxpayer sign the return and provide instructions on where and when to send it to the IRS. These steps are provided below.

## Taxpayer Identification Section

This section is completed after the rest of the return. Often, this saves time because after you begin preparing Form 1040A, you may discover that Form 1040EZ or Form 1040 is more appropriate. If this happens, you will not have to complete the taxpayer identification section twice.

Taxpayers who filed returns last year probably received a forms package by mail this year. The package includes a preaddressed label which shows the name and address of the taxpayer(s).

Peel the label off and place it in the address area of the return. Mark through any errors on the label, and print the correct information on the label. Be sure to enter the social security number(s) Individual Taxpayer Identification Number (ITIN) to the right of the label area.

If a taxpayer did not receive a forms package or does not have a pre-addressed label, PRINT the required information. Enter the taxpayer's name and social security number (or ITIN) on the first line. If married taxpayers are filing a joint return, enter one spouse's complete name and social security number (or ITIN) on the first line and the other spouse's complete name and social security number (or ITIN) on the second line. Be sure that each taxpayer's name and social security number (or ITIN) appear on one line, separate from the spouse's information. If you enter the husband's name and the wife's social security number (or ITIN) on the same line, there can be a considerable delay in processing the return.

Enter the address where any refund or notices should be sent. If the post office delivers mail to a post office box rather than to a street address, enter the P.O. box number on the line for the home address.

The Presidential Election Campaign Fund appears in the name and address area of Forms 1040EZ, 1040A, or 1040. Check *Yes* if the taxpayer wishes to have \$3 go to the Presidential Election

### ALERT



Before you complete any tax return you must request proof of identity. Follow guidelines in Lesson 1.

Campaign Fund. Otherwise, check *No*. Checking *Yes* will not change the tax or reduce the refund. On a joint return, each taxpayer chooses whether or not \$3 should go to the fund.

## POTENTIAL PITFALLS



Using the pre-addressed label reduces processing time. However, to protect the taxpayer's privacy, the peel-off label that he or she received in the mail with the tax return booklet does not have his or her SSN (or that of his or her spouse if filing a joint return) printed on it. Therefore, *be sure* the taxpayer's SSN (and spouse's, if applicable) is entered in the space provided on the tax form (1040, 1040A, or 1040EZ).

Further, if the taxpayer filed a joint return for 2003 and is filing a joint return for 2004 with the same spouse, *be sure* the taxpayer's and spouse's names and SSNs are entered in the same order as on the 2003 tax return.

## Assembling the Return

Make sure that all forms, schedules, and attachments show the taxpayer's name and social security number. List the names in the same order that they appear on the front of the return and use the first social security (or ITIN) number that appears on the front of the return.

Attach forms and schedules behind Form 1040 according to the attachment sequence number shown in the upper right corner of the form or schedule. Items without an attachment sequence number should be placed at the end. For Form 1040A, attach any forms or schedules in order by number with Schedule EIC last.

Attach Form(s) W-2 to the left margin of the return. If any Form 1099 shows federal income tax withheld, include that amount in the payments section of the return.

When any Form 1099 shows federal income tax withheld, attach a copy to the return, along with any Form(s) W-2.

## IDENTIFYING RETURNS

- If taxpayers ask about the site identification number designation at the bottom of the return in the paid preparer's section, explain that this is entered for statistical purposes. Inform the taxpayers that the site identification number does not affect the likelihood of an IRS examination (audit) of the return.
- If you prepare over 50 percent of the tax return and you are reasonably sure that the return will be filed as you prepared it, enter the site identification number at the bottom of the return in the Paid Preparer Section in the PTIN/SSN field.
- Most sites will have forms preprinted with the site identification number format entered in the Paid Preparer Section of the return. You must enter the number that has been assigned by the Territory Office for that site.
- If you do not have forms with the pre-printed site identification number format, print the appropriate site identification number for that site in the Paid Preparer Section of the return.
- The e-file administrator will set up computers to default the SIDN in the Paid Preparer section of the return (e-file administrators should refer to Publication 3189, e-file Administrator Guide for detailed instructions.)



## **SITE IDENTIFICATION NUMBER**

The Internal Revenue Service (IRS) will capture statistical information using the Individual Master File Report (IMF Report) and the Electronic Tax Administration (ETA) report. Based on this change, it is very important that **all returns** prepared by a volunteer tax preparation site be identified as VITA or TCE prepared.

The following procedures must be used when returns are prepared in a VITA or TCE site.

- The site identification number should be entered in the Paid Preparer Section of the return. (See Exhibit 7).
- The following procedures must be followed when returns are prepared in a VITA or TCE site.

### 1. Paper Returns

- All sites will enter the letter S followed by an 8 digit site identification number that is provided by the territory office. Sites should use the overprint form with the bold S format indicated in the Paid Preparer Section. Each of the numbers represent a certain area determined by the territory office. For instance, the fourth digit of the number will be 1 for VITA, 2 for Military VITA, 3 for Co-located site, 4 for TCE and 5 for AARP.
- If you use a return without the bold S format for the number enter the assigned number in the space provided in the Paid Preparer section of the return. Forms 1040EZ, 1040A, and 1040 with the bold “S” format are available from IRS and will be ordered by each site coordinator.

### 2. Electronically Filed Returns

- E-file administrators will set up computers to default to the proper location on the return where the number will already be entered. Ensure the default number has been entered for the site you are working.

Exhibit 7 illustrates a site identification number in the Paid Preparers section of three tax forms, 1040EZ, 1040A, and 1040.


**Exhibit 7 Site Identification Number**

**Form 1040EZ**

<b>Paid preparer's use only</b>	Preparer's signature	Date	Site Identification Number	Preparer's SSN or PTIN <b>S10-05-1234</b>
	Firm's name (or yours if self-employed), address, and ZIP code		EIN	
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 24.			Phone no. ( )	
			Cat. No. 11329W	Form <b>1040EZ</b> (2004)

**Site Identification Number**

**Form 1040A**

<b>Paid preparer's use only</b>	Preparer's signature	Date	Site Identification Number	Preparer's SSN or PTIN <b>S10-05-1234</b>
	Firm's name (or yours if self-employed), address, and ZIP code		EIN	
			Phone no. ( )	
 Printed on recycled paper				Form <b>1040A</b> (2004)

**Site Identification Number**

**Form 1040**

<b>Paid Preparer's Use Only</b>	Preparer's signature	Date	Site Identification Number	Preparer's SSN or PTIN <b>S10-05-1234</b>
	Firm's name (or yours if self-employed), address, and ZIP code		EIN	
			Phone no. ( )	
				Form <b>1040</b> (2004)

**Site Identification Number**

The goal of the TCE and VITA Programs is to provide high quality service.

### **On-Site Quality Review Program**

Every site must have a quality review program. Properly reviewed returns will help prevent taxpayers from receiving an error notice from the IRS. At larger sites, an experienced volunteer should be designated as the quality reviewer. At small sites, volunteers may review each other's work. During the actual tax return, preparation process and while conducting the quality review of the tax return, volunteers should ask probing questions to get complete and accurate information that reflects the taxpayers' circumstances. A Quality Review Checklist, like the one shown may be used for this purpose. Volunteers must review the tax return with the taxpayer before he/she leaves the site and make applicable changes or additions to the return. Volunteer Site Coordinators should become familiar with the quality review process as shown in Publication 1084, Volunteer. On-site quality review is a mandatory part of the VITA/TCE programs.

## Quality Review Checklist

### Entity

- Are the name, address, and **social security number** correct for each taxpayer on the return?
- Is the social security number(s) or ITIN(s) entered to the right of the label area?
- Was the taxpayer and each dependent's identity validated?
- Is/Are the Presidential Election Campaign Fund box(es) checked?
- Is the filing status correct? Is the box checked?
- Are the exemptions and dependents checked, listed, and added correctly?
- Are dependents' social security numbers or ITINs entered?

### Income

- Are income items correctly transferred from Form W-2, Form 1099-INT, Form 1099-DIV, Form 1099-G, Form 1099-R, and Form SSA-1099 (or RRB-1099), for example?
- Is tax-exempt interest income reported? Is "TEI" written to the left of line 2 on Form 1040EZ?
- Is the taxable portion of social security benefits, IRA distributions, pensions, and/or annuity income correctly figured?
- Are there IRA withdrawals to report?
- Is there any other income to report (lottery, fees, etc.)?
- If the taxpayer paid alimony, is the recipient's social security number entered?

### Tax and Credits

- Are all appropriate boxes on line 38a, Form 1040 or line 23a, Form 1040A or line 5, Form 1040EZ checked?
- Is the standard deduction correct? Complete worksheet if taxpayer is someone else's dependent.
- Is the tax correct?
- Is the taxpayer eligible to claim the credit for child and dependent care expenses, child tax credit, education credits, adoption credit, or credit for the elderly or the disabled?

### Payments

- Does the tax withheld agree with the total of amounts shown on all Forms W-2, 1099-INT, 1099-DIV, and 1099-R?
- Are the estimated tax payments correct?
- Is the taxpayer eligible to claim the earned income credit?
- Is the overpayment or the amount owed correct? Does the taxpayer want any part of the refund applied to next year's estimated tax? Does the taxpayer want the refund or any part directly deposited?

**Quality Review Checklist  
(continued)**

**Other**

- Did you use a calculator to check your math?
- Are all Forms W-2 and 1099 (showing tax withheld), as well as schedules and forms, attached to the return?
- Is the appropriate site identification number entered?
- Did the taxpayer(s) sign, date, and fill in his/her occupation on the return?
- Is the taxpayer eligible to claim the Advanced Earned Income Credit?
- Is the Site Identification Number shown on the tax return?

## ALERT



Publication 4012, Volunteer Resource Guide, contains a section entitled Return Signature to assist you with completing the tax return.

## Signature Section

Make sure the taxpayer signs and dates the return before mailing. An unsigned return cannot be processed and may be sent back to the taxpayer. On a joint return, both spouses must sign, even if only one spouse had income. Also, make sure the occupation(s) of the taxpayer (or of both spouses, if married filing jointly) is/are entered.

If a taxpayer died before filing a return for 2004, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. A personal representative can be an executor, administrator, or anyone who is in charge of the deceased taxpayer's property. If the deceased taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund. The person who files the return should enter "DECEASED," the deceased taxpayer's name, and the date of death across the top of the return.

If the taxpayer's spouse died in 2004 and the taxpayer did not remarry in 2004, the taxpayer can file a joint return. (The taxpayer can also file a joint return if his or her spouse dies in 2005 before filing a 2004 return.) A joint return should show the taxpayer's spouse's 2004 income before death and the taxpayer's income for all of 2004. The taxpayer should enter "Filing as surviving spouse" in the area where the taxpayer signs the return. If someone else is the personal representative, he or she must also sign.

The surviving spouse or personal representative should promptly notify all payers of income, including financial institutions, of the taxpayer's death. This will ensure the proper reporting of income earned by the taxpayer's estate or heirs. A deceased taxpayer's social security number should not be used for tax years after the year of death, except for estate tax return purposes.

## Third-Party Designee

If the taxpayer wants to allow a friend, family member, or any other person he or she chooses to discuss his or her 2004 tax return with the IRS, the taxpayer should check the “Yes” box in the “Third party designee” area of the return. Also, the taxpayer should enter the designee’s name, phone number, and any five numbers the designee chooses as his or her personal identification number (PIN).

If the taxpayer checks the “Yes” box, he or she, and his or her spouse if filing a joint return, is authorizing the IRS to call the designee to answer any questions that may arise during the processing of the return. The taxpayer is also authorizing the designee to:

- Give the IRS any information that is missing from the return,
- Call the IRS for information about the processing of the return or the status of the taxpayer’s refund or payment(s), and
- Respond to certain IRS notices that the taxpayer has shared with the designee about math errors, offsets, and return preparation. The notices will not be sent to the designee.

The taxpayer is not authorizing the designee to receive any refund check, bind the taxpayer to anything (including any additional tax liability), or otherwise represent the taxpayer before the IRS. If the taxpayer wants to expand the designee’s authorization, he or she should see Publication 947, *Practice Before the IRS and Power of Attorney*.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing the taxpayer’s 2005 tax return. This is April 15, 2006, for most people.

**As a volunteer preparer you may not be designated as a “Third Party Designee.”**

## Ending the Interview

Make sure the taxpayer keeps a copy of all Forms W-2 and 1099 with a copy of the tax return. Advise the taxpayer to keep these copies for at least three years. As the volunteer assistor, you should not keep a copy of the return. Listed below is a more detailed list of information to discuss with the taxpayer(s) prior to him/her leaving the site.

If an envelope has been provided for the taxpayer’s records place the copies into it. **Advise the taxpayer to bring the tax return and records back next year.**

## Information to provide Customer prior to their departure from sites.

As a volunteer it is your job to insure that the customers leave the site with all the information they need. You should answer any questions that the customer has and advise them that a copy of their return is not kept at the site.

## Here are some suggested items to give your customers:

- 1) Copy of return with attachments and reminder to bring to site next year
- 2) Pub 730 Important Tax Records envelope with the Quality Review Checklist completed
- 3) All documents given to volunteer to prepare return including Social Security cards and Photo identification
- 4) If e-filed:
  - Signed Forms 8453 for federal and state unless Self-Select PIN was used
  - Info on direct deposit vs. paper check
  - Explanation of the e-file process
  - Explanation that nothing needs mailing
- 5) If paper:
  - Signed return (with attached W-2's and 1099's if any withholding) for mailing for federal and state or knowledge of where to sign
  - Envelope or address to mail return
- 6) Contact information if problems with return
- 7) If refund:
  - Expected receipt date per Refund Cycle Chart
  - Contacts if refund not received: [www.irs.gov](http://www.irs.gov); 1-800-829-1954; 1-800-829-4477
  - W-4 information if refund too high and not related to EITC
- 8) If balance due:
  - Form 1040V Payment Voucher if e-filed
  - Address to send voucher
  - Information to show on check: payable to U.S. Treasury; SSN, daytime phone number, tax year and form number (1040, 1040EZ, 1040A)
  - Payment options: Refer to Pub 4012 or Pub 17
  - W-4 information if balance due to withholding
  - Information on estimated payments if balance not due to withholding
- 9) Information as to how long to retain records and what to retain



**Reporting to IRS**

Site coordinators are required to report the number of volunteers working at Volunteer Tax sites using the same information shown on Form 13206, Volunteer Summary Report. A draft copy of the form is shown below. This report lists the name, role and date certified of the volunteer. The data is used to identify, recognize, and provide information to the site sponsor. All volunteer and taxpayer data is covered under Privacy Act provisions. For further information on reporting, please contact your IRS SPEC office.

Form **13206**  
(Rev. 9-2004)

## Volunteer Assistance Summary Report

Please mail, fax, or e-mail this form, the preferred reporting method for volunteer assistance or a document containing all information requested on this form to your IRS reporting office by the 3rd business day after the end of the month. See IRS contact for mail or e-mail address.

Date: \_\_\_\_\_

Site Identification Number:    -   -

**Note:** For filing season 2005 the SIDN (Site Identification Number) will change from beginning with a "P" to beginning with an "S". The remaining digits of current SIDNs will not change. Beginning 2004, sites were issued new SIDNs. If your site does not have a number contact the IRS, SPEC Territory Office.

Site Name: \_\_\_\_\_

Site Address: \_\_\_\_\_  
\_\_\_\_\_

Special Services Offered: \_\_\_\_\_  
(i.e. hearing impaired interpreter;  
Language Assistance - German) \_\_\_\_\_

Site Coordinator/Manager's Name: \_\_\_\_\_

Site Coordinator/Manager's Mailing and Email Address: \_\_\_\_\_  
Street Address  
 \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_  
 \_\_\_\_\_  
E-Mail Address

Site Coordinator/Manager's Phone Number: ( \_\_\_\_\_ ) \_\_\_\_\_

**Reminders:**

1. Total Number of Volunteers Previously Counted \_\_\_\_\_
2. Total Number of New Volunteers \_\_\_\_\_  
(\*Enter the total number of volunteers that worked for the first time at a VITA/TCE site)
3. Total Number of New Volunteers Reported This Filing Season (Add 1 & 2) \_\_\_\_\_
4. For "Date Certified" an entry should be made for all volunteers who prepare tax returns. This includes tax professionals and other volunteers who were previously exempt from taking a test.

**VOLUNTEER LIST**

The name and complete mailing address of each volunteer should only be entered on this form the first time they report to your site. Future completion of this form is only necessary if new volunteers have reported to your site.

Volunteer Name and Volunteer Role	Date Certified	Check if volunteer worked at more than one site*		If Yes, Indicate Site Name(s)	If Yes, Indicate Program	
		Yes	No		VITA	TCE
Volunteer Name _____ Volunteer Role _____						
Volunteer Name _____ Volunteer Role _____						
Volunteer Name _____ Volunteer Role _____						

### **Exercise 1**

- A.** Helen paid \$500 in estimated tax to the United States Treasury. Where is this reported on Form 1040A? \_\_\_\_\_  
\_\_\_\_\_
- B.** Shirley paid \$200, the amount owed on last year's income tax return. Is this \$200 in 2004 an estimated tax payment for this year's income tax return? \_\_\_\_\_
- C.** Elmer wants his refund deposited in his checking account. What information should you enter on line 45b of Form 1040A?  
\_\_\_\_\_
- D.** Jennifer had tax withheld from her wages on Form W-2. She also had some withholding on her Form 1099-R. Can these items be combined and listed on one line on her tax return?  
\_\_\_\_\_

### **Exercise 2**

Look at the completed Form 1040EZ shown in Exhibit 8 and identify at least 3 areas that have not been properly completed.

Form  
**1040EZ**

Department of the Treasury—Internal Revenue Service  
**Income Tax Return for Single and  
Joint Filers With No Dependents (99) 2004**

OMB No. 1545-0675

**Label**  
(See page 12.)  
**Use the IRS label.**  
Otherwise, please print or type.

**Presidential Election Campaign**  
(page 12)

L A B E L  H E R E	Your first name and initial <b>Jorge</b>	Last name <b>Mendez</b>
	If a joint return, spouse's first name and initial <b>Lucinda</b>	Last name <b>Mendez</b>
	Home address (number and street). If you have a P.O. box, see page 12. <b>1040 Main Street</b>	
	City, town or post office, state, and ZIP code. If you have a foreign address, see page 12. <b>Anywhere USA 99999</b>	

Your social security number  
**XXX XX XXXX**  
Spouse's social security number  
**XXX XX XXXX**

**▲ Important! ▲**  
You **must** enter your SSN(s) above.

**Note.** Checking "Yes" will not change your tax or reduce your refund.  
Do you, or your spouse if a joint return, want \$3 to go to this fund?  Yes  No  Yes  No

**Income**

**Attach Form(s) W-2 here.**  
Enclose, but do not attach, any payment.

**Note.** You must check Yes or No.

<b>1</b>	Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1	<b>14,900</b>	<b>00</b>
<b>2</b>	Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.	2		<b>00</b>
<b>3</b>	Unemployment compensation and Alaska Permanent Fund dividends (see page 14).	3		
<b>4</b>	Add lines 1, 2, and 3. This is your <b>adjusted gross income</b> .	4		
<b>5</b>	Can your parents (or someone else) claim you on their return? <b>Yes.</b> Enter amount from <input type="checkbox"/> worksheet on back. <b>No.</b> If <b>single</b> , enter \$7,950. If <b>married filing jointly</b> , enter \$15,900. See back for explanation. <input type="checkbox"/>	5		
<b>6</b>	Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your <b>taxable income</b> .	6	<b>14,900</b>	<b>00</b>

**Payments and tax**

<b>7</b>	Federal income tax withheld from box 2 of your Form(s) W-2.	7	<b>1,700</b>	<b>00</b>
<b>8</b>	<b>Earned income credit (EIC).</b>	8		
<b>9</b>	Add lines 7 and 8. These are your <b>total payments</b> .	9	<b>1,700</b>	<b>00</b>
<b>10</b>	<b>Tax.</b> Use the amount on <b>line 6 above</b> to find your tax in the tax table on pages 24–28 of the booklet. Then, enter the tax from the table on this line.	10	<b>1,490</b>	<b>00</b>

**Refund**

Have it directly deposited! See page 19 and fill in 11b, 11c, and 11d.

<b>11a</b>	If line 9 is larger than line 10, subtract line 10 from line 9. This is your <b>refund</b> .	11a	<b>2</b>	<b>00</b>
<b>b</b>	Routing number <input type="text"/>	<b>c</b>	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
<b>d</b>	Account number <input type="text"/>			

**Amount you owe**

<b>12</b>	If line 10 is larger than line 9, subtract line 9 from line 10. This is the <b>amount you owe</b> . For details on how to pay, see page 20.	12		
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**Third party designee**

Do you want to allow another person to discuss this return with the IRS (see page 20)?  **Yes.** Complete the following.  **No**

Designee's name	Phone no. ( )	Personal identification number (PIN)
-----------------	---------------	--------------------------------------

**Sign here**

Joint return? See page 11. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature <b>Jorge Mendez</b>	Date <b>1/23/05</b>	Your occupation	Daytime phone number ( )
Spouse's signature. If a joint return, <b>both</b> must sign. <b>Lucinda Mendez</b>	Date	Spouse's occupation	

**Paid preparer's use only**

Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code	EIN	Phone no. ( )	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 23.

Cat. No. 11329W

Form **1040EZ** (2004)

## ▶▶ SUMMING UP THIS LESSON ◀◀

The information for the payment section of the return comes from these sources:

- ▶ Federal income tax withheld by the employer, and
- ▶ Forms 1099, and
- ▶ Estimated tax payments paid by the taxpayer (not reported on Form 1040EZ), and
- ▶ Refundable credits.

If the amount owed is \$1,000 or more, the taxpayer may have to pay an estimated tax penalty. If there is an overpayment, the taxpayer can take one of the following courses of action:

- ▶ Receive a complete refund,
- ▶ Apply the overpayment to the next year's estimated tax, or
- ▶ Receive a partial refund and apply the remainder of the overpayment to the next year's estimated tax.

Estimated tax payments must be made if a taxpayer:

- ▶ Expects to owe \$1,000 or more in tax for 2005 after subtracting income tax withheld and credits,

**AND**

- ▶ Expects his or her 2005 tax withheld and credits to be less than the smaller of: 90 percent of the tax to be shown on his or her 2005 tax return or, generally, 100 percent of the tax shown on his or her 2004 tax return.

Withholding allowances for employees are reported on Form W-4. Allowances for pension or annuity recipients are reported on Form W-4P. They are figured by taking into account:

- ▶ Expected income
- ▶ Deductions
- ▶ Credits
- ▶ Adjustments to income

▶▶ **SUMMING UP THIS LESSON** ◀◀  
**(continued)**

**To finish the return:**

- ▶ Consider the taxpayer's possible eligibility for Advance Earned Income Credit.
- ▶ Complete the taxpayer's identification section after you have finished the rest of the return.
- ▶ Enter the site identification number in the paid preparer's section.
- ▶ Assemble the return correctly, attaching any Forms W-2 and Forms 1099 showing federal income tax withholding.
- ▶ Check each return for completeness and accuracy.
- ▶ Submit each return for on-site quality review.
- ▶ Have the taxpayer(s) sign and date the return.

## **Answers to Exercise 1**

- (A) Line 40
- (B) No
- (C) The routing number for his bank account.
- (D) Yes

## **Answers to Exercise 2**

- Wife's SSN is missing
- Presidential Election Campaign is not marked
- Husband's signature is missing
- The Site Identification Number is missing in the preparer's SSN/PTIN section of the form.
- Line 4 is blank
- Line 5 is blank
- Line 6 is incorrect
- Line 11a is incorrect
- Occupations are missing
- Spouse's signature is missing

**STUDENT NOTES**



# CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

NOTES TO INSTRUCTORS

Lesson 8

## LESSON OVERVIEW AND OBJECTIVES

This lesson covers a very common non-refundable credit — the credit for child and dependent care expenses.

After completing this lesson students should be able to:

- 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.

See Appendix B for suggested class schedules and approximate teaching times.

## TRAINING MATERIALS AND ON-SITE RESOURCE GUIDE

This lesson will refer to the following IRS publications and forms. If you would like to provide your students with the most current revision of the publications and forms, you can download the files from [www.irs.gov](http://www.irs.gov).

- Form 2441, *Child and Dependent Care Expenses*
- Schedule 2, *Child and Dependent Care Expenses for Form 1040A Filers*
- Publication 503, *Child and Dependent Care Expenses*
- Publication 4012, *Volunteer Resource Guide*, is included in each student training kit. The publication is designed for both classroom and actual site usage. Direct the student to the tab entitled Child and Dependent Care Credit for this lesson and make sure the student is aware of the content of the tab and how it should be used when assisting taxpayers. For additional technical information about this topic see the applicable chapter of Publication 17, *Your Federal Tax (For Individual)*.

## GUIDED QUESTIONS

- 1. How is the amount of work-related expenses eligible for child and dependent care expenses determined?** (It is the lowest of: the lower-paid spouse's earnings, the single taxpayer's earnings, the actual expenses paid, or the overall limit of \$3,000 a year for one qualifying person or \$6,000 a year for two or more qualifying persons.)
- 2. How does dependent care assistance from employers affect the taxpayer's limited eligible expenses?** (The overall limit and qualified expenses incurred are reduced, dollar for dollar, by any reimbursement (benefits) excluded from the taxpayer's income.) This also may include the fair market value of the employer provided benefit.

3. **Under what circumstances can married taxpayers claim the child and dependent care credit, even though one spouse is not working?** (If a nonworking spouse is either a full-time student during any five months of the year, or is incapable of self-care for some period during the year.)
4. **What form is used in conjunction with Form 1040 or 1040A to claim the credit for child and dependent care expenses?** (Form 2441 or Schedule 2)
5. **Is a spouse who is physically or mentally incapable of self-care considered to be a qualifying person for the credit for child and dependent care expenses?** (Yes)
6. **Is the dollar amount of the child and dependent care credit equal to the qualifying expenses?** (No; the credit is a percentage of qualifying expenses.)
7. **For which taxpayers do you complete Part III of Schedule 2 or Form 2441?** (Taxpayers who received benefits under a dependent care benefits program.)

### **TEACHING TIPS**

1. Remind students to use the flow chart in Publication 4012, Volunteer Resource Guide, when determining if a taxpayer qualifies for the credit.
2. On a flip-chart or chalkboard, draw the following graphic organizer that shows the order in which to complete Parts I through III of Schedule 2 or Form 2441. The order is determined by whether the taxpayer received benefits under a dependent care assistance program.

Completing Parts I-III	
Dependent Care Benefits	NO Dependent Care Benefits
1. Part I	1. Part I
2. Part III	2. Part II
3. Part II	

3. Caution students to include in Part III all dependent care benefits that were reported in box 10 of Form W-2. However, students should NOT include amounts that were reported as wages in box 1 of Form W-2.
4. Advise the students to check and recheck that the name and SSN entered agree with the person's social security card. If, at the time the return is processed the return and SSN do not agree, the credit may be reduced or disallowed. If the qualifying child was born and died in 2004, 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.



5. 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 Example 7 states that the Fullertons received \$1,000 under a dependent care benefits program. Remind students that for taxpayers like the Fullertons, Part III of Form 2441 must be filled out before Part II.
6. Review with students Part III of the Fullertons' Form 2441 (see Exhibit 2). Call attention to the amount of excluded benefits entered on line 23 (\$1,000). Make certain that students understand that this amount is not entered on line 3 of Part II.

## **LESSON REVIEW**

1. Remind students to always use Publication 4012, Volunteer Resource Guide, when determining eligibility for the credit.
2. A taxpayer must satisfy all six tests to qualify for the credit.
3. The taxpayer must have the name, address, and TIN of the care provider or show due diligence in obtaining the information.
4. Form 2441 and Schedule 2 include new lines due to the expiration of certain rules in the tax code or new rulings. Alert returning students to read the lines carefully before completing the form.
  - a. For tax years beginning in 2004, the credit is limited to the regular tax minus the tentative minimum tax (determined without regard to the alternative minimum tax or foreign tax credit). Lines 10 through 13 were added and all subsequent lines renumbered to reflect this change.
  - b. Part III has been revised to reflect the fact that self-employed taxpayers and partnerships may have dependent care assistance programs, the payments from which are not reported on a Form W-2.



**STUDENT NOTES**



# CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

Lesson 8

## INTRODUCTION AND OBJECTIVES

In this lesson you will learn about the credit for child and dependent care expenses. This nonrefundable credit is one of the most commonly used credits. The requirements for claiming the credit are the same regardless of the form used. In fact, Form 2441 (used with Form 1040) and Schedule 2 (used with Form 1040A) are virtually identical. In order to qualify for this credit, the taxpayer must satisfy all six tests of eligibility.

Some taxpayers receive employer provided dependent care benefits. Dependent care benefits include amounts the employer paid directly to the taxpayer or to the care provider. These benefits can also include the fair market value of care in a day care facility provided or sponsored by the employer. The taxpayer's salary may have been reduced to pay for these benefits. The employer provided benefits will be reported on Form W-2, Box 10.

After completing this lesson you should be able to:

- 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.

## QUALIFYING PERSON TEST

The child and dependent care expenses must be for at least one qualifying person.

A qualifying person is:

- A child who was under the age of 13 when the care was provided and for whom a dependency exemption can be claimed. Special rules apply, however, if the parents are divorced or separated (see next page).
- A dependent who was physically or mentally not able to care for himself or herself and for whom a dependency exemption can be claimed (or could be claimed except the person had \$3,100 or more of gross income).
- A spouse who was physically or mentally not able to care for himself or herself.

### ALERT



Publication 4012, Volunteer Resource Guide, contains a flow chart to assist you in determining whether a taxpayer can claim the credit. It also contains the definition of qualifying person and qualified expenses.

### POTENTIAL PITFALLS



Normally, a qualifying person's age is defined as the age on the last day of the year. However, this credit allows a taxpayer to claim child and dependent care expenses up to the day the child turns 13.

### Example 1

Jim paid someone to care for his wife, Janet. Janet is physically unable to care for herself. Jim also paid to have someone prepare meals for his 12-year-old daughter, Jill. Both Janet and Jill are qualifying persons for the credit.

### Example 2

Bob and Rhonda paid child care expenses for their son, Ronnie. Ronnie turned 13 on July 15. Ronnie is a qualifying person until he reached the age of 13.

## Children of Divorced or Separated Parents Exception

If the taxpayer is the **custodial** parent, he or she can treat the child as a qualifying person for the credit even if he or she cannot claim the child's dependency exemption. If the taxpayer **is not** the custodial parent, he or she cannot treat the child as a qualifying person for the credit even if he or she can claim the child's dependency exemption.

This exception applies only if **all** the following are true:

- One or both parents had custody of the child for more than half the year.
- One or both parents provided more than half of the child's support for the year.
- Either
  1. The custodial parent signed Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents, or a similar statement, agreeing not to claim the child's exemption for the year, or
  2. The noncustodial parent provided at least \$600 for the child's support and can claim the child's exemption under a pre-1985 decree of divorce or separate maintenance, or written agreement.

### Example 3

Amanda is divorced and has custody of her 8-year-old daughter, Carrie. Amanda signed Form 8332 to allow her ex-spouse to claim the dependency exemption for Carrie. In order to work, Amanda paid child care expenses for Carrie. Carrie is a qualifying person for the credit. Amanda can claim the credit for child and dependent care expenses. The ex-spouse cannot claim the credit.

## ***KEEPING UP A HOME TEST***

To claim the credit, the taxpayer must pay more than half the cost of keeping up a home for himself or herself and one or more qualifying persons. The cost of keeping up a home normally includes property taxes, mortgage interest, rent, utility charges, home repairs, insurance on the home, and food eaten in the home. Public assistance benefits are funds provided by the state not by the taxpayer.

## ***EARNED INCOME TEST***

The taxpayer (and spouse if married) must have earned income during the year. Earned income includes wages, salaries, tips, other taxable employee compensation, net earnings from self-employment, strike benefits, and disability pay reported as wages.

A spouse is treated as having earned income for any month he or she is a full-time student or physically or mentally not able to care for himself or herself. His or her earned income for each month is considered to be at least \$250 if there is one qualifying person in the home, or at least \$500 if there are two or more qualifying persons in the home. This applies to only one spouse for any one month. If, in the same month, both taxpayers do not work and are either full-time students or physically or mentally not able to care for themselves, only one of them can be treated as having earned income in that month.

A full-time student is defined as enrolled and attending a school for the number of hours or classes the school considers full-time. The taxpayer (or spouse) must be a student for some part of five calendar months during the year.

## ***WORK-RELATED EXPENSE TEST***

Child and dependent care expenses must be work related to qualify for the credit. Expenses are considered work related only if both of the following are true:

1. The expenses allow the taxpayer (and spouse if married) to work or look for work and
2. The expenses are for a qualifying person's care.

A spouse is treated as working during any month he or she is a full-time student or is physically or mentally not able to care for himself or herself.

To be work related, the expenses must be to provide care for a qualifying person. Expenses are for the care of a qualifying person only if their main purpose is the person's well being and protection.

Expenses for care do not include amounts paid for food, clothing, education, and entertainment. However, small amounts paid for these items can be included if they are incident to and cannot be separated from the cost of care.

**Education.** Expenses to attend first grade or a higher grade are not expenses for care.

#### **Example 4**

A taxpayer takes their 3-year-old child to a nursery school that provides lunch and educational activities as a part of its preschool child-care service. The total cost can be counted to figure the credit.

#### **Example 5**

A taxpayer places his/her 10-year-old child in a boarding school so he/she can work full-time. Only the part of the boarding school expense that is for the care of the child is a work related expense and only if it can be separated from the cost of education. The taxpayer cannot count any part of the amount paid for the child's education.

**Camp.** The cost of sending a child to an overnight camp is not considered a work-related expense.

**Payments to relatives.** Do not count amounts paid to:

1. A dependent for whom the taxpayer (or spouse if married) can claim as an exemption, or
2. The taxpayer's child who is under age 19 at the end of the year, even if he or she is not the taxpayer's dependent

### ***JOINT RETURN TEST***

Generally, a married couple must file a joint return to take the credit. However, if the taxpayer is legally separated or living apart from his or her spouse, the taxpayer may be able to file a separate return and still take the credit.

If the taxpayer's filing status is married filing separately and all of the following apply, the taxpayer is considered unmarried for purposes of figuring the credit:

1. The taxpayer lived apart from his or her spouse during the last six months of the year, and
2. The qualifying person lived in the taxpayer's home for more than half of the year, and
3. The taxpayer provided over half the cost of keeping up the home, and
4. The taxpayer met the other five tests for eligibility to take the credit.

### ***PROVIDER IDENTIFICATION TEST***

The taxpayer must provide the care provider's name, address, and taxpayer identification number. If the taxpayer is unable to provide this information or if the information is incorrect, he or she must show they used due diligence to obtain the information.



**Due Diligence.** The taxpayer can show due diligence by getting and keeping any of the following documents:

1. Form W-10, Dependent Care Provider's Identification and Certification.
2. Copy of the provider's social security card.
3. Copy of the provider's driver's license if it includes the social security number.
4. A copy of the provider's Form W-4 if the provider is the taxpayer's household employee.
5. A copy of the statement furnished by the taxpayer's employer if the provider is a dependent care plan.
6. A letter or invoice from the provider if it shows the name, address, and taxpayer identification number (EIN or SSN).

**Provider Refusal.** If the care provider refuses to give the taxpayer the identifying information, 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 or Schedule 2.

## LIMIT ON EXPENSES

The amount of expenses eligible for the credit is limited to the lowest of the following amounts for the year.

- The lower paid spouse's earned income (in the case of married taxpayers).
- The single taxpayer's earned income.
- The actual expenses paid.
- The overall limit of \$3,000 for one qualifying person or \$6,000 for two or more qualifying persons.

### Example 6

Mark earned \$14,000. His wife, Evelyn, earned \$5,600. Daycare expenses for their three-year-old daughter were \$2,200. The maximum amount of qualifying child care expenses is \$2,200. This is the lowest of:

- The lower paid spouse's earnings (\$5,600),
- The amount actually paid (\$2,200), and
- The overall limit for one qualifying person (\$3,000).

Some taxpayers receive dependent care benefits from their employers. If so, the overall limit of \$3,000/\$6,000 is reduced, dollar for dollar, by any reimbursement excluded from the taxpayer's income. The amount of dependent care benefits received is shown in box 10 of Form W-2.

### Example 7

Geraldine has one dependent child, Donald, who is 6 years old. She paid \$2,900 in qualified expenses. Box 10 of Geraldine's Form W-2 shows she received \$1,400 during the year from her employer's dependent care assistance program. Because she received dependent care benefits, Part III of Form 2441 must be completed before completing Part II.

### Nonworking Spouse

Married taxpayers usually must both work in order to claim the credit. However, if a spouse is either a full-time student during any five months of the year, or is not capable of caring for himself or herself for some period during the year, a credit can still be claimed. To figure the credit, the earned income for each month the spouse is either a full-time student or disabled is considered to be at least:

- \$250 with one qualifying person in the home, or
- \$500 with two or more qualifying persons in the home.

### Example 8

Janice worked full time. Her husband, Ken, was a full-time student from January through May. Their son, Jason, was in daycare while Ken attended school. Ken's earned income for the time he attended school is considered to be \$1,250 (5 months  $\times$  \$250).

#### Exercise 1

- A. Karen earned \$18,000. She paid \$3,200 for child care expenses for her four-year-old daughter, Crystal. What is the maximum amount of child care expenses Karen can claim? \_\_\_\_\_
- B. Andrea is married to Bill. They have a seven-year-old son, Charles. Charles lived with Andrea for the entire year. Andrea paid all the expenses of keeping up the home for herself and Charles. Andrea also paid for before-school and after-school child care. Her total child care expenses were \$1,800. Bill left the area 18 months ago. He did not live with Andrea at all during 2004, but he did send \$1,200 in child support. Andrea and Bill will file separate returns. Andrea signed Form 8332 to allow Bill to claim the dependency exemption for Charles. Who can claim the credit for child and dependent care expenses? \_\_\_\_\_
- C. Ellen is divorced. She has custody of her 12-year-old daughter, Terri. Terri takes care of herself after school. In the summer, Ellen spends \$2,000 to send Terri to a two week long overnight camp. Are the camp expenses qualified expenses for the credit for child and dependent care credit? \_\_\_\_\_

## **FIGURING THE CREDIT**

The credit is a percentage of qualifying expenses. For taxpayers with adjusted gross incomes of \$15,000 or less, the credit is 35 percent of qualifying expenses. As adjusted gross income increases, the percentage decreases. The lowest percentage is 20 percent for an AGI equal to or greater than \$43,000. There is no upper limitation on income for this credit. The tables on Schedule 2 (Form 1040A) and on Form 2441 (Form 1040) show the percentage for each adjusted gross income bracket. After the credit is figured using Form 2441 or Schedule 2, it is reported on Form 1040, line 46, or Form 1040A, line 29.

### **Example 9**

David A. and Edith B. Fullerton are married and file a joint return. Last year, they paid \$3,500 for the care of their son, Jonathan. The payment was made to Karen's Kiddie Care, 456 Chapman Avenue, Your City, State, and Zip Code (EIN xx-xxxxxxx). The \$3,500 payment includes a \$1,000 dependent care benefit Edith received from her employer. This benefit was reported on Edith's Form W-2, Box 10. Edith earned \$18,979 and David earned \$20,450 last year. Their adjusted gross income is \$39,429 and their tax liability is \$2,349.

Exhibits 1 and 2 show the completed Form 2441 (Form 1040) for David and Edith.

Form **2441**  
 Department of the Treasury  
 Internal Revenue Service (99)

**Child and Dependent Care Expenses**

OMB No. 1545-0068  
**2004**  
 Attachment  
 Sequence No. 21

▶ Attach to Form 1040.  
 ▶ See separate instructions.

Name(s) shown on Form 1040: **David A. and Edith B. Fullerton**  
 Your social security number: **xxx : xx : xxxxx**

**Before you begin:** You need to understand the following terms. See **Definitions** on page 1 of the instructions.

- **Dependent Care Benefits**
- **Qualifying Person(s)**
- **Qualified Expenses**
- **Earned Income**

**Part I Persons or Organizations Who Provided the Care**—You must complete this part.  
 (If you need more space, use the bottom of page 2.)

1	(a) Care provider's name	(b) Address (number, street, apt. no., city, state, and ZIP code)	(c) Identifying number (SSN or EIN)	(d) Amount paid (see instructions)
	Karen's Kiddie Care	456 Chapman Ave. Your City, State, and Zip Code	xx-xxxxxxx	3,500

Did you receive dependent care benefits?

**No** → Complete only Part II below.  
 **Yes** → Complete Part III on the back next.

**Caution.** If the care was provided in your home, you may owe employment taxes. See the instructions for Form 1040, line 61.

**Part II Credit for Child and Dependent Care Expenses**

**2** Information about your **qualifying person(s)**. If you have more than two qualifying persons, see the instructions.

(a) Qualifying person's name		(b) Qualifying person's social security number	(c) Qualified expenses you incurred and paid in 2004 for the person listed in column (a)
First	Last		
Jonathan	Fullerton	xxx : xx : xxxxx	2,500

<b>3</b> Add the amounts in column (c) of line 2. <b>Do not</b> enter more than \$3,000 for one qualifying person or \$6,000 for two or more persons. If you completed Part III, enter the amount from line 34 . . . . .	<b>3</b>		2,000																														
<b>4</b> Enter your <b>earned income</b> . . . . .	<b>4</b>		20,450																														
<b>5</b> If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions); <b>all others</b> , enter the amount from line 4 . . . . .	<b>5</b>		18,979																														
<b>6</b> Enter the <b>smallest</b> of line 3, 4, or 5 . . . . .	<b>6</b>		2,000																														
<b>7</b> Enter the amount from Form 1040, line 37 . . . . .	<b>7</b>	39,429																															
<b>8</b> Enter on line 8 the decimal amount shown below that applies to the amount on line 7	<b>8</b>		× .22																														
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;"><b>If line 7 is:</b></td> <td style="width: 33%;"><b>If line 7 is:</b></td> <td style="width: 34%;"></td> </tr> <tr> <td style="border-bottom: 1px solid black;"><b>Over</b></td> <td style="border-bottom: 1px solid black;"><b>But not over</b></td> <td style="border-bottom: 1px solid black;"><b>Decimal amount is</b></td> </tr> <tr> <td>\$0—15,000</td> <td></td> <td style="text-align: right;">.35</td> </tr> <tr> <td>15,000—17,000</td> <td></td> <td style="text-align: right;">.34</td> </tr> <tr> <td>17,000—19,000</td> <td></td> <td style="text-align: right;">.33</td> </tr> <tr> <td>19,000—21,000</td> <td></td> <td style="text-align: right;">.32</td> </tr> <tr> <td>21,000—23,000</td> <td></td> <td style="text-align: right;">.31</td> </tr> <tr> <td>23,000—25,000</td> <td></td> <td style="text-align: right;">.30</td> </tr> <tr> <td>25,000—27,000</td> <td></td> <td style="text-align: right;">.29</td> </tr> <tr> <td>27,000—29,000</td> <td></td> <td style="text-align: right;">.28</td> </tr> </table>	<b>If line 7 is:</b>	<b>If line 7 is:</b>		<b>Over</b>	<b>But not over</b>	<b>Decimal amount is</b>	\$0—15,000		.35	15,000—17,000		.34	17,000—19,000		.33	19,000—21,000		.32	21,000—23,000		.31	23,000—25,000		.30	25,000—27,000		.29	27,000—29,000		.28			
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27,000—29,000		.28																															
<b>9</b> Multiply line 6 by the decimal amount on line 8. If you paid 2003 expenses in 2004, see the instructions . . . . .	<b>9</b>		440																														
<b>10</b> Enter the amount from Form 1040, line 43 . . . . .	<b>10</b>	2,349																															
<b>11</b> Enter the amount, if any, from Form 6251, line 31 (see the instructions) . . . . .	<b>11</b>	0																															
<b>12</b> Subtract line 11 from line 10. If zero or less, <b>stop</b> . You cannot take the credit . . . . .	<b>12</b>		2,349																														
<b>13</b> <b>Credit for child and dependent care expenses.</b> Enter the <b>smaller</b> of line 9 or line 12 here and on Form 1040, line 46 . . . . .	<b>13</b>		440																														

**For Paperwork Reduction Act Notice, see page 3 of the instructions.** Cat. No. 11862M Form **2441** (2004)

**Part III Dependent Care Benefits**

<b>14</b>	Enter the total amount of <b>dependent care benefits</b> you received in 2004. Amounts you received as an employee should be shown in box 10 of your Form(s) W-2. <b>Do not</b> include amounts reported as wages in box 1 of Form(s) W-2. If you were self-employed or a partner, include amounts you received under a dependent care assistance program from your sole proprietorship or partnership . . . . .	<b>14</b>	1,000
<b>15</b>	Enter the amount forfeited, if any (see the instructions) . . . . .	<b>15</b>	0
<b>16</b>	Subtract line 15 from line 14 . . . . .	<b>16</b>	1,000
<b>17</b>	Enter the total amount of <b>qualified expenses</b> incurred in 2004 for the care of the <b>qualifying person(s)</b> . . . . .	<b>17</b>	3,500
<b>18</b>	Enter the <b>smaller</b> of line 16 or 17 . . . . .	<b>18</b>	1,000
<b>19</b>	Enter your <b>earned income</b> . . . . .	<b>19</b>	20,450
<b>20</b>	Enter the amount shown below that applies to you. <ul style="list-style-type: none"> <li>• If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions for line 5).</li> <li>• If married filing separately, see the instructions for the amount to enter.</li> <li>• All others, enter the amount from line 19.</li> </ul>	<b>20</b>	18,979
<b>21</b>	Enter the <b>smallest</b> of line 18, 19, or 20 . . . . .	<b>21</b>	1,000
<b>22</b>	Enter the amount from line 14 that you received from your sole proprietorship or partnership. If you did not receive any such amounts, enter -0- . . . . .	<b>22</b>	0
<b>23</b>	Subtract line 22 from line 16 . . . . .	<b>23</b>	1,000
<b>24</b>	Enter \$5,000 (\$2,500 if married filing separately <b>and</b> you were required to enter your spouse's earned income on line 20) . . . . .	<b>24</b>	5,000
<b>25</b>	<b>Deductible benefits.</b> Enter the <b>smallest</b> of line 21, 22, or 24. Also, include this amount on the appropriate line(s) of your return (see the instructions) . . . . .	<b>25</b>	0
<b>26</b>	Enter the <b>smaller</b> of line 21 or 24 . . . . .	<b>26</b>	1,000
<b>27</b>	Enter the amount from line 25 . . . . .	<b>27</b>	0
<b>28</b>	<b>Excluded benefits.</b> Subtract line 27 from line 26. If zero or less, enter -0- . . . . .	<b>28</b>	1,000
<b>29</b>	<b>Taxable benefits.</b> Subtract line 28 from line 23. If zero or less, enter -0-. Also, include this amount on Form 1040, line 7. On the dotted line next to line 7, enter "DCB" . . . . .	<b>29</b>	0

To claim the child and dependent care credit, complete lines 30-34 below.

<b>30</b>	Enter \$3,000 (\$6,000 if two or more qualifying persons) . . . . .	<b>30</b>	3,000
<b>31</b>	Add lines 25 and 28 . . . . .	<b>31</b>	1,000
<b>32</b>	Subtract line 31 from line 30. If zero or less, <b>stop</b> . You cannot take the credit. <b>Exception.</b> If you paid 2003 expenses in 2004, see the instructions for line 9 . . . . .	<b>32</b>	2,000
<b>33</b>	Complete line 2 on the front of this form. <b>Do not</b> include in column (c) any benefits shown on line 31 above. Then, add the amounts in column (c) and enter the total here . . . . .	<b>33</b>	2,500
<b>34</b>	Enter the <b>smaller</b> of line 32 or 33. Also, enter this amount on line 3 on the front of this form and complete lines 4-13 . . . . .	<b>34</b>	2,000

## Exercise 2

Sam L. (xxx-xx-xxxx) and Sue D. Windham are married and will file a joint return. They have two dependent children whom they send to day-care to allow both parents to work. Sam's earned income is \$18,500 and Sue's earned income is \$19,350. Their AGI (Form 1040, line 36) is \$37,850 and their tax liability (Form 1040, line 43) is \$1,651.

During 2004, they paid The Learning Center (496 Irvine Road, Your City, State, and Zip Code, EIN xx-xxxxxxx) \$5,450 to care for their children. The Windhams paid \$2,950 of the total and Sue's employer paid \$2,500 under a dependent care benefits program. The \$2,500 is in Box 10 of Sue's Form W-2.

The children and the amounts paid for child care are as follows:

Doug	SSN xxx-xx-xxxx	\$3,000	\$1,250 dependent care benefit
Sally	SSN xxx-xx-xxxx	\$2,450	\$1,250 dependent care benefit

Complete their Form 1040, Form 2441 (Exhibits 3 and 4).

## TAXWISE HINTS

Use the flow charts in Publication 4012, Volunteer Resource Guide, to determine credit eligibility. For each qualifying child, check the "DC" box on the Main Information Sheet, Dependents/Non-dependents box. TaxWise will add a Form 2441 or Schedule 2 to the forms tree. Complete all entries annotated in red. TaxWise will then calculate any exclusion amounts, calculate the credit, complete the form and insert the credit amount on Form 1040 or Form 1040A.

### ▶▶ SUMMING UP THIS LESSON ◀◀

The credit for child and dependent care expenses is a nonrefundable credit which allows a taxpayer to reduce their tax liability for a portion of the expenses.

A taxpayer must satisfy the six tests to qualify for the credit. The tests are the qualifying person test; the keeping up a home test; the earned income test; the work-related expense test; the joint return test; and the provider identification test.

The credit is calculated and reported on Form 2441 (Form 1040) or Schedule 2 (Form 1040A).

Form **2441**

**Child and Dependent Care Expenses**

OMB No. 1545-0068

**2004**

Attachment  
Sequence No. **21**

Department of the Treasury  
Internal Revenue Service (99)

▶ Attach to Form 1040.

▶ See separate instructions.

Name(s) shown on Form 1040

Your social security number

**Before you begin:** You need to understand the following terms. See **Definitions** on page 1 of the instructions.

- **Dependent Care Benefits**
- **Qualifying Person(s)**
- **Qualified Expenses**
- **Earned Income**

**Part I** **Persons or Organizations Who Provided the Care**—You must complete this part.  
(If you need more space, use the bottom of page 2.)

1	(a) Care provider's name	(b) Address (number, street, apt. no., city, state, and ZIP code)	(c) Identifying number (SSN or EIN)	(d) Amount paid (see instructions)

Did you receive dependent care benefits?

**No** → Complete only Part II below.

**Yes** → Complete Part III on the back next.

**Caution.** If the care was provided in your home, you may owe employment taxes. See the instructions for Form 1040, line 61.

**Part II** **Credit for Child and Dependent Care Expenses**

**2** Information about your **qualifying person(s)**. If you have more than two qualifying persons, see the instructions.

(a) Qualifying person's name		(b) Qualifying person's social security number	(c) Qualified expenses you incurred and paid in 2004 for the person listed in column (a)
First	Last		

<b>3</b> Add the amounts in column (c) of line 2. <b>Do not</b> enter more than \$3,000 for one qualifying person or \$6,000 for two or more persons. If you completed Part III, enter the amount from line 34 . . . . .	<b>3</b>																																																													
<b>4</b> Enter your <b>earned income</b> . . . . .	<b>4</b>																																																													
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<b>6</b> Enter the <b>smallest</b> of line 3, 4, or 5 . . . . .	<b>6</b>																																																													
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**Part III Dependent Care Benefits**

<b>14</b> Enter the total amount of <b>dependent care benefits</b> you received in 2004. Amounts you received as an employee should be shown in box 10 of your Form(s) W-2. <b>Do not</b> include amounts reported as wages in box 1 of Form(s) W-2. If you were self-employed or a partner, include amounts you received under a dependent care assistance program from your sole proprietorship or partnership . . . . .	<b>14</b>		
<b>15</b> Enter the amount forfeited, if any (see the instructions) . . . . .	<b>15</b>		
<b>16</b> Subtract line 15 from line 14 . . . . .	<b>16</b>		
<b>17</b> Enter the total amount of <b>qualified expenses</b> incurred in 2004 for the care of the <b>qualifying person(s)</b> . . . . .	<b>17</b>		
<b>18</b> Enter the <b>smaller</b> of line 16 or 17 . . . . .	<b>18</b>		
<b>19</b> Enter your <b>earned income</b> . . . . .	<b>19</b>		
<b>20</b> Enter the amount shown below that applies to you. <ul style="list-style-type: none"> <li>• If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions for line 5) . . . . .</li> <li>• If married filing separately, see the instructions for the amount to enter.</li> <li>• All others, enter the amount from line 19.</li> </ul>	<b>20</b>		
<b>21</b> Enter the <b>smallest</b> of line 18, 19, or 20 . . . . .	<b>21</b>		
<b>22</b> Enter the amount from line 14 that you received from your sole proprietorship or partnership. If you did not receive any such amounts, enter -0- . . . . .	<b>22</b>		
<b>23</b> Subtract line 22 from line 16 . . . . .	<b>23</b>		
<b>24</b> Enter \$5,000 (\$2,500 if married filing separately <b>and</b> you were required to enter your spouse's earned income on line 20) . . . . .	<b>24</b>		
<b>25</b> <b>Deductible benefits.</b> Enter the <b>smallest</b> of line 21, 22, or 24. Also, include this amount on the appropriate line(s) of your return (see the instructions) . . . . .	<b>25</b>		
<b>26</b> Enter the <b>smaller</b> of line 21 or 24 . . . . .	<b>26</b>		
<b>27</b> Enter the amount from line 25 . . . . .	<b>27</b>		
<b>28</b> <b>Excluded benefits.</b> Subtract line 27 from line 26. If zero or less, enter -0- . . . . .	<b>28</b>		
<b>29</b> <b>Taxable benefits.</b> Subtract line 28 from line 23. If zero or less, enter -0-. Also, include this amount on Form 1040, line 7. On the dotted line next to line 7, enter "DCB" . . . . .	<b>29</b>		

To claim the child and dependent care credit, complete lines 30-34 below.

<b>30</b> Enter \$3,000 (\$6,000 if two or more qualifying persons) . . . . .	<b>30</b>		
<b>31</b> Add lines 25 and 28 . . . . .	<b>31</b>		
<b>32</b> Subtract line 31 from line 30. If zero or less, <b>stop</b> . You cannot take the credit. <b>Exception.</b> If you paid 2003 expenses in 2004, see the instructions for line 9 . . . . .	<b>32</b>		
<b>33</b> Complete line 2 on the front of this form. <b>Do not</b> include in column (c) any benefits shown on line 31 above. Then, add the amounts in column (c) and enter the total here . . . . .	<b>33</b>		
<b>34</b> Enter the <b>smaller</b> of line 32 or 33. Also, enter this amount on line 3 on the front of this form and complete lines 4-13 . . . . .	<b>34</b>		



#### **Exercise 1**

- (A) \$3,000, which is the lowest of: earned income (\$18,000); the amount actually paid (\$3,200); and the limit of one qualifying person (\$3,000).
- (B) Andrea. Even though she is filing a separate tax return, she is eligible for the credit because she signed a Form 8332 to allow her husband to claim the dependency exemption. She also meets the joint return rule for married and living apart.
- (C) No.

# CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

Lesson 8

ANSWERS TO EXERCISES

Exhibit 5 Exercise 2

The Windham's Form 2441, page 1

Form <b>2441</b>	<b>Child and Dependent Care Expenses</b>	OMB No. 1545-0068 <b>2004</b> Attachment Sequence No. <b>21</b>		
Department of the Treasury Internal Revenue Service (99)				
▶ Attach to Form 1040. ▶ See separate instructions.				
Name(s) shown on Form 1040 <b>Sam L. and Sue D. Windham</b>		Your social security number <b>xxx : xx : xxxxx</b>		
<b>Before you begin:</b> You need to understand the following terms. See <b>Definitions</b> on page 1 of the instructions.				
<ul style="list-style-type: none"> <li>• Dependent Care Benefits</li> <li>• Qualifying Person(s)</li> <li>• Qualified Expenses</li> <li>• Earned Income</li> </ul>				
<b>Part I</b> Persons or Organizations Who Provided the Care—You must complete this part. (If you need more space, use the bottom of page 2.)				
<b>1</b>	(a) Care provider's name	(b) Address (number, street, apt. no., city, state, and ZIP code)	(c) Identifying number (SSN or EIN)	(d) Amount paid (see instructions)
	The Learning Center	496 Irvine Rd Your City, State, and Zip Code	xx-xxxxxxx	5,450
<div style="border: 1px solid black; display: inline-block; padding: 5px;">Did you receive dependent care benefits?</div> <span style="margin-left: 20px;">No → Complete only Part II below.</span> <span style="margin-left: 20px;">Yes → Complete Part III on the back next.</span>				
<b>Caution.</b> If the care was provided in your home, you may owe employment taxes. See the instructions for Form 1040, line 61.				
<b>Part II</b> Credit for Child and Dependent Care Expenses				
<b>2</b> Information about your <b>qualifying person(s)</b> . If you have more than two qualifying persons, see the instructions.				
	(a) Qualifying person's name	(b) Qualifying person's social security number	(c) Qualified expenses you incurred and paid in 2004 for the person listed in column (a)	
	First Last			
	Doug Windham	xxx : xx : xxxxx		1,750
	Sally Windham	xxx : xx : xxxxx		1,200
<b>3</b>	Add the amounts in column (c) of line 2. <b>Do not</b> enter more than \$3,000 for one qualifying person or \$6,000 for two or more persons. If you completed Part III, enter the amount from line 34			<b>3</b> 2,950
<b>4</b>	Enter your <b>earned income</b>			<b>4</b> 18,500
<b>5</b>	If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions); <b>all others</b> , enter the amount from line 4			<b>5</b> 19,350
<b>6</b>	Enter the <b>smallest</b> of line 3, 4, or 5			<b>6</b> 2,950
<b>7</b>	Enter the amount from Form 1040, line 37			<b>7</b> 37,850
<b>8</b>	Enter on line 8 the decimal amount shown below that applies to the amount on line 7			
	If line 7 is:		If line 7 is:	
	<b>Over</b>	<b>But not over</b>	<b>Decimal amount is</b>	
	\$0—15,000	.35	\$29,000—31,000	.27
	15,000—17,000	.34	31,000—33,000	.26
	17,000—19,000	.33	33,000—35,000	.25
	19,000—21,000	.32	35,000—37,000	.24
	21,000—23,000	.31	37,000—39,000	.23
	23,000—25,000	.30	39,000—41,000	.22
	25,000—27,000	.29	41,000—43,000	.21
	27,000—29,000	.28	43,000—No limit	.20
<b>8</b>				<b>8</b> × .23
<b>9</b>	Multiply line 6 by the decimal amount on line 8. If you paid 2003 expenses in 2004, see the instructions			<b>9</b> 679
<b>10</b>	Enter the amount from Form 1040, line 43			<b>10</b> 1,651
<b>11</b>	Enter the amount, if any, from Form 6251, line 31 (see the instructions)			<b>11</b> 0
<b>12</b>	Subtract line 11 from line 10. If zero or less, <b>stop</b> . You cannot take the credit			<b>12</b> 1,651
<b>13</b>	<b>Credit for child and dependent care expenses.</b> Enter the <b>smaller</b> of line 9 or line 12 here and on Form 1040, line 46			<b>13</b> 679
<b>For Paperwork Reduction Act Notice, see page 3 of the instructions.</b>				
			Cat. No. 11862M	Form <b>2441</b> (2004)

# CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

## ANSWERS TO EXERCISES Lesson 8

### Exhibit 6 Exercise 2

The Windham's Form 2441, page 2

Form 2441 (2004)


Page **2**

#### Part III Dependent Care Benefits

<b>14</b>	Enter the total amount of <b>dependent care benefits</b> you received in 2004. Amounts you received as an employee should be shown in box 10 of your Form(s) W-2. <b>Do not</b> include amounts reported as wages in box 1 of Form(s) W-2. If you were self-employed or a partner, include amounts you received under a dependent care assistance program from your sole proprietorship or partnership . . . . .	<b>14</b>	2,500
<b>15</b>	Enter the amount forfeited, if any (see the instructions) . . . . .	<b>15</b>	0
<b>16</b>	Subtract line 15 from line 14 . . . . .	<b>16</b>	2,500
<b>17</b>	Enter the total amount of <b>qualified expenses</b> incurred in 2004 for the care of the <b>qualifying person(s)</b> . . . . .	<b>17</b>	5,450
<b>18</b>	Enter the <b>smaller</b> of line 16 or 17 . . . . .	<b>18</b>	2,500
<b>19</b>	Enter your <b>earned income</b> . . . . .	<b>19</b>	18,500
<b>20</b>	Enter the amount shown below that applies to you. <ul style="list-style-type: none"> <li>• If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions for line 5).</li> <li>• If married filing separately, see the instructions for the amount to enter.</li> <li>• All others, enter the amount from line 19.</li> </ul>	<b>20</b>	19,350
<b>21</b>	Enter the <b>smallest</b> of line 18, 19, or 20 . . . . .	<b>21</b>	2,500
<b>22</b>	Enter the amount from line 14 that you received from your sole proprietorship or partnership. If you did not receive any such amounts, enter -0- . . . . .	<b>22</b>	0
<b>23</b>	Subtract line 22 from line 16 . . . . .	<b>23</b>	2,500
<b>24</b>	Enter \$5,000 (\$2,500 if married filing separately <b>and</b> you were required to enter your spouse's earned income on line 20) . . . . .	<b>24</b>	5,000
<b>25</b>	<b>Deductible benefits.</b> Enter the <b>smallest</b> of line 21, 22, or 24. Also, include this amount on the appropriate line(s) of your return (see the instructions) . . . . .	<b>25</b>	0
<b>26</b>	Enter the <b>smaller</b> of line 21 or 24 . . . . .	<b>26</b>	2,500
<b>27</b>	Enter the amount from line 25 . . . . .	<b>27</b>	0
<b>28</b>	<b>Excluded benefits.</b> Subtract line 27 from line 26. If zero or less, enter -0- . . . . .	<b>28</b>	2,500
<b>29</b>	<b>Taxable benefits.</b> Subtract line 28 from line 23. If zero or less, enter -0-. Also, include this amount on Form 1040, line 7. On the dotted line next to line 7, enter "DCB" . . . . .	<b>29</b>	0

To claim the child and dependent care credit, complete lines 30-34 below.

<b>30</b>	Enter \$3,000 (\$6,000 if two or more qualifying persons) . . . . .	<b>30</b>	6,000
<b>31</b>	Add lines 25 and 28 . . . . .	<b>31</b>	2,500
<b>32</b>	Subtract line 31 from line 30. If zero or less, <b>stop</b> . You cannot take the credit. <b>Exception.</b> If you paid 2003 expenses in 2004, see the instructions for line 9 . . . . .	<b>32</b>	3,500
<b>33</b>	Complete line 2 on the front of this form. <b>Do not</b> include in column (c) any benefits shown on line 31 above. Then, add the amounts in column (c) and enter the total here . . . . .	<b>33</b>	2,950
<b>34</b>	Enter the <b>smaller</b> of line 32 or 33. Also, enter this amount on line 3 on the front of this form and complete lines 4-13 . . . . .	<b>34</b>	2,950

 Printed on recycled paper

Form **2441** (2004)

**STUDENT NOTES**

#### LESSON OVERVIEW AND OBJECTIVES

This lesson will explain the Hope scholarship credit and the lifetime learning credit. Since tax year 2002, taxpayers have had the option of claiming an above the line deduction for qualified tuition and fees. Depending on the taxpayer's income and corresponding tax bracket, it may be more beneficial to take this adjustment to income rather than the nonrefundable tax credit. Students may not completely understand this concept.

After completing this lesson students should be able to:

- Calculate the Hope credit on Form 8863.
- Calculate the lifetime learning credit on Form 8863.

See Appendix B for suggested class schedules and approximate teaching times.

#### TRAINING MATERIALS AND ON-SITE RESOURCE GUIDE

This lesson will refer to the following IRS publications and forms. If you would like to provide your students with the most current revision of the publication or form, you can download the files from [www.irs.gov](http://www.irs.gov).

- Form 8863, *Education Credits (Hope and Lifetime Learning Credits)*
- Publication 970, *Tax Benefits for Education*
- Publication 4012, *Volunteer Resource Guide*, is included in each student training kit. The publication is designed for both classroom and actual site usage. Direct the student to the tab entitled Child and Dependent Care Credit for this lesson and make sure the student is aware of the content of the tab and how it should be used when assisting taxpayers. For additional technical information about this topic see the applicable chapter of Publication 17, *Your Federal Tax (For Individual)*.

#### GUIDED QUESTIONS

1. **Can a taxpayer claim both the Hope and lifetime learning credit for an eligible student?** (No.)
2. **What form is used to claim the Hope credit or the lifetime learning credit?** (Form 8863)

## ***TEACHING TIPS***

1. Remind students that if a student is claimed as a dependent by the parent or another taxpayer, the eligible student is not entitled to claim a HOPE credit on his or her tax return.
2. Remind students to use the education credits table in Publication 4012, Volunteer Resource Guide, when determining if a taxpayer qualifies for one of the credits.

## ***LESSON REVIEW***

1. 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 post-secondary education.
2. Remind students to always complete a taxpayers return twice: once using the tuition and fees deduction and once using the education credits. This will ensure the taxpayer takes maximum advantage of the deduction or credit.



### INTRODUCTION AND OBJECTIVES

For tax year 2004, there are nine different tax benefits for higher education. Some of these benefits are not taxed (i.e., Coverdell education savings account, qualified tuition program, early IRA withdrawals, employer provided educational assistance and education savings bond programs). The student loan interest deduction and tuition and fees deduction were covered in Lesson 4, Adjustments. In this lesson you will learn about the two education credits: Hope credit and the lifetime learning credit.

After completing this lesson, you should be able to:

- Calculate the Hope credit on Form 8863.
- Calculate the lifetime learning credit on Form 8863.

### GENERAL REQUIREMENTS

Taxpayers can claim the **Hope Scholarship Credit** (Hope credit) and the **Lifetime Learning Credit** for higher education expenses paid in 2004 for an eligible student. Both credits are **nonrefundable** and can be claimed on either Form 1040 or Form 1040A. These two credits are also called **education credits**.

To claim either of the education credits the taxpayer must:

- File using any filing status other than married filing separately,
- Meet all of the general requirements,
- Meet all of the specific requirements for the individual credit, and
- Meet the income limits.

The general requirements provide that the taxpayer must have incurred **qualified expenses** for an **eligible student** to attend **an eligible educational institution** during the tax year.

#### ALERT



Publication 4012, Volunteer Resource Guide, contains an Education Credits table to assist you in determining eligibility for the credits.

## Qualified Expenses

The Hope credit and the lifetime learning credit are based on qualified tuition and related expenses the taxpayer pays for himself or herself, the taxpayer's spouse, or dependents the taxpayer claims on his or her tax return.

Qualified tuition and related expenses are tuition and fees required for enrollment or attendance at an eligible educational institution and generally **include fees for**:

- Course-related books, supplies and equipment, and
- Student activities.

The fees must be paid **to the institution** as a condition of enrollment or attendance.

Qualified tuition and related expenses **do not include** the cost of:

- Insurance,
- Medical expenses (including student health fees),
- Room and board,
- Transportation or similar personal, living, or family expenses, **even if** the fees must be paid to the institution as a condition of enrollment or attendance.

When considering qualified tuition and related expenses for the Hope credit, the cost of courses for athletics, sports, games, hobbies or noncredit courses are not used unless the course is part of the student's degree program. However, when computing the qualified tuition and related expenses for the lifetime learning credit, these types of expenses are includible if the course was taken to acquire or improve the job skills of the student.

If a taxpayer **prepaid** qualified tuition and related expenses for an academic period that begins in the first three months of the following year, he or she can use the prepaid amount in figuring the credit.

### Example 1

Thomas pays \$1,500 in December 2004 for qualified tuition for the winter semester that begins in January 2005. He can use the \$1,500 paid in December of 2004 to compute his credit for 2004.

### Payments with borrowed funds.

Taxpayers can claim the Hope credit and lifetime learning credit for qualified tuition and related expenses paid with the proceeds of a loan. Use the expenses to figure the credit for the year in which the expenses are paid, not the year in which the loan is repaid.



## Eligible Student

The taxpayer, the taxpayer's spouse, or the taxpayer's dependent (for whom the taxpayer claims a dependency exemption) can be an eligible student.

In addition, for the Hope credit, the student must be:

- Enrolled in a program that leads to a degree, certificate or other recognized educational credential.
- Taking at least one-half of the normal full-time workload for his or her course of study for at least one academic period beginning during the calendar year.
- Enrolled for one of the first two years of his or her postsecondary education.
- Free of any felony conviction for possessing or distributing a controlled substance.

## WHO CAN CLAIM EXPENSES?

The taxpayer must claim a dependent exemption for the eligible student in order to claim an education credit. Either the taxpayer or the dependent, but not both, can claim an education credit for that dependent's higher education expenses.

If the taxpayer...	Then only...
Claims an exemption on the tax return for a dependent who is an eligible student	The taxpayer can claim the Hope or lifetime learning credit based on that student's expenses. The student cannot claim the credit.
Does not claim an exemption for a dependent who is an eligible student (even if entitled to the exemption)	The student can claim the Hope or lifetime learning credit. The taxpayer cannot claim the student's expenses.

If someone other than the taxpayer, the taxpayer's spouse, or the dependent (such as a relative or former spouse) makes a payment directly to the eligible educational institution to pay for qualified tuition and related expenses, the student is treated as receiving the payment from the other person. The student is considered to have paid the qualified tuition and related expenses to the eligible institution. If the taxpayer claims an exemption for the student, the taxpayer is considered to have paid the expenses. If the taxpayer does not claim a dependent exemption for the student, the student may claim the credit.

## Example 2

Mary Birch paid her grandson, Todd's, tuition for 2004 directly to the university. For purposes of claiming the Hope credit, her grandson is treated as receiving the money as a gift and in turn paying his qualified tuition and related expenses himself. Unless an exemption for Todd is claimed on someone else's return, only Todd can use the payment to claim the Hope credit. If Todd's parents claim his exemption, they may be able to use the expenses to claim the Hope credit. If anyone else claims an exemption for Todd, Todd cannot claim a Hope credit.

## Eligible Educational Institution

An eligible educational institution is generally any accredited public, nonprofit, or proprietary (private) postsecondary institution eligible to participate in the student aid programs administered by the Department of Education. Most universities and colleges, including community colleges, meet these requirements.

## Income Requirements

The Hope credit and the lifetime learning credit are phased out (gradually reduced) if the taxpayer's modified AGI is over \$42,000 (over \$85,000 if married filing jointly). If a taxpayer's modified AGI is \$52,000 or more (\$105,000 or more if married filing jointly), no credit is allowed. Education credits are not allowed to persons who are married filing separately.

## Modified Adjusted Gross Income (MAGI)

For most taxpayers, modified adjusted gross income (MAGI) is adjusted gross income (AGI) as figured on their federal income tax return. MAGI when using Form 1040A is the AGI on line 22 of that form. MAGI when using Form 1040 is the AGI on line 36 of that form, modified by adding back any:

- 1) Foreign earned income exclusion
- 2) Foreign housing exclusion
- 3) Exclusion of income for bona fide residents of America Samoa, and
- 4) Exclusion of income from Puerto Rico.

## HOPE CREDIT

A Hope credit can be claimed for *each* eligible student that is claimed on the taxpayer's return.

### Credit Amounts

The Hope credit is figured on Form 8863, *Education Credits (Hope and Lifetime Learning Credits)*. The maximum Hope credit is \$1,500 *per student* for each of the first two taxable years of his or her postsecondary education. For each eligible student who qualifies for the Hope credit:

- If the expenses are \$1,000 or less, the credit is the amount of the expenses,
- If the expenses are \$2,000 or more, the credit is \$1,500, and
- If the expenses are between \$1,000 and \$2,000, the credit is \$1,000 plus one-half of the expenses over \$1,000. For example, if the expenses are \$1,500, the credit is \$1,250 (\$1,000 plus one-half of \$500).

### Example 3

Sue and Ted Marshall paid \$7,000 in qualified tuition and fees for their daughter, Mary, to attend the local university. They determined it would be more beneficial for them to take the Hope Credit rather than the Tuition and Fees Deduction. Their AGI and MAGI is \$35,000 and their tax liability on Form 1040, Line 43, is \$1,689. Their Form 8863 is shown in Exhibit 1.

Form <b>8863</b> Department of the Treasury Internal Revenue Service	<b>Education Credits</b> <b>(Hope and Lifetime Learning Credits)</b> ▶ See instructions. ▶ Attach to Form 1040 or Form 1040A.	OMB No. 1545-1618 <b>2004</b> Attachment Sequence No. <b>50</b>
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Name(s) shown on return: **Sue and Ted Marshall**      Your social security number: **xxx xx xxxx**

**Caution:** You **cannot** take both an education credit and the tuition and fees deduction (Form 1040, line 27, or Form 1040A, line 19) for the **same student** in the same year.

**Part I Hope Credit. Caution:** You **cannot** take the Hope credit for more than **2** tax years for the **same student**.

1	(a) Student's name (as shown on page 1 of your tax return) First name Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions). <b>Do not</b> enter more than \$2,000 for each student.	(d) Enter the smaller of the amount in column (c) or \$1,000	(e) Subtract column (d) from column (c)	(f) Enter one-half of the amount in column (e)
	Mary Marshall	xxx xx xxxx	2,000	1,000	1,000	500
<b>2</b>	Add the amounts in columns (d) and (f) . . . . .					<b>2</b> 1,000
<b>3</b>	Tentative Hope credit. Add the amounts on line 2, columns (d) and (f). If you are taking the lifetime learning credit for another student, go to Part II; otherwise, go to Part III ▶					<b>3</b> 1,500

**Part II Lifetime Learning Credit**

4	(a) Student's name (as shown on page 1 of your tax return) First name Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions)
<b>5</b>	Add the amounts on line 4, column (c), and enter the total . . . . .		<b>5</b>
<b>6</b>	Enter the <b>smaller</b> of line 5 or \$10,000 . . . . .		<b>6</b>
<b>7</b>	Tentative lifetime learning credit. Multiply line 6 by 20% (.20) and go to Part III ▶		<b>7</b>

**Part III Allowable Education Credits**

<b>8</b>	Tentative education credits. Add lines 3 and 7 . . . . .		<b>8</b> 1,500
<b>9</b>	Enter: \$105,000 if married filing jointly; \$52,000 if single, head of household, or qualifying widow(er) . . . . .	9 105,000	
<b>10</b>	Enter the amount from Form 1040, line 37*, or Form 1040A, line 22 . . . . .	10 35,000	
<b>11</b>	Subtract line 10 from line 9. If zero or less, <b>stop</b> ; you cannot take any education credits. . . . .	11 70,000	
<b>12</b>	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er) . . . . .	12 20,000	
<b>13</b>	If line 11 is equal to or more than line 12, enter the amount from line 8 on line 14 and go to line 15. If line 11 is less than line 12, divide line 11 by line 12. Enter the result as a decimal (rounded to at least three places) . . . . .	13 × .	
<b>14</b>	Multiply line 8 by line 13 . . . . . ▶	14 1,500	
<b>15</b>	Enter the amount from Form 1040, line 43, or Form 1040A, line 28 (minus any alternative minimum tax included on Form 1040A, line 28) . . . . .	15 1,689	
<b>16</b>	Enter the total, if any, of your credits from Form 1040, lines 46 and 47, or Form 1040A, lines 29 and 30 . . . . .	16 0	
<b>17</b>	Enter the amount from Form 6251, line 31 . . . . .	17 0	
<b>18</b>	Add lines 16 and 17 . . . . .	18 0	
<b>19</b>	Subtract line 18 from line 15. If zero or less, <b>stop</b> ; you cannot take any education credits ▶	19 1,689	
<b>20</b>	<b>Education credits.</b> Enter the <b>smaller</b> of line 14 or line 19 here and on Form 1040, line 48, or Form 1040A, line 31 . . . . . ▶	20 1,500	

\*See Pub. 970 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.

## **LIFETIME LEARNING CREDIT**

The lifetime learning credit is based on the total qualified education expenses paid by the taxpayer and not on the number of eligible students. Education expenses are qualified for the lifetime learning credit if they are:

- For courses taken as part of a postsecondary degree program, or
- For courses that are not part of a postsecondary degree program, but that are taken to improve or acquire job skills.

### **Example 4**

Samantha, a professional photographer, enrolls in an advanced photography course at a local community college. Although the course is not part of a degree program, she enrolls in it to improve her job skills. The course fee paid by Samantha is considered qualified tuition for the purpose of claiming the lifetime learning credit.

### **Example 5**

Cleve, an engineer, plans to vacation in Europe next year. In preparation for the trip, he enrolls in a noncredit photography class at a local community college. Because Cleve is not taking the course as part of a degree program or to acquire or improve his job skills, the cost of the course is not a qualifying expense for claiming the lifetime learning credit.

## **Credit amounts**

The lifetime learning credit is also figured on Form 8863. The maximum amount of the credit is \$2,000 per taxpayer for all eligible students. The credit amount is figured by multiplying total qualified educational expenses, up to \$10,000, by 20%.

### **Example 6**

Judy Hood is single and took a course at the local college to recertify her to teach in public schools. Her qualified tuition expenses were \$500. She chooses to take the lifetime learning credit rather than the Tuition and Fees Deduction. Her AGI and MAGI is \$29,524 and her tax liability on Form 1040, Line 43, is \$2,879. Her completed Form 8863 is shown in Exhibit 2.

Form **8863**

**Education Credits  
(Hope and Lifetime Learning Credits)**

OMB No. 1545-1618

**2004**

Department of the Treasury  
Internal Revenue Service

▶ See instructions.  
▶ Attach to Form 1040 or Form 1040A.

Attachment  
Sequence No. **50**

Name(s) shown on return

Your social security number

Judy Hood

xxx xx xxxx

**Caution:** You *cannot* take both an education credit and the tuition and fees deduction (Form 1040, line 27, or Form 1040A, line 19) for the **same student** in the same year.

**Part I Hope Credit. Caution:** You *cannot* take the Hope credit for more than **2** tax years for the **same student**.

1	(a) Student's name (as shown on page 1 of your tax return) First name Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions). <b>Do not</b> enter more than \$2,000 for each student.	(d) Enter the <b>smaller</b> of the amount in column (c) or \$1,000	(e) Subtract column (d) from column (c)	(f) Enter one-half of the amount in column (e)
<b>2</b>	Add the amounts in columns (d) and (f) . . . . .					<b>2</b>
<b>3</b>	Tentative Hope credit. Add the amounts on line 2, columns (d) and (f). If you are taking the lifetime learning credit for another student, go to Part II; otherwise, go to Part III ▶					<b>3</b>

**Part II Lifetime Learning Credit**

4	(a) Student's name (as shown on page 1 of your tax return) First name Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions)
	<u>Judy Hood</u>	<u>xxx xx xxxx</u>	<u>500</u>
<b>5</b>	Add the amounts on line 4, column (c), and enter the total . . . . .		<b>5</b> 500
<b>6</b>	Enter the <b>smaller</b> of line 5 or \$10,000 . . . . .		<b>6</b> 500
<b>7</b>	Tentative lifetime learning credit. Multiply line 6 by 20% (.20) and go to Part III . . . ▶		<b>7</b> 100

**Part III Allowable Education Credits**

<b>8</b>	Tentative education credits. Add lines 3 and 7 . . . . .	<b>8</b>	100
<b>9</b>	Enter: \$105,000 if married filing jointly; \$52,000 if single, head of household, or qualifying widow(er) . . . . .	<b>9</b>	52,000
<b>10</b>	Enter the amount from Form 1040, line 37*, or Form 1040A, line 22 . . . . .	<b>10</b>	29,524
<b>11</b>	Subtract line 10 from line 9. If zero or less, <b>stop</b> ; you cannot take any education credits. . . . .	<b>11</b>	22,476
<b>12</b>	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er) . . . . .	<b>12</b>	10,000
<b>13</b>	If line 11 is equal to or more than line 12, enter the amount from line 8 on line 14 and go to line 15. If line 11 is less than line 12, divide line 11 by line 12. Enter the result as a decimal (rounded to at least three places) . . . . .	<b>13</b>	×
<b>14</b>	Multiply line 8 by line 13 . . . . . ▶	<b>14</b>	100
<b>15</b>	Enter the amount from Form 1040, line 43, or Form 1040A, line 28 (minus any alternative minimum tax included on Form 1040A, line 28) . . . . .	<b>15</b>	2,879
<b>16</b>	Enter the total, if any, of your credits from Form 1040, lines 46 and 47, or Form 1040A, lines 29 and 30 . . . . .	<b>16</b>	0
<b>17</b>	Enter the amount from Form 6251, line 31 . . . . .	<b>17</b>	0
<b>18</b>	Add lines 16 and 17 . . . . .	<b>18</b>	0
<b>19</b>	Subtract line 18 from line 15. If zero or less, <b>stop</b> ; you cannot take any education credits ▶	<b>19</b>	2,879
<b>20</b>	<b>Education credits.</b> Enter the <b>smaller</b> of line 14 or line 19 here and on Form 1040, line 48, or Form 1040A, line 31 . . . . . ▶	<b>20</b>	100

\*See Pub. 970 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.

## No DOUBLE BENEFITS

A taxpayer cannot:

- Deduct higher education expenses and claim a credit based on those same expenses (as, for example, a business expense),
- Claim an education credit in the same year as a tuition and fees deduction is claimed for the same student,
- Claim a Hope credit and a lifetime learning credit based on the same qualified education expenses,
- Claim an education credit based on the expenses used to figure the tax-free portion of a distribution from a Coverdell ESA or qualified tuition program (QTP),
- Claim a credit based on qualified education expenses paid with a tax-free scholarship, grant, or employer-provided educational assistance.

However, a taxpayer can claim a credit based on expenses paid with the eligible student's earnings, loans, gifts, inheritances, or personal savings.

An eligible student cannot claim an education credit if he or she is claimed as a dependent on another taxpayer's tax return. Any amounts paid by the student are considered paid by the taxpayer who claims the student as a dependent.

The following table summarizes the differences between the credits.

**Table: Comparison of Education Credits**

Hope Credit	Lifetime Learning Credit
Up to \$1,500 credit per <b>eligible student</b>	Up to \$2,000 credit per <b>return</b>
Available <b>only</b> until the first 2 years of postsecondary education are completed	Available for all years of postsecondary education and for courses to acquire or improve job skills
Available <b>only</b> for 2 years per eligible student	Available for an unlimited number of years
Student must be pursuing an undergraduate degree or other recognized education credential	Student does not need to be pursuing a degree or other recognized education credential
Student must be enrolled at least half time for at least one academic period during the year	Available for one or more courses
No felony drug conviction on student's record	Felony drug conviction rule does not apply

## Adjustments to Qualified Expenses

**Tax-free educational assistance** can include the following:

- Scholarships,
- Pell grants,
- Employer-provided educational assistance,

- Veteran’s educational assistance, and  
Any other nontaxable payments (other than gifts, bequests, or inheritances) received for education expenses.

If the taxpayer paid qualified tuition expenses with these tax-free funds, a credit cannot be claimed for these amounts. Qualified expenses must be reduced by the amount of any tax-free educational assistance received.

### **Example 7**

In 2004, Jackie paid \$3,000 for tuition and \$5,000 for room and board at her local university. To help pay these costs, she was awarded a \$2,000 scholarship and a \$4,000 student loan.

The scholarship is a qualified scholarship that is excludable from Jackie’s income. For purposes of the education credit, she must first use the scholarship to reduce her tuition (her only qualified expense). The student loan is not considered tax-free educational assistance so she does not use it to reduce the qualified expenses. Therefore, Jackie is treated as having paid only \$1,000 in qualified expenses (\$3,000 tuition - \$2,000 scholarship).

### **Refunds**

Qualified tuition and related expenses do not include expenses for which the taxpayer received a refund. If the refund or tax-free assistance is received in the same year in which the expenses were paid or in the following year before the tax return is filed, reduce the qualified expenses by the amount received and figure the education credits using the reduced amount of qualified expenses.

If the refund or tax-free assistance is received after the tax return is filed for the year in which the expenses were paid, figure the amount by which the education credits would have been reduced if the refund or tax-free assistance had been received in the year for which the education credits were claimed. Include that amount as an additional tax for the year the refund or tax-free assistance was received. For 2004, enter the amount and “ECR” (Education Credit Repayment) on line 43.

### **Example 8**

Sally paid \$2,250 tuition on December 26, 2003, for her daughter who began college on January 16, 2004. She filed her 2003 tax return on February 12, 2004, and claimed a Hope credit of \$1,500. After Sally filed her return, her daughter dropped two courses but maintained one-half of a full-time workload. Sally received a refund of \$750. She must refigure her 2003 Hope credit using \$1,500 of qualified expenses instead of \$2,250. The refigured credit is \$1,250. She must include the difference of \$250 on line 43 of her 2004 Form 1040 and annotate next to the line: \$250 ECR.



### Exercise 1

Bruce (SSN xxx-xx-xxxx) and Toni Endicott are married and file a joint tax return. For 2004, their modified AGI (\$49,065) is the same as their AGI. They completed Form 1040 through line 44. Their tax amount on Line 43 is \$3,796. Toni is attending the local community college part-time to earn credits toward an associate degree in nursing. She paid \$2,500 in tuition and fees. Their son, Ben, is a full time freshman at the state university. Bruce and Toni paid \$8,000 in tuition and fees for Ben in 2004. They choose to take the lifetime learning credit for Toni and the Hope credit for Ben. They will claim no other credits. Toni's SSN is xxx-xx-xxxx. Ben's SSN is xxx-xx-xxxx. Complete their Form 8863 at Exhibit 3.

### TaxWise Hints

To input qualified tuition expenses and prepare a Form 8863 using TaxWise, link from Form 1040, line 48, 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.

### ▶▶ SUMMING UP THIS LESSON ◀◀

The Hope and lifetime learning credits are nonrefundable credits that allow a taxpayers to claim all or a portion of qualified tuition and related expenses paid for post-secondary education.

Generally, taxpayers can claim the Hope or lifetime learning credit if they pay qualified tuition and related expenses to an eligible higher education institution for an eligible student who is either the taxpayer, the taxpayer's spouse, or a dependent whom the taxpayer can claim an exemption on his or her tax return.

A taxpayer cannot:

- ▶ Deduct higher education expenses on his or her tax return and also claim a Hope or lifetime learning credit based on those 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.

The Hope and lifetime learning credits are claimed on Form 8863 which can be filed with either Form 1040 or Form 1040A.

Form **8863**  
 Department of the Treasury  
 Internal Revenue Service

**Education Credits  
 (Hope and Lifetime Learning Credits)**

OMB No. 1545-1618

**2004**

Attachment  
 Sequence No. **50**

▶ See instructions.

▶ Attach to Form 1040 or Form 1040A.

Name(s) shown on return

Your social security number

**Caution:** You **cannot** take both an education credit and the tuition and fees deduction (Form 1040, line 27, or Form 1040A, line 19) for the **same student** in the same year.

**Part I Hope Credit. Caution:** You **cannot** take the Hope credit for more than **2** tax years for the **same student**.

1	(a) Student's name (as shown on page 1 of your tax return) First name Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions). <b>Do not</b> enter more than \$2,000 for each student.	(d) Enter the <b>smaller</b> of the amount in column (c) or \$1,000	(e) Subtract column (d) from column (c)	(f) Enter one-half of the amount in column (e)	
2	Add the amounts in columns (d) and (f)					2	
3	Tentative Hope credit. Add the amounts on line 2, columns (d) and (f). If you are taking the lifetime learning credit for another student, go to Part II; otherwise, go to Part III ▶					3	

**Part II Lifetime Learning Credit**

4	(a) Student's name (as shown on page 1 of your tax return) First name Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions)
5	Add the amounts on line 4, column (c), and enter the total		5
6	Enter the <b>smaller</b> of line 5 or \$10,000		6
7	Tentative lifetime learning credit. Multiply line 6 by 20% (.20) and go to Part III ▶		7

**Part III Allowable Education Credits**

8	Tentative education credits. Add lines 3 and 7	8	
9	Enter: \$105,000 if married filing jointly; \$52,000 if single, head of household, or qualifying widow(er)	9	
10	Enter the amount from Form 1040, line 37*, or Form 1040A, line 22	10	
11	Subtract line 10 from line 9. If zero or less, <b>stop</b> ; you cannot take any education credits.	11	
12	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)	12	
13	If line 11 is equal to or more than line 12, enter the amount from line 8 on line 14 and go to line 15. If line 11 is less than line 12, divide line 11 by line 12. Enter the result as a decimal (rounded to at least three places)	13	× .
14	Multiply line 8 by line 13 ▶	14	
15	Enter the amount from Form 1040, line 43, or Form 1040A, line 28 (minus any alternative minimum tax included on Form 1040A, line 28)	15	
16	Enter the total, if any, of your credits from Form 1040, lines 46 and 47, or Form 1040A, lines 29 and 30	16	
17	Enter the amount from Form 6251, line 31	17	
18	Add lines 16 and 17	18	
19	Subtract line 18 from line 15. If zero or less, <b>stop</b> ; you cannot take any education credits ▶	19	
20	<b>Education credits.</b> Enter the <b>smaller</b> of line 14 or line 19 here and on Form 1040, line 48, or Form 1040A, line 31	20	

\*See Pub. 970 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.

### Exercise 1

Bruce and Toni's Form 8863

Form <b>8863</b> Department of the Treasury Internal Revenue Service	<b>Education Credits</b> <b>(Hope and Lifetime Learning Credits)</b> ▶ See instructions. ▶ Attach to Form 1040 or Form 1040A.	OMB No. 1545-1618 <b>2004</b> Attachment Sequence No. <b>50</b>						
Name(s) shown on return <b>Bruce and Toni Endicott</b>		Your social security number <b>xxx : xx : xxxx</b>						
<b>Caution:</b> You <b>cannot</b> take both an education credit and the tuition and fees deduction (Form 1040, line 27, or Form 1040A, line 19) for the <b>same student</b> in the same year.								
<b>Part I Hope Credit. Caution:</b> You <b>cannot</b> take the Hope credit for more than <b>2</b> tax years for the <b>same student</b> .								
1	(a) Student's name (as shown on page 1 of your tax return) First name ..... Last name .....	(b) Student's social security number (as shown on page 1 of your tax return) xxx : xx : xxxx	(c) Qualified expenses (see instructions). <b>Do not</b> enter more than \$2,000 for each student. 2,000	(d) Enter the <b>smaller</b> of the amount in column (c) or \$1,000 1,000	(e) Subtract column (d) from column (c) 1,000	(f) Enter one-half of the amount in column (e) 500		
2	Add the amounts in columns (d) and (f) . . . . .					2	1,000	500
3	Tentative Hope credit. Add the amounts on line 2, columns (d) and (f). If you are taking the lifetime learning credit for another student, go to Part II; otherwise, go to Part III ▶					3	1,500	
<b>Part II Lifetime Learning Credit</b>								
4	(a) Student's name (as shown on page 1 of your tax return) First name ..... Last name .....	(b) Student's social security number (as shown on page 1 of your tax return) xxx : xx : xxxx	(c) Qualified expenses (see instructions) 2,500	<b>Caution:</b> You <b>cannot</b> take the Hope credit and the lifetime learning credit for the <b>same student</b> in the same year.				
5	Add the amounts on line 4, column (c), and enter the total . . . . .						5	2,500
6	Enter the <b>smaller</b> of line 5 or \$10,000 . . . . .						6	2,500
7	Tentative lifetime learning credit. Multiply line 6 by 20% (.20) and go to Part III ▶						7	500
<b>Part III Allowable Education Credits</b>								
8	Tentative education credits. Add lines 3 and 7 . . . . .						8	2,000
9	Enter: \$105,000 if married filing jointly; \$52,000 if single, head of household, or qualifying widow(er) . . . . .						9	105,000
10	Enter the amount from Form 1040, line 37*, or Form 1040A, line 22 . . . . .						10	49,065
11	Subtract line 10 from line 9. If zero or less, <b>stop</b> ; you cannot take any education credits. . . . .						11	55,935
12	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er) . . . . .						12	20,000
13	If line 11 is equal to or more than line 12, enter the amount from line 8 on line 14 and go to line 15. If line 11 is less than line 12, divide line 11 by line 12. Enter the result as a decimal (rounded to at least three places) . . . . .						13	×
14	Multiply line 8 by line 13 . . . . . ▶						14	2,000
15	Enter the amount from Form 1040, line 43, or Form 1040A, line 28 (minus any alternative minimum tax included on Form 1040A, line 28) . . . . .						15	3,796
16	Enter the total, if any, of your credits from Form 1040, lines 46 and 47, or Form 1040A, lines 29 and 30 . . . . .						16	0
17	Enter the amount from Form 6251, line 31 . . . . .						17	0
18	Add lines 16 and 17 . . . . .						18	0
19	Subtract line 18 from line 15. If zero or less, <b>stop</b> ; you cannot take any education credits ▶						19	3,796
20	<b>Education credits.</b> Enter the <b>smaller</b> of line 14 or line 19 here and on Form 1040, line 48, or Form 1040A, line 31 . . . . . ▶						20	2,000
*See Pub. 970 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.								
For Paperwork Reduction Act Notice, see page 3.					Cat. No. 25379M		Form <b>8863</b> (2004)	

**STUDENT NOTES**

# EARNED INCOME CREDIT NOTES TO INSTRUCTORS Lesson 10

## LESSON OVERVIEW AND OBJECTIVES

In this lesson you will learn about the earned income credit. This is a refundable credit, and eligible taxpayers can receive a refund of this credit even if they owe no tax and had no income tax withheld. The taxpayer must file a tax return to receive the credit. Approximately 2 to 2½ hours should be devoted to covering the objectives of this lesson. See the Suggested Class Schedules in Appendix B for additional information.

After completing this lesson you should be able to:

- 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 advanced earned income credit (AEIC).
- Report AEIC on the tax return.

## TRAINING MATERIALS AND ON-SITE RESOURCE GUIDE

This lesson will refer to the following IRS forms and worksheets. If you would like to provide your students with the most current revision of the forms and worksheets, you can download the files from [www.irs.gov](http://www.irs.gov).

- Form 1040A
- Schedule EIC
- EIC Worksheets (Form 1040, 1040A, and 1040EZ)
- EIC Eligibility Questions (Form 1040, 1040A and Form 1040EZ)
- Publication 4012, Volunteer Resource Guide is included in each student training kit. The publication is designed for both classroom and actual site usage. Direct the student to the tab entitled Earned Income Credit (EIC) for this lesson and make sure the student is aware of the content of the tab and how it should be used when assisting taxpayers. For additional technical information about this topic see the applicable chapter of Publication 17, Your Federal Tax (For Individual).

## ADDITIONAL RESOURCES

- Publication 596, Earned Income Tax Credit
- EIC Tables, Appendix C

## ***GUIDED QUESTION – WHO CAN CLAIM THE CREDIT WITH A QUALIFYING CHILD***

1. **For purposes of the earned income credit, when can a person age 19 or older be a qualifying child?** (Both full-time students under age 24 and permanently and totally disabled individuals of any age can be qualifying children.)

## ***GUIDED QUESTIONS – DETERMINING ELIGIBILITY AND FIGURING THE CREDIT***

1. **On which worksheet is the earned income credit figured?** EIC Worksheet. Remind students that there are two versions for 1040 filers and that the instructions at the top of those worksheets indicate which worksheet to use for the taxpayer that they are assisting. Additionally, remind students that the eligibility questions should be completed before figuring the earned income credit on the EIC worksheet.
2. **What is the function of the earned income credit table?** The EIC Table is used to determine the amount of the earned income credit.
3. **Is the earned income credit adjusted for the number of qualifying children?** Yes

## ***GUIDED QUESTIONS – SCHEDULE EIC FOR QUALIFYING CHILD(REN)***

1. **How many qualifying children can a taxpayer list on line 1 of Schedule EIC?** Only two qualifying children can be listed.
2. **Explain the income limits for the earned income credit.** The taxpayer cannot take the EIC if his or her earned income and adjusted gross income is more than:
  - \$34,458 (\$35,458 if married filing jointly) with two or more qualifying children,
  - \$30,338 (\$31,338 if married filing jointly) with one qualifying child, or
  - \$11,490 (\$12,490 if married filing jointly) with no qualifying children.

## ***TEACHING TIPS – GENERAL EIC REQUIREMENTS***

1. Remind students that the earned income credit depends on the taxpayer's earned, adjusted gross income, filing status, income and number of qualifying children.
2. Caution students that they should not count children who are not qualifying children.
3. Remind students to use the correct column in the EIC Table for the number of qualifying children and filing status.



## **TEACHING TIP – WHO CAN CLAIM THE CREDIT – WITH A QUALIFYING CHILD**

1. Remind the students to use the eligibility worksheets for Forms 1040, 1040A, and 1040EZ to determine eligibility for EIC.

## **TEACHING TIPS – EXERCISE 1 – EIC ELIGIBILITY REQUIREMENTS**

1. You may wish to use question C of Exercise 1 to reinforce the requirements that an individual must meet in order to be considered a qualifying child for purposes of the earned income credit. Ask students to determine whether Jimmy and Anna are qualifying children for Randy and/or Cara.
2. After students determine that both are qualifying children of each parent, remind students that although an individual may be a qualifying child of more than one taxpayer, only one taxpayer can claim the credit on the basis of that child.

## **TEACHING TIP – SCHEDULE EIC FOR QUALIFYING CHILD(REN)**

1. Direct students' attention to line 4(a) of Schedule EIC.

A child qualifies as a student if he or she was enrolled as a student at a school during any five months of 2004 or took a full-time, on-farm training course during any five months of 2004. For purposes of the earned income credit, "school" includes technical, trade, and mechanical schools, but does not include on-the-job training courses or correspondence schools.

## **TEACHING TIP – ADVANCE EARNED INCOME CREDIT (AEIC) PAYMENTS**

1. Taxpayers who qualify for the earned income credit may ask employers how to receive advance earned income credit payments. Taxpayers must fill out Form W-5, *Earned Income Credit Advance Payment Certificate*. Individuals who have more than one employer must give the form to only one employer. If a taxpayer has a spouse who works, the spouse can also give a form to one employer.

If a taxpayer's status changes during the year, making him or her ineligible to receive the advance earned income credit payments, he or she is required to complete a new Form W-5.

Also, should a taxpayer receive advance earned income credit payments and later discovers that he or she does not qualify for the credit, the taxpayer will have to pay it back when filing Form 1040 or Form 1040A.

### **ALERT**



Caution students that a new Form W-5 must be completed each year.

## ***INTERVIEW TIPS FOR VOLUNTEER ASSISTORS***

To assist volunteers in asking the right questions, interview tips are included in this lesson. The use of probes and reference material will be stressed to arrive at a quality return. Interview tips have been developed as a dialogue between a volunteer and a taxpayer to assist the volunteer in preparing an accurate and quality return.





### INTRODUCTION AND OBJECTIVES

In this lesson we will learn about the earned income credit (EIC) or earned income tax credit (EITC).

The EIC is a refundable tax credit for most people who work, but do not earn high incomes. Those who qualify can reduce their federal tax liability, potentially receiving a refund.

After completing this lesson you should be able to:

- 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 on the tax return.

### GENERAL EIC REQUIREMENTS

Eligible taxpayers can receive a refund of this credit even if they owe no tax and had no income tax withheld. The taxpayer (and spouse, if filing a joint return) must meet certain eligibility rules and file a tax return, even if the taxpayer is not otherwise required to file a tax return. For tax year 2004 the maximum credit is:

Two or more qualifying children	\$4,300
One qualifying child	\$2,604
No children	\$ 390

To be eligible for a full or partial credit, the taxpayer cannot have investment income of more than \$2,650. The taxpayer must have earned income of at least \$1. Earned income and adjusted gross income must each be less than the limitation amounts discussed later.

#### ALERT



Use the EIC decision tree or EIC Critical Interview Questions, in Publication 4012, Volunteer Resource Guide, to determine if the taxpayer qualifies for EIC.

## WHO CAN CLAIM THE EIC – GENERAL ELIGIBILITY RULES

All taxpayers claiming the EIC:

**1. Earned income and adjusted gross income (AGI) must each be less than:**

- \$34,458 (\$35,458 married filing jointly) with two or more qualifying children;
- \$30,338 (\$31,338 married filing jointly) with one qualifying child;
- \$11,490 (\$12,490 married filing jointly) with no qualifying children.

AGI is the amount on line 4 of Form 1040EZ, line 22 of Form 1040A, or line 37 of Form 1040.

**2. Must have a valid Social Security Number (SSN):**

SSNs are required for the taxpayer (and spouse, if filing jointly) and any qualifying children (discussed later) listed on Schedule EIC. The Social Security Administration issues SSNs to U.S. Citizens and to certain aliens.

If a Social Security card has the “**Not Valid for Employment**” imprint and the cardholder obtained the SSN to get a federally funded benefit, such as Medicaid, the SSN is not valid for EIC purposes.

**3. Filing status cannot be married filing separately:**

To qualify for the credit, the taxpayer must file as single, married filing a joint return, head of household, or qualifying widow(er) with dependent child.

**4. Must be a U.S. citizen or resident alien for the entire year:**

There are three types of aliens for tax purposes: nonresident, dual-status, and resident. Dual-status and resident aliens are taxed as U.S. citizens. Taxpayers claiming the EIC must be a U.S. citizen or resident alien all year, or a nonresident alien married to a U.S. citizen or resident alien and filing a joint return.

**5. Must not file Form 2555 or 2555-EZ:**

To qualify for the EIC, taxpayers must not exclude from gross income any income earned in foreign countries, or deduct or exclude a foreign housing amount.

**6. Must meet the investment income limitation:**

Investment income (such as interest from savings or tax-exempt bonds, dividends, etc.) must be \$2,650 or less for the tax year.

### ALERT



Confirm, by inspection, that the taxpayer (and spouse, if filing jointly) and any qualifying children have valid Social Security Cards.

### POTENTIAL PITFALLS



If the taxpayer's filing status is married filing separately, the taxpayer cannot claim the earned income credit.

### ALERT



If the taxpayer chooses to be treated as a resident alien for the entire year, the taxpayer and spouse are taxed on their worldwide income.

## 7. **Must have earned income:**

Taxpayers must work full- or part-time and have earned income during the tax year. The income must be from employment or self-employment. If married and filing jointly, at least one spouse must work and have earned income. Earned income is discussed in detail later.

8. **Cannot be the qualifying child of another person.** In the case of a joint return, neither the taxpayer nor the spouse can be a qualifying child of another person. The taxpayer is a qualifying child of another person (the taxpayer's parent, guardian, foster parent, etc.) if all the following statements are true:

- a. **Relationship:** The taxpayer is the other person's son, daughter, stepson, stepdaughter, or a descendant of any of them. Or, the taxpayer is the other person's brother, sister, stepbrother, or stepsister, or a descendant of any of them, and that person cared for the taxpayer as his or her own child. Or, the taxpayer is the other person's eligible foster child (placed with the other person by an authorized placement agency, and that person cared for the taxpayer as his or her own child.)
- b. **Age:** On December 31st, the taxpayer was under age 19, or under age 24 and a full-time student, or any age and permanently and totally disabled at any time during the year.
- c. **Residency:** The taxpayer lived with that person in the United States for more than half of the year.

If the taxpayer (or spouse, if filing a joint return) is a qualifying child of another person, the taxpayer cannot claim the EIC.

## **INVESTMENT AND EARNED INCOME**

### **Investment Income**

Taxpayers whose investment income is more than \$2,650 cannot claim the EIC. Investment income includes:

1. Taxable interest
2. Tax-exempt interest
3. Ordinary dividends
4. Capital gain net income
5. Certain net income from rents and royalties. (Beyond the scope of VITA/TCE)
6. Net income from passive activities. (Beyond the scope of VITA/TCE)

## Earned Income

To be eligible for a full or partial credit, the taxpayer must have earned income of at least \$1 but less than:

- \$34,458 (\$35,458 married filing jointly) with two or more qualifying children;
- \$30,338 (\$31,338 married filing jointly) with one qualifying child;
- \$11,490 (\$12,490 married filing jointly) with no qualifying children.

Earned income is wages, salaries, tips and other employee compensation, but only if the amounts are includible in gross income; plus net earnings from self-employment. Table 10-1, next page, provides examples of what to include and what not to include as earned income in computing the earned income credit.

### POTENTIAL PITFALLS



Earnings while in prison are not considered earned income.

### Notes:

**Earnings while an inmate.** Amounts received for work performed while an inmate in a penal institution are not considered earned income for purposes of the earned income credit. Enter “PRI” and the amount of the income earned while an inmate next to line 7 (Form 1040 or 1040A) or line 1 (Form 1040EZ). This income is still considered taxable for purposes of determining the taxpayer’s federal income tax.

**Earnings while a household employee.** If the taxpayer was a household employee who did not receive a Form W-2 because he or she was paid less than \$1,400, the income must still be included on line 7 (Form 1040A or 1040) or line 1 (Form 1040EZ). Enter “HSH” and the amount not reported on Form W-2 next to line 7 (Form 1040A or 1040) or Line 1 (Form 1040EZ).

**Disability benefits.** If a taxpayer retires on disability, benefits received under his or her employer’s disability retirement plan are considered earned income until the taxpayer reaches minimum retirement age. Minimum retirement age generally is the earliest age at which the taxpayer can receive a pension or annuity if not disabled. Taxpayers must report their taxable disability payments on line 7 of either Form 1040 or Form 1040A until they reach minimum retirement age (See Pension, Lesson 14).

Beginning on the day after a taxpayer reaches minimum retirement age, payments the taxpayer receives are taxable as a pension and are not considered earned income. Report taxable pension payments on Form 1040, lines 16a and 16b, or Form 1040A, lines 12a and 12b.

**Disability Insurance Payments.** Payments taxpayers receive from a disability insurance policy for which they paid the premiums are not earned income. It does not matter whether they have reached minimum retirement age. If this policy is through their employer, the amount may be shown in box 12 of their Form W-2 with code “J.”

### ALERT



Disability payments received before a taxpayer reaches minimum retirement age is considered earned income.

## Examples of Earned Income for the EIC

To qualify for the EIC, taxpayers must work full- or part-time and have earned income during the tax year. If married and filing jointly, at least one spouse must work and have earned income. Earned income includes all taxable income gained from working as an employee and net earnings from self-employment. Nontaxable income generally does not count as earned income. (See Table 10-1)

**Table 10-1**

**Earned Income Table**

<b>Earned Income</b>	
<b>Includes</b>	<b>Does not include</b>
<ul style="list-style-type: none"> <li>■ Taxable wages, salaries, and tips</li> <li>■ Union strike benefits</li> <li>■ Taxable long-term disability benefits received prior to minimum retirement age</li> <li>■ Net earnings from self-employment</li> <li>■ Gross income of a statutory employee</li> <li>■ Household employee income</li> </ul>	<ul style="list-style-type: none"> <li>■ Interest and dividends</li> <li>■ Social Security and railroad retirement benefits</li> <li>■ Welfare benefits</li> <li>■ Workfare payments</li> <li>■ Pensions and annuities</li> <li>■ Veteran's benefits (including VA rehabilitation payments)</li> <li>■ Workers' compensation benefits</li> <li>■ Alimony</li> <li>■ Child Support</li> <li>■ Nontaxable foster care payments</li> <li>■ Unemployment compensation</li> <li>■ Taxable scholarship or fellowship grants that are not reported on Form W-2</li> <li>■ Earnings for work performed while an inmate at a penal institution</li> <li>■ Salary deferrals (for example, under a 401(k) or 403(b) plan or the Federal Thrift Savings Plan)</li> <li>■ Basic housing and subsistence allowances for the U.S. Military (box 12, code Q of Form W-2)</li> <li>■ The value of meals or lodging provided by an employer for the convenience of the employer</li> <li>■ Housing allowance or rental value of a parsonage for the clergy</li> <li>■ Excludable dependent care benefits (line 18 of either Form 2441, Form 1040, or Schedule 2, Form 1040A)</li> <li>■ Salary reductions such as under a cafeteria plan</li> <li>■ Excludable employer provided educational assistance benefits (may be shown in box 13 of Form W-2)</li> <li>■ Anything else of value received from someone for services performed, if it is not currently taxable</li> </ul>

The interview tips you should use when determining EIC General Eligibility Rules are shown in Exhibit 1 below.

**Exhibit 1**

**EIC General Eligibility Rules**

**INTERVIEW TIPS**



EIC General Eligibility Rules

**Probe/Action: Ask the taxpayer:**

<p>Step 1: Calculate the taxpayer's earned income and Adjusted Gross Income (AGI) for the tax year. Are both less than:</p> <ul style="list-style-type: none"> <li>■ \$34,458 (\$35,458 married filing jointly) with two or more qualifying children;</li> <li>■ \$30,338 (\$31,338 married filing jointly) with one qualifying child; or</li> <li>■ \$11,490 (\$12,490 married filing jointly) with no qualifying children?</li> </ul>	<p>If <b>yes</b>, go to Step 2. If <b>no</b>, STOP. You cannot claim the EIC.</p>
<p>Step 2: Do you (and your spouse, if filing jointly) have a social security number (SSN) that allows you to work?</p> <p><b>Caution:</b> Answer "yes" if the taxpayer's social security card says "NOT VALID FOR EMPLOYMENT" and the taxpayer or spouse did not obtain the SSN to get a federally funded benefit.</p>	<p>If <b>yes</b>, go to Step 3. If <b>no</b>, STOP. You cannot claim the EIC.</p>
<p>Step 3: Is your filing status married filing separately?</p>	<p>If <b>yes</b>, STOP. You cannot claim the EIC. If <b>no</b>, go to Step 4.</p>
<p>Step 4: Are you (or your spouse, if married) a nonresident alien?</p> <p><b>Caution:</b> Answer "no" if the taxpayer is married filing a joint return, even if one taxpayer is a nonresident alien.</p>	<p>If <b>yes</b> and you are either unmarried or married but not filing a joint return, STOP. You cannot claim the EIC. If <b>no</b>, go to Step 5.</p>
<p>Step 5: Are you (or your spouse, if filing jointly) filing Form 2555 or Form 2555EZ (Foreign Earned Income)?</p>	<p>If <b>yes</b>, STOP. You cannot claim the EIC. If <b>no</b>, go to Step 6.</p>
<p>Step 6: Is your investment income more than \$2,650?</p>	<p>If <b>yes</b>, STOP. You cannot claim the EIC. If <b>no</b>, go to Step 7.</p>
<p>Step 7: Are you (or your spouse, if filing jointly) an EIC qualifying child of another person?</p>	<p>If <b>yes</b>, STOP. You cannot claim the EIC. If <b>no</b>, go to the interview tips for EIC-With A Qualifying Child (Exhibit 2) or EIC-Without A Qualifying Child (Exhibit 3).</p>

## WHO CAN CLAIM THE CREDIT – WITH A QUALIFYING CHILD

If the taxpayer meets the EIC general eligibility rules (previously discussed), you must now determine if the taxpayer can claim the credit with a qualifying child or without a qualifying child.

To be a qualifying child for the EIC, a child: **Must meet relationship, age, and residency tests. Note: A child is not a qualifying child until the child meets all 3 tests.**

The following chart outlines the relationship, age, and residency tests:

**Table 10-2**

RELATIONSHIP	AGE	RESIDENCY
<ul style="list-style-type: none"> <li>■ Son, daughter, stepson, stepdaughter or a descendant of any of them*</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>■ Brother, sister, stepbrother, stepsister or a descendant of any of them, whom the taxpayer cares for as his or her own child</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>■ Eligible foster child</li> </ul> <p><b>and...</b></p>	<ul style="list-style-type: none"> <li>■ Under age 19 at the end of the tax year</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>■ Under age 24 and a full-time student, at the end of the tax year</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>■ Any age and permanently and totally disabled at any time during the year</li> </ul> <p><b>and...</b></p>	<ul style="list-style-type: none"> <li>■ Lived with the taxpayer in the United States for more than half the tax year (at least 184 days for 2004). This includes the time that the taxpayer and the child are temporarily apart due to a special circumstance, such as military service, school attendance, hospitalization or juvenile detention</li> </ul> <p><b>Note:</b> Child birth/death: If the child was born or died during the year, the child is considered to meet the test if the child lived with the taxpayer while the child was alive.</p>

### ALERT



EIC requirements for a qualifying child are not the same requirements to be a qualifying child for the Child Tax Credit.

\*If the child was married at the end of the year, he or she does not meet the relationship test unless:

1. The taxpayer can claim the child's exemption,
- or
2. The taxpayer cannot claim the child's exemption because the taxpayer gave that right to the child's other parent.

## Definitions

An **eligible foster child** is a child placed with the taxpayer by an authorized placement agency whom the taxpayer cares for as his or her own child. An authorized placement agency includes a state or local government agency or court. It also includes a tax-exempt organization licensed by a state. In addition, it includes an Indian tribal government, or an organization authorized by an Indian tribal government to place Indian children.

An **adopted child** is treated as a biological child and includes a child placed with the taxpayer for adoption by an authorized placement agency, even if the adoption is not final.

A child is **permanently and totally disabled** if:

1. He or she cannot engage in any substantial gainful activity because of a physical or mental condition, and
2. A doctor determines the condition has lasted or can be expected to last continuously for at least a year, or can lead to death.

Taxpayers may be able to claim the EIC on the basis of a **child who was kidnapped** by someone who is not a member of the taxpayer's family or the child's family. (See Publication 596, Earned Income Credit)

A taxpayer does not need a home to claim the EIC. For example, if the taxpayer and his or her child(ren) lived together for more than half the year in one or more homeless shelters, the child meets the residency test.

After you have determined that a child meets the three tests, make sure that the child has a valid SSN. (See page 10-2)

### **Qualifying Child of More Than One Taxpayer**

**The qualifying child cannot be used by more than one person to claim the EIC.** If a child is a qualifying child of more than one taxpayer, the taxpayers may choose which of them will claim the credit on the basis of that child. 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.

In those instances where two or more persons have the same qualifying child and more than one taxpayer claims the child on their return for EIC purposes, the IRS will apply the **Tie-Breaker Rule** to determine who can claim the credit using the child.

**Table 10-3** **EIC Tie-Breaker Rule**

<b>IF more than one person claims the EIC using the same child and ...</b>	<b>THEN ...</b>
Only one of the persons is the child's parent	Only the parent can treat the child as a qualifying child.
Two of the persons are the child's parents, and they do not file a joint return together	Only the parent with whom the child lived the longest during the year can treat the child as a qualifying child.
Two of the persons are the child's parents, the child lived with each parent the same amount of time during the year, and the parents do not file a joint return together	Only the parent with the highest adjusted gross income (AGI) can treat the child as a qualifying child.
None of the persons are the child's parent	Only the person with the highest AGI can treat the child as a qualifying child.



**Example 1** Jane (age 30) is unmarried. In 2004, Jane lived with her four children and her mother, Linda. Provided they each meet the eligibility and income requirements, Jane may claim the EIC based on two of the children, and Linda may claim the EIC based on the other two children.

**Example 2** John (age 26) is unmarried. In 2004, John and his daughter, Lynn, lived with John's father, Paul. John's sole income was wages of \$19,000. Paul's sole income was wages of \$12,000. Lynn is a qualifying child of both John and Paul. John and Paul agree that Paul will claim the EIC on the basis of Lynn, because Paul's credit would be more than John's. If John later decides to claim the credit, under the tie-breaker rule, Paul will lose the credit he claimed and must repay the EIC.

The interview tips you should use when determining EIC With A Qualifying Child are shown in Exhibit 2 below.

**Exhibit 2**

**EIC - With A Qualifying Child**

**INTERVIEW TIPS**



EIC With A Qualifying Child (Remember to apply the steps for each qualifying child)

**Probe/Action: Ask the taxpayer:**

<p>Step 1: Does your qualifying child have an SSN that allows him or her to work? <b>Caution:</b> Answer “yes” if the child’s social security card says “NOT VALID FOR EMPLOYMENT” and his or her SSN was obtained for a reason other than to get a federally funded benefit.</p>	<p>If <b>yes</b>, go to Step 2. If <b>no</b>, STOP. You cannot claim the EIC on the basis of this qualifying child.</p>
<p>Step 2: Is the child your son, daughter, stepchild, or a descendant of<sup>1</sup> any of them?*</p>	<p>If <b>yes</b>, go to Step 5. If <b>no</b>, go to Step 3.</p>
<p>Step 3: Is the child your brother, sister, stepbrother, stepsister, or a descendant of<sup>1</sup> any of them, or was the child placed with you by an authorized placement agency?</p>	<p>If <b>yes</b>, go to Step 4. If <b>no</b>, STOP. This child is not your qualifying child. Go to interview tips for EIC-Without A Qualifying Child (Exhibit 3).</p>
<p>Step 4: Did you care for the child as you would care for your own child?</p>	<p>If <b>yes</b>, go to Step 5. If <b>no</b>, STOP. This child is not your qualifying child. Go to interview tips for EIC-Without A Qualifying Child (Exhibit 3).</p>
<p>Step 5: Was the child any of the following at the end of the tax year:</p> <ul style="list-style-type: none"> <li>■ Under age 19,</li> <li>■ Under age 24 and a full-time student, or</li> <li>■ Any age and permanently and totally disabled?</li> </ul>	<p>If <b>yes</b>, go to Step 6. If <b>no</b>, STOP. This child is not your qualifying child. Go to interview tips for EIC-Without A Qualifying Child (Exhibit 3).</p>
<p>Step 6: Was the child married at the end of the year?*</p>	<p>If <b>no</b>, go to Step 7. If <b>yes</b>, STOP. This child is not your qualifying child (failed the relationship test). Go to interview tips for EIC-Without A Qualifying Child (Exhibit 3).</p>
<p>Step 7: Did the child live with you in the United States for more than half (184 days) of the tax year?</p>	<p>If <b>yes</b>, go to Step 8. If <b>no</b>, STOP. This child is not your qualifying child. Go to interview tips for EIC-Without A Qualifying Child (Exhibit 3).</p>
<p>Step 8: Is the child a qualifying child of another person?</p>	<p>If <b>yes</b>, explain to the taxpayer what happens when more than one person claims the EIC using the same child (<b>The Tie-Breaker Rule</b>). If the taxpayer chooses to claim the credit with this child, compute the EIC using the appropriate EIC Worksheets. If <b>no</b>, compute the EIC using the appropriate EIC worksheet.</p>

\* If your child was married at the end of the year, he or she does not meet the relationship test unless: You can claim the child's exemption or you cannot claim the child's exemption because you gave that right to the child's other parent.

<sup>1</sup>A descendant of is any generation.



Table 10-4

## Summary of Eligibility Requirements

<b>Part A</b> <b>Rules for Everyone</b>	<b>Part B</b> <b>Rules If You Have a Qualifying Child</b>	<b>Part C</b> <b>Rules If You Do Not Have a Qualifying Child</b>
Must have a valid social security number.	Child must meet the relationship, age, and residency tests.	Must be at least age 25 but under age 65.
Filing status cannot be "Married filing separately."	Qualifying child cannot be used by more than one person to claim the EIC.	Cannot be the dependent of another person.
Must be a U.S. citizen or resident alien all year.		Must have lived in the United States more than half the year.
Cannot file Form 2555 or Form 2555-EZ (relating to foreign earned income).		
Investment income must be \$2,650 or less.		
Cannot be a qualifying child of another person.		
<p style="text-align: center;"><b>Part D</b> <b>Earned Income and AGI Limitations</b></p> <p>Must be less than:</p> <ul style="list-style-type: none"> <li>■ \$34,458 (\$35,458 for married filing jointly) if you have more than one qualifying child,</li> <li>■ \$30,338 (\$31,338 for married filing jointly) if you have one qualifying child, or</li> <li>■ \$11,490 (\$12,490 for married filing jointly) if you do not have a qualifying child</li> </ul>		
<p style="text-align: center;"><b>Part E</b> <b>Investment Income</b></p> <p style="text-align: center;">Investment income must not be more than \$2,650.</p>		

## Exercise 1 – EIC Eligibility Requirements

- A.** Sharon has an eligible foster child, Eric. Eric is 12 years old and began living with Sharon in August 2004. Sharon's earned income and her adjusted gross income are \$14,275. Can Sharon claim the earned income credit? \_\_\_\_\_
- B.** Doug and Donna are married and live together. Their combined earned income is \$22,242. Doug reports adjusted gross income of \$10,728 on his separate tax return, and Donna reports adjusted gross income of \$11,514 on her separate return. Sam, their four-year-old son, lives with Doug and Donna. Can Doug and/or Donna claim the earned income credit? \_\_\_\_\_
- C.** Randy and Cara were married and lived together until August when they divorced. Randy and Cara have two children, Jimmy, age seven, and Anna, age five. The children lived with both of their parents until August, and then they lived with their mother. Randy's earned income and adjusted gross income are \$19,251. Cara's earned income is \$14,751, and her adjusted gross income is \$15,362. Can Randy and/or Cara claim the earned income credit? \_\_\_\_\_
- D.** Benjamin, age 26, lives alone, is single, and earns \$8,250. His adjusted gross income is \$8,950. Can Benjamin claim the earned income credit? \_\_\_\_\_
- E.** Melanie is 18 years old and married. Melanie's husband is overseas, and she lives with her mother, Susan. Susan's earned income is \$18,431, and her adjusted gross income is \$18,453. Susan cannot claim Melanie as a dependent. Can Susan claim the earned income credit? \_\_\_\_\_
- F.** Circle the items that are considered earned income for earned income credit purposes.
1. Wages
  2. Child Support
  3. Social security benefits
  4. Interest income
  5. Unemployment compensation
  6. Tip income
  7. Dividend income
  8. Military subsistence allowances

## POTENTIAL PITFALLS



Remember that the amount of the earned income credit depends on the taxpayer's income, number of qualifying children, and filing status. Be sure to use the correct column from the EIC Table.

## DETERMINING ELIGIBILITY AND FIGURING THE CREDIT

The EIC is not for everyone. You can **minimize delays** in processing the taxpayer's current and future returns by using the EIC steps and Worksheet to **determine eligibility** and figure the credit.

Taxpayers determine their eligibility for EIC by working through the steps in the EIC instructions for 1040, 1040A, or 1040EZ. Taxpayers complete the EIC Worksheet in the instructions to figure the credit. Taxpayers should keep the steps and worksheet with their records.

Before completing line 65 of Form 1040, line 41 of Form 1040A, or line 8 of Form 1040EZ, you must complete the applicable EIC worksheet. If the taxpayer is not eligible to claim the credit but appears to be based on income limitations, write "No" next to line 65 of 1040, line 41 of 1040A, or line 8 of 1040EZ.

The **Earned Income Credit Table** is used to determine the amount of the credit. The tables are found in the instructions for Forms 1040EZ, 1040A, and 1040 and also in Appendix C of this book.

### Using the EIC Worksheets

The EIC steps are used to determine eligibility. The EIC worksheet is used to determine the credit. Since the 1040A EIC worksheet is the more commonly used worksheet at VITA/TCE sites, our exercise will focus on using the Form 1040A EIC steps and EIC worksheet, which together consist of 5 pages.

In most cases, all that is needed to complete EIC tax returns are the appropriate tax form and instructions booklets for Forms 1040, 1040A, & 1040EZ. Each form has its own worksheet(s) as described below.

- **Form 1040 EIC Worksheet.** If the taxpayer files Form 1040, you will use the steps in the Form 1040 package and either Worksheet A or Worksheet B. Worksheet A is for taxpayers whose earned income was received as an employee. Worksheet B is for taxpayers who have self-employment income, a member of the clergy or a church employee who files Schedule SE, or a statutory employee filing Schedule C or C-EZ.
- **Form 1040A Worksheet.** If the taxpayer files Form 1040A, you will use the steps and EIC worksheet in the Form 1040A package (see Exhibits 4–8).
- **Form 1040EZ Worksheet.** If the taxpayer files Form 1040EZ, you will use the steps and EIC worksheet in the Form 1040EZ package.

## Using the EIC Table (See Appendix C)

When using the earned income credit table to determine the credit, read down the columns labeled “*At least.... But less than*” and find the line that includes the amount you are instructed to look up from the EIC Worksheet. Read across to the column that includes the number of qualifying children of the taxpayer and filing status. Enter the earned income credit from that column on the EIC Worksheet.

### Example 6 - Using The EIC Table

Roger’s filing status is head of household and he has two qualifying children. The amount shown on lines 1 and 3 of his Form 1040A EIC Worksheet is \$19,300.

Roger’s earned income credit from the EIC Table is \$3,187. Exhibits 4 thru 8 shows how Roger’s EIC is computed.

## POTENTIAL PITFALLS

Errors are easily made when using the earned income credit table. To ensure you have entered the correct amount on the tax form, look up the credit twice—once before you enter the credit on the form and once after you enter it on the form.

Form 1040A—Line 41

## Line 41 Earned Income Credit (EIC)

### What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

### To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you or let the IRS figure the credit for you.
- If you have a qualifying child, complete and attach Schedule EIC.



*If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.*

### Step 1 All Filers

- If, in 2004:
  - 2 children lived with you, is the amount on Form 1040A, line 22, less than \$34,458 (\$35,458 if married filing jointly)?
  - 1 child lived with you, is the amount on Form 1040A, line 22, less than \$30,338 (\$31,338 if married filing jointly)?
  - No children live with you, is the amount on Form 1040A, line 22, less than \$11,490 (\$12,490 if married filing jointly)?

**Yes.** Continue →       **No.** You cannot take the credit.
- Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 41)?
 

**Yes.** Continue →       **No.** You cannot take the credit. Put "No" to the left of the entry space for line 41.
- Is your filing status married filing separately?
 

**Yes.**       **No.** Continue →  
You cannot take the credit.
- Were you a nonresident alien for any part of 2004?
 

**Yes.** See *Nonresident aliens* on page 41.       **No.** Go to Step 2.

### Step 2 Investment Income

- Add the amounts from Form 1040A:

Line 8a \_\_\_\_\_  
 Line 8b + \_\_\_\_\_  
 Line 9a + \_\_\_\_\_  
 Line 10 + \_\_\_\_\_

Investment Income =

- Is your investment income more than \$2,650?
 

**Yes.**       **No.** Continue →  
You cannot take the credit.
- Did a child live with you in 2004?
 

**Yes.** Go to Step 3 on page 39.       **No.** Go to Step 4 on page 39.

Proof as of June 18, 2004  
 (subject to change)

(Continued on page 39)

Need more information or forms? See page 7.



Continued from page 38

**Step 3 Qualifying Child**

A qualifying child is a child who is your...

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

**AND**

was at the end of 2004...

Under age 19

or

Under age 24 and a student (see page 41)

or

Any age and permanently and totally disabled (see page 41)

**AND**

who...

Lived with you in the United States for more than half of 2004. If the child did not live with you for the required time, see Exception to "time lived with you" condition on page 40.



If the child was married, see page 41.

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?

**Yes.**

**No.** *Continue* →

You cannot take the credit. Put "No" to the left of the entry space for line 41.

2. Do you have at least one child who meets the above conditions to be your qualifying child?

**Yes.** Go to question 3.

**No.** Skip question 3; go to Step 4, question 2.

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2004?

**Yes.** See *Qualifying child of more than one person* on page 41.

**No.** This child is your qualifying child. The child must have a valid social security number as defined on page 41 unless the child was born and died in 2004. Skip Step 4; go to Step 5 on page 40.

**Step 4 Filers Without a Qualifying Child**

1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?

**Yes.**

**No.** *Continue* →

You cannot take the credit. Put "No" to the left of the entry space for line 41.

2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2004 tax return?

**Yes.**

**No.** *Continue* →

You cannot take the credit.

3. Were you, or your spouse if filing a joint return, born before January 2, 1980, but under age 65 at the end of 2004?

**Yes.** *Continue* →

**No.**

You cannot take the credit.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2004? Members of the military stationed outside the United States, see page 41 before you answer.

**Yes.** Go to Step 5 on page 40.

**No.**

You cannot take the credit. Put "No" to the left of the entry space for line 41.

(Continued on page 40)

Form 1040A—Line 41

Continued from page 39

**Step 5 Earned Income**

1. Figure earned income:

Form 1040A, line 7 19,300.00

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

**Earned Income =** 19,300.00

2. If you have:

- 2 or more qualifying children, is your earned income less than \$34,458 (\$35,458 if married filing jointly)?
- 1 qualifying child, is your earned income less than \$30,338 (\$31,338 if married filing jointly)?
- No qualifying children, is your earned income less than \$11,490 (\$12,490 if married filing jointly)?

**Yes.** Go to Step 6.     **No.** You cannot take the credit.

**Step 6 How To Figure the Credit**

1. Do you want the IRS to figure the credit for you?

**Yes.** See *Credit figured by the IRS* on this page.     **No.** Go to the worksheet on page 42.

**Definitions and Special Rules**

(listed in alphabetical order)

**Adopted child.** An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

**Credit figured by the IRS.** To have the IRS figure the credit for you:

1. Put "EIC" to the left of the entry space for line 41 of Form 1040A.
2. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see *Form 8862, Who must file*, below.

**Exception to "time lived with you" condition.** A child is considered to have lived with you for all of 2004 if the child was born or died in 2004 and your home was this child's home for the entire time he or she was alive in 2004. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see *Members of the military* on page 41.

**Form 8862, Who must file.** You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

1. After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed, and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
2. You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit for 2 years if it was determined that your error was due to reckless or intentional disregard of the EIC rules (or 10 years if due to fraud).

(Continued on page 41)

*Continued from page 40*

**Married child.** A child who was married at the end of 2004 is a qualifying child only if (a) you can claim him or her as your dependent on Form 1040A, line 6c, or (b) this child's other parent claims him or her as a dependent under the rules on page 20 for *Children of divorced or separated parents*.

**Members of the military.** If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.

**Nonresident aliens.** If your filing status is married filing jointly, go to Step 2 on page 38. Otherwise, stop; you cannot take the EIC.

**Permanently and totally disabled child.** A child who cannot engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition:

- Has lasted or can be expected to last continuously for at least a year, or
- Can lead to death.

**Qualifying child of more than one person.** If the child meets the conditions to be a qualifying child of more than one person, only one person can take the EIC based on that child. The other person(s) cannot take the EIC for people without a qualifying child, but may take the EIC based on a different qualifying child. If you and the other person(s) cannot agree who will take the EIC, then the following rules apply.

- If only one of the persons is the child's parent, the child will be treated as the qualifying child of the parent.
- If both persons are the child's parents, the child will be treated as the qualifying child of the parent with whom the child lived for the longer period of time during 2004. If the child lived with each parent for the same amount of time, the child will be treated as the qualifying child of the parent who had the higher adjusted gross income (AGI) for 2004.
- If none of the persons is the child's parent, the child will be treated as the qualifying child of the person who had the highest AGI for 2004.

The child must have a valid social security number as defined below unless the child was born and died in 2004. If you do not have a qualifying child, stop; you cannot take the EIC. Put "No" to the left of the entry space for line 41. If you have a qualifying child, skip Step 4; go to Step 5 on page 40.

**Example.** You and your 5-year-old daughter moved in with your mother in April 2004. You are not a qualifying child of your mother. Your daughter meets the conditions to be a qualifying child for both you and your mother. If you and your mother cannot agree on who will treat your daughter as a qualifying child, the above rules apply. Under these rules, you are entitled to treat your daughter as a qualifying child because you are the child's parent. Your mother would not be entitled to claim any EIC unless she has a different qualifying child.

**Social security number (SSN).** For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless "Not Valid for Employment" is printed on the social security card and the number was issued solely to apply for or receive a federally funded benefit.

To find out how to get an SSN, see page 18. If you will not have an SSN by April 15, 2005, see *What if You Cannot File on Time?* on page 12.

**Student.** A child who during any 5 months of 2004:

- Was enrolled as a full-time student at a school, or
- Took a full-time, on-farm training course given by a school or a state, county, or local government agency.

A school includes technical, trade, and mechanical schools. It does not include on-the-job training courses, correspondence schools, or night schools.

**Welfare benefits, effect of credit on.** Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs or how much you can receive from them. But if the refund you receive because of the EIC is not spent within a certain period of time, it may count as an asset (or resource) and affect your eligibility.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

Form 1040A—Line 41

**Earned Income Credit (EIC) Worksheet—Line 41**

Keep for Your Records



**Part 1**

**All Filers**

1. Enter your earned income from Step 5 on page 40. 1      19,300.00

2. Look up the amount on line 1 above in the EIC Table on pages 43–47 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. 2      3,187.00

If line 2 is zero, You cannot take the credit. Put "No" to the left of the entry space for line 41.

3. Enter the amount from Form 1040A, line 22. 3      19,300.00

4. Are the amounts on lines 3 and 1 the same?  
 **Yes.** Skip line 5; enter the amount from line 2 on line 6.  
 **No.** Go to line 5.

**Part 2**

**Filers Who Answered "No" on Line 4**

5. If you have:  
 • No qualifying children, is the amount on line 3 less than \$6,400 (\$7,400 if married filing jointly)?  
 • 1 or more qualifying children, is the amount on line 3 less than \$14,050 (\$15,050 if married filing jointly)?  
 **Yes.** Leave line 5 blank; enter the amount from line 2 on line 6.  
 **No.** Look up the amount on line 3 in the EIC Table on pages 43–47 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. 5        
 Look at the amounts on lines 5 and 2. Then, enter the **smaller** amount on line 6.

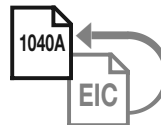
**Part 3**

**Your Earned Income Credit**

6. This is your earned income credit. 6      3,187.00

**Reminder—**

✓ If you have a qualifying child, complete and attach Schedule EIC.



If your EIC for a year after 1996 was reduced or disallowed, see page 40 to find out if you must file Form 8862 to take the credit for 2004.

Enter this amount on Form 1040A, line 41.

## Exercise 2 – Determining Eligibility and Figuring the Credit

- A.** Alex and Cheryl have two qualifying children. Their filing status is married filing jointly. The amount shown on lines 1 and 3 of their EIC Worksheet is \$19,866.

What is the earned income credit from the EIC Table? \_\_\_\_\_

- B.** Roxanne is divorced. She lives with her infant daughter. The amount shown on lines 1 and 3 of her EIC Worksheet is \$17,750.

What is the earned income credit from the EIC Table? \_\_\_\_\_

- C.** Sam U. and Robin O. Bell are married and file a joint return. Sam's social security number is xxx-xx-xxxx and Robin's is xxx-xx-xxxx. Form 1040A, line 7 shows that the Bells had wages of \$21,211, line 8a shows \$39 of taxable interest income, and line 22 shows the Bells' adjusted gross income of \$21,250. They have a child, Jennifer S. Bell (SSN xxx-xx-xxxx) who was born in 1996. Jennifer lived with her parents for the entire year. Complete the Form 1040A EIC Eligibility Questions and Worksheet, Exhibits 9–13.

## Line 41 Earned Income Credit (EIC)

### What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

### To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you or let the IRS figure the credit for you.
- If you have a qualifying child, complete and attach Schedule EIC.



*If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.*

### Step 1 All Filers

- If, in 2004:
  - 2 children lived with you, is the amount on Form 1040A, line 22, less than \$34,458 (\$35,458 if married filing jointly)?
  - 1 child lived with you, is the amount on Form 1040A, line 22, less than \$30,338 (\$31,338 if married filing jointly)?
  - No children live with you, is the amount on Form 1040A, line 22, less than \$11,490 (\$12,490 if married filing jointly)?

**Yes.** *Continue* →  **No.** You cannot take the credit.
- Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 41)?
 

**Yes.** *Continue* →  **No.** You cannot take the credit. Put "No" to the left of the entry space for line 41.
- Is your filing status married filing separately?
 

**Yes.** You cannot take the credit.  **No.** *Continue* →
- Were you a nonresident alien for any part of 2004?
 

**Yes.** See *Nonresident aliens* on page 41.  **No.** Go to Step 2.

### Step 2 Investment Income

- Add the amounts from Form 1040A:

Line 8a \_\_\_\_\_  
 Line 8b + \_\_\_\_\_  
 Line 9a + \_\_\_\_\_  
 Line 10 + \_\_\_\_\_

**Investment Income** =

- Is your investment income more than \$2,650?
 

**Yes.** You cannot take the credit.  **No.** *Continue* →
- Did a child live with you in 2004?
 

**Yes.** Go to Step 3 on page 39.  **No.** Go to Step 4 on page 39.

(Continued on page 39)

Continued from page 38

**Step 3 Qualifying Child**

**A qualifying child is a child who is your...**

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

**AND**

**was at the end of 2004...**

Under age 19

or

Under age 24 and a student (see page 41)

or

Any age and permanently and totally disabled (see page 41)

**AND**

**who...**

Lived with you in the United States for more than half of 2004. If the child did not live with you for the required time, see Exception to "time lived with you" condition on page 40.



If the child was married, see page 41.

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?

**Yes.** You cannot take the credit. Put "No" to the left of the entry space for line 41.

**No.** *Continue*

2. Do you have at least one child who meets the above conditions to be your qualifying child?

**Yes.** Go to question 3.

**No.** Skip question 3; go to Step 4, question 2.

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2004?

**Yes.** See *Qualifying child of more than one person* on page 41.

**No.** This child is your qualifying child. The child must have a valid social security number as defined on page 41 unless the child was born and died in 2004. Skip Step 4; go to Step 5 on page 40.

**Step 4 Filers Without a Qualifying Child**

1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?

**Yes.** You cannot take the credit. Put "No" to the left of the entry space for line 41.

**No.** *Continue*

2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2004 tax return?

**Yes.** You cannot take the credit.

**No.** *Continue*

3. Were you, or your spouse if filing a joint return, born before January 2, 1980, but under age 65 at the end of 2004?

**Yes.** *Continue*

**No.** You cannot take the credit.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2004? Members of the military stationed outside the United States, see page 41 before you answer.

**Yes.** Go to Step 5 on page 40.

**No.** You cannot take the credit. Put "No" to the left of the entry space for line 41.

(Continued on page 40)

Form 1040A—Line 41

Continued from page 39

**Step 5 Earned Income**

1. Figure earned income:

Form 1040A, line 7 \_\_\_\_\_

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

Earned Income =

2. If you have:

- 2 or more qualifying children, is your earned income less than \$34,458 (\$35,458 if married filing jointly)?
- 1 qualifying child, is your earned income less than \$30,338 (\$31,338 if married filing jointly)?
- No qualifying children, is your earned income less than \$11,490 (\$12,490 if married filing jointly)?

Yes. Go to Step 6.       No. You cannot take the credit.

**Definitions and Special Rules**

(listed in alphabetical order)

**Adopted child.** An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

**Credit figured by the IRS.** To have the IRS figure the credit for you:

1. Put "EIC" to the left of the entry space for line 41 of Form 1040A.
2. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see *Form 8862, Who must file*, below.

**Exception to "time lived with you" condition.** A child is considered to have lived with you for all of 2004 if the child was born or died in 2004 and your home was this child's home for the entire time he or she was alive in 2004. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see *Members of the military* on page 41.

**Form 8862, Who must file.** You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

1. After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed, and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
2. You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit for 2 years if it was determined that your error was due to reckless or intentional disregard of the EIC rules (or 10 years if due to fraud).

**Step 6 How To Figure the Credit**

1. Do you want the IRS to figure the credit for you?

Yes. See *Credit figured by the IRS* on this page.       No. Go to the worksheet on page 42.

(Continued on page 41)



**Continued from page 40**

**Married child.** A child who was married at the end of 2004 is a qualifying child only if (a) you can claim him or her as your dependent on Form 1040A, line 6c, or (b) this child's other parent claims him or her as a dependent under the rules on page 20 for *Children of divorced or separated parents*.

**Members of the military.** If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.

**Nonresident aliens.** If your filing status is married filing jointly, go to Step 2 on page 38. Otherwise, stop; you cannot take the EIC.

**Permanently and totally disabled child.** A child who cannot engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition:

- Has lasted or can be expected to last continuously for at least a year, or
- Can lead to death.

**Qualifying child of more than one person.** If the child meets the conditions to be a qualifying child of more than one person, only one person can take the EIC based on that child. The other person(s) cannot take the EIC for people without a qualifying child, but may take the EIC based on a different qualifying child. If you and the other person(s) cannot agree who will take the EIC, then the following rules apply.

- If only one of the persons is the child's parent, the child will be treated as the qualifying child of the parent.
- If both persons are the child's parents, the child will be treated as the qualifying child of the parent with whom the child lived for the longer period of time during 2004. If the child lived with each parent for the same amount of time, the child will be treated as the qualifying child of the parent who had the higher adjusted gross income (AGI) for 2004.
- If none of the persons is the child's parent, the child will be treated as the qualifying child of the person who had the highest AGI for 2004.

The child must have a valid social security number as defined below unless the child was born and died in 2004. If you do not have a qualifying child, stop; you cannot take the EIC. Put "No" to the left of the entry space for line 41. If you have a qualifying child, skip Step 4; go to Step 5 on page 40.

**Example.** You and your 5-year-old daughter moved in with your mother in April 2004. You are not a qualifying child of your mother. Your daughter meets the conditions to be a qualifying child for both you and your mother. If you and your mother cannot agree on who will treat your daughter as a qualifying child, the above rules apply. Under these rules, you are entitled to treat your daughter as a qualifying child because you are the child's parent. Your mother would not be entitled to claim any EIC unless she has a different qualifying child.

**Social security number (SSN).** For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless "Not Valid for Employment" is printed on the social security card and the number was issued solely to apply for or receive a federally funded benefit.

To find out how to get an SSN, see page 18. If you will not have an SSN by April 15, 2005, see *What if You Cannot File on Time?* on page 12.

**Student.** A child who during any 5 months of 2004:

- Was enrolled as a full-time student at a school, or
- Took a full-time, on-farm training course given by a school or a state, county, or local government agency.

A school includes technical, trade, and mechanical schools. It does not include on-the-job training courses, correspondence schools, or night schools.

**Welfare benefits, effect of credit on.** Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs or how much you can receive from them. But if the refund you receive because of the EIC is not spent within a certain period of time, it may count as an asset (or resource) and affect your eligibility.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

Form 1040A—Line 41

**Earned Income Credit (EIC) Worksheet—Line 41**

Keep for Your Records



**Part 1**

**All Filers**

1. Enter your earned income from Step 5 on page 40.

<b>1</b>	
----------	--

2. Look up the amount on line 1 above in the EIC Table on pages 43–47 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

<b>2</b>	
----------	--

If line 2 is zero, You cannot take the credit. Put “No” to the left of the entry space for line 41.

3. Enter the amount from Form 1040A, line 22.

<b>3</b>	
----------	--

4. Are the amounts on lines 3 and 1 the same?

- Yes.** Skip line 5; enter the amount from line 2 on line 6.
- No.** Go to line 5.

**Part 2**

**Filers Who Answered “No” on Line 4**

5. If you have:

- No qualifying children, is the amount on line 3 less than \$6,400 (\$7,400 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 3 less than \$14,050 (\$15,050 if married filing jointly)?

**Yes.** Leave line 5 blank; enter the amount from line 2 on line 6.

**No.** Look up the amount on line 3 in the EIC Table on pages 43–47 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

<b>5</b>	
----------	--

Look at the amounts on lines 5 and 2. Then, enter the **smaller** amount on line 6.

**Part 3**

**Your Earned Income Credit**

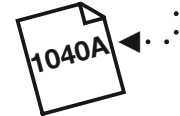
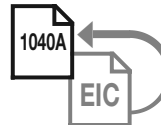
6. **This is your earned income credit.**

<b>6</b>	
----------	--

Enter this amount on Form 1040A, line 41.

**Reminder—**

✓ If you have a qualifying child, complete and attach Schedule EIC.



If your EIC for a year after 1996 was reduced or disallowed, see page 40 to find out if you must file Form 8862 to take the credit for 2004.

## ***SCHEDULE EIC FOR QUALIFYING CHILD(REN)***

Schedule EIC contains only information about qualifying children. Only taxpayers who have a qualifying child must fill out the schedule and attach it to Form 1040A or Form 1040. Note: The taxpayer cannot use Form 1040EZ to claim the EIC with a qualifying child.

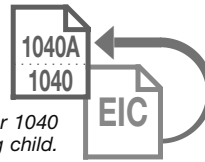
### **Example 7 – Completing Schedule EIC**

Ronald Evans (SSNxxx-xx-xxxx) is single. His son, Harry (SSN xxx-xx-xxxx), was born in 1981. Harry lived with Ronald during all of 2004. Harry is a full-time college student. Harry is not married and is a qualifying child of his father. He is not a qualifying child of his mother. However, Harry's mother claims him as a dependent on her tax return.

Exhibit 14 shows a completed Schedule EIC.

**SCHEDULE EIC**  
(Form 1040A or 1040)

**Earned Income Credit**  
Qualifying Child Information



OMB No. 1545-0074

**2004**

Attachment  
Sequence No. **43**

Department of the Treasury  
Internal Revenue Service

Complete and attach to Form 1040A or 1040  
only if you have a qualifying child.

Name(s) shown on return  
**Ronald Evans**

Your social security number  
**xxx : xx : xxxxx**

**Before you begin:** See the instructions for Form 1040A, line 41, or Form 1040, line 65, to make sure that  
(a) you can take the EIC and (b) you have a qualifying child.



- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

**Qualifying Child Information**

**Child 1**

**Child 2**

	First name	Last name	First name	Last name
<b>1 Child's name</b> If you have more than two qualifying children, you only have to list two to get the maximum credit.	<b>Harry Evans</b>			
<b>2 Child's SSN</b> The child must have an SSN as defined on page 43 of the Form 1040A instructions or page 47 of the Form 1040 instructions unless the child was born and died in 2004 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	<b>xxx</b>	<b>xx</b>	<b>xxxx</b>	
<b>3 Child's year of birth</b>	Year <u>1</u> <u>9</u> <u>8</u> <u>1</u> <i>If born after 1985, skip lines 4a and 4b; go to line 5.</i>		Year _____ <i>If born after 1985, skip lines 4a and 4b; go to line 5.</i>	
<b>4 If the child was born before 1986—</b>				
<b>a</b> Was the child under age 24 at the end of 2004 and a student?	<input checked="" type="checkbox"/> <b>Yes.</b> <i>Go to line 5.</i>	<input type="checkbox"/> <b>No.</b> <i>Continue</i>	<input type="checkbox"/> <b>Yes.</b> <i>Go to line 5.</i>	<input type="checkbox"/> <b>No.</b> <i>Continue</i>
<b>b</b> Was the child permanently and totally disabled during any part of 2004?	<input type="checkbox"/> <b>Yes.</b> <i>Continue</i>	<input type="checkbox"/> <b>No.</b> The child is not a qualifying child.	<input type="checkbox"/> <b>Yes.</b> <i>Continue</i>	<input type="checkbox"/> <b>No.</b> The child is not a qualifying child.
<b>5 Child's relationship to you</b> (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)	<b>son</b>			
<b>6 Number of months child lived with you in the United States during 2004</b> • If the child lived with you for more than half of 2004 but less than 7 months, enter "7". • If the child was born or died in 2004 and your home was the child's home for the entire time he or she was alive during 2004, enter "12".	<u>12</u> months <i>Do not enter more than 12 months.</i>		_____ months <i>Do not enter more than 12 months.</i>	



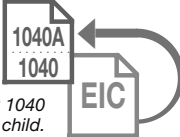


You may also be able to take the additional child tax credit if your child (a) was under age 17 at the end of 2004, (b) is claimed as your dependent on line 6c of Form 1040A or Form 1040, and (c) is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 67 of Form 1040.

## Exercise 3 – Schedule EIC

Complete Schedule EIC, Exhibit 15, for Sam U. and Robin O. Bell in Exercise 2C using the information provided.

### Exhibit 15

### Complete Sam U. and Robin O.'s Schedule EIC, page 1

<p><b>SCHEDULE EIC</b> (Form 1040A or 1040)</p> <p>Department of the Treasury Internal Revenue Service</p>	<p><b>Earned Income Credit</b> Qualifying Child Information</p> <p><i>Complete and attach to Form 1040A or 1040 only if you have a qualifying child.</i></p> 	<p>OMB No. 1545-0074</p> <p style="font-size: 2em; font-weight: bold;">2004</p> <p>Attachment Sequence No. <b>43</b></p>				
Name(s) shown on return		Your social security number				
<p><b>Before you begin:</b> See the instructions for Form 1040A, line 41, or Form 1040, line 65, to make sure that (a) you can take the EIC and (b) you have a qualifying child.</p>						
<div style="display: flex; align-items: flex-start;"> <div style="width: 30px; text-align: center; margin-right: 10px;">  </div> <ul style="list-style-type: none"> <li>If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.</li> <li>It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.</li> <li>Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.</li> </ul> </div>						
<p><b>Qualifying Child Information</b></p>						
	<b>Child 1</b>	<b>Child 2</b>				
<p><b>1 Child's name</b> If you have more than two qualifying children, you only have to list two to get the maximum credit.</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">First name _____</td> <td style="width: 50%; border-bottom: 1px solid black;">Last name _____</td> </tr> </table>	First name _____	Last name _____	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">First name _____</td> <td style="width: 50%; border-bottom: 1px solid black;">Last name _____</td> </tr> </table>	First name _____	Last name _____
First name _____	Last name _____					
First name _____	Last name _____					
<p><b>2 Child's SSN</b> The child must have an SSN as defined on page 43 of the Form 1040A instructions or page 47 of the Form 1040 instructions unless the child was born and died in 2004. If your child was born and died in 2004 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">: : : _____</td> <td style="width: 50%; border-bottom: 1px solid black;">: : : _____</td> </tr> </table>	: : : _____	: : : _____	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">: : : _____</td> <td style="width: 50%; border-bottom: 1px solid black;">: : : _____</td> </tr> </table>	: : : _____	: : : _____
: : : _____	: : : _____					
: : : _____	: : : _____					
<p><b>3 Child's year of birth</b></p>	<p>Year _____</p> <p><i>If born after 1985, skip lines 4a and 4b; go to line 5.</i></p>	<p>Year _____</p> <p><i>If born after 1985, skip lines 4a and 4b; go to line 5.</i></p>				
<p><b>4 If the child was born before 1986—</b></p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;"> <p><b>a</b> Was the child under age 24 at the end of 2004 and a student?</p> <p><input type="checkbox"/> <b>Yes.</b>      <input type="checkbox"/> <b>No.</b></p> <p><i>Go to line 5.</i>      <i>Continue</i></p> </td> <td style="width: 50%; border-bottom: 1px solid black;"> <p><input type="checkbox"/> <b>Yes.</b>      <input type="checkbox"/> <b>No.</b></p> <p><i>Go to line 5.</i>      <i>Continue</i></p> </td> </tr> <tr> <td style="width: 50%; border-bottom: 1px solid black;"> <p><b>b</b> Was the child permanently and totally disabled during any part of 2004?</p> <p><input type="checkbox"/> <b>Yes.</b>      <input type="checkbox"/> <b>No.</b></p> <p><i>Continue</i>      <i>The child is not a qualifying child.</i></p> </td> <td style="width: 50%; border-bottom: 1px solid black;"> <p><input type="checkbox"/> <b>Yes.</b>      <input type="checkbox"/> <b>No.</b></p> <p><i>Continue</i>      <i>The child is not a qualifying child.</i></p> </td> </tr> </table>		<p><b>a</b> Was the child under age 24 at the end of 2004 and a student?</p> <p><input type="checkbox"/> <b>Yes.</b>      <input type="checkbox"/> <b>No.</b></p> <p><i>Go to line 5.</i>      <i>Continue</i></p>	<p><input type="checkbox"/> <b>Yes.</b>      <input type="checkbox"/> <b>No.</b></p> <p><i>Go to line 5.</i>      <i>Continue</i></p>	<p><b>b</b> Was the child permanently and totally disabled during any part of 2004?</p> <p><input type="checkbox"/> <b>Yes.</b>      <input type="checkbox"/> <b>No.</b></p> <p><i>Continue</i>      <i>The child is not a qualifying child.</i></p>	<p><input type="checkbox"/> <b>Yes.</b>      <input type="checkbox"/> <b>No.</b></p> <p><i>Continue</i>      <i>The child is not a qualifying child.</i></p>
<p><b>a</b> Was the child under age 24 at the end of 2004 and a student?</p> <p><input type="checkbox"/> <b>Yes.</b>      <input type="checkbox"/> <b>No.</b></p> <p><i>Go to line 5.</i>      <i>Continue</i></p>	<p><input type="checkbox"/> <b>Yes.</b>      <input type="checkbox"/> <b>No.</b></p> <p><i>Go to line 5.</i>      <i>Continue</i></p>					
<p><b>b</b> Was the child permanently and totally disabled during any part of 2004?</p> <p><input type="checkbox"/> <b>Yes.</b>      <input type="checkbox"/> <b>No.</b></p> <p><i>Continue</i>      <i>The child is not a qualifying child.</i></p>	<p><input type="checkbox"/> <b>Yes.</b>      <input type="checkbox"/> <b>No.</b></p> <p><i>Continue</i>      <i>The child is not a qualifying child.</i></p>					
<p><b>5 Child's relationship to you</b> (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)</p>	<p>_____</p>	<p>_____</p>				
<p><b>6 Number of months child lived with you in the United States during 2004</b></p> <ul style="list-style-type: none"> <li>If the child lived with you for more than half of 2004 but less than 7 months, enter "7".</li> <li>If the child was born or died in 2004 and your home was the child's home for the entire time he or she was alive during 2004, enter "12".</li> </ul>	<p style="text-align: center;">_____ months</p> <p><i>Do not enter more than 12 months.</i></p>	<p style="text-align: center;">_____ months</p> <p><i>Do not enter more than 12 months.</i></p>				
<div style="display: flex; align-items: flex-start;"> <div style="width: 30px; text-align: center; margin-right: 10px;">  </div> <p>You may also be able to take the additional child tax credit if your child (a) was under age 17 at the end of 2004, (b) is claimed as your dependent on line 6c of Form 1040A or Form 1040, and (c) is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 67 of Form 1040.</p> </div>						
<p>For Paperwork Reduction Act Notice, see Form 1040A      Cat. No. 13339M      Schedule EIC (Form 1040A or 1040) 2004</p>						

## EIC - ELIGIBILITY TOOLS

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. The following resources are available to navigate the complexity of EIC.

- Publication 4012, Volunteer Resource Guide
- EIC Eligibility Questions and Worksheet (Form 1040, 1040A, 1040EZ Instructions)
- Publication 17, Your Federal Income Tax

## COMMON EIC RETURN ERRORS

- 1. Claiming children who are not the taxpayer's EIC qualifying child.** Make sure the taxpayer's children pass the EIC qualifying child tests—relationship, age, and residency. Also review the tie-breaker rule.
- 2. Selecting the incorrect filing status.** Married taxpayers filing separately are not eligible for the EIC. Married taxpayers cannot use the Single filing status. Married taxpayers, who lived apart during the last 6 months of the year, may qualify as Head of Household. **Don't guess; use Publication 4012 and the tools on filing status to make sure.**
- 3. Submitting returns with income errors.** Earned income for EIC purposes includes wages, salaries and tips (box 1, Form W-2), net earnings from self-employment, and statutory employee gross income (line 1 on Schedule C or Schedule C-EZ). A statutory employee issue is beyond the scope of VITA/TCE.
- 4. Submitting returns with incorrect Social Security numbers.** Confirm the accuracy of all names and SSN's shown on the return. The name(s) and number(s) must match official government records. Routinely ask to see the taxpayers' and their children's social security cards.

### ALERT



Remember to ask the taxpayer if the IRS disallowed EIC in past years.

## DISALLOWED EARNED INCOME CREDIT

With one exception, if a taxpayer's earned income credit was disallowed for any year after 1996 as a result of the deficiency procedures, he or she cannot claim the credit again unless Form 8862, *Information To Claim Earned Income Credit After Disallowance*, is attached to the return, and the taxpayer meets all the EIC requirements. If the credit is claimed without attaching Form 8862, it will be automatically denied, under the math error procedures.

Form 8862 is not required if the taxpayer's EIC was disallowed or reduced for any year after 2001 as a result of the deficiency procedures solely because a child listed on Schedule EIC was determined not to be the taxpayer's qualifying child, and the taxpayer is claiming the credit for the current year without a qualifying child.

A deficiency procedure occurs when the IRS questions the taxpayer's eligibility for the earned income credit for reasons other than a mathematical or clerical error. If the credit was disallowed in the earlier year because of a mathematical or clerical error, Form 8862 should not be completed.

A taxpayer who is determined to have claimed the EIC due to reckless or intentional disregard of rules or regulations is ineligible to claim the EIC for the next 2 tax years. A taxpayer who is determined to have fraudulently claimed the EIC is ineligible to claim the EIC for the next 10 tax years.

### ***ADVANCE EARNED INCOME CREDIT PAYMENTS (AEIC)***

Some taxpayers may choose to receive advance payments of the EIC. To receive advance payments, the taxpayer must be employed, must expect to have a least one qualifying child for the tax year, must expect to be eligible for the EIC, and must expect his or her earned income and adjusted gross income will be less than approximately \$30,000.

To receive advance payments, the taxpayer must give the employer a Form W-5, Earned Income Credit Advance Payment Certificate. The employer will include part of the credit regularly in the employee pay. Farm workers are excluded.

Taxpayers can receive only a portion of the credit through advance payments, so the eligibility questions and the EIC Worksheet must be completed when the tax return is prepared to determine the full amount of the credit the taxpayer is entitled to receive.

Employees who receive advance earned income credit payments must file a tax return even if they are not otherwise required to file. If the taxpayer received advance EIC payments in 2004, he or she must file a tax return to report the payments. Report the amount on line 60 (Form 1040) or line 37 (Form 1040A). Form 1040EZ cannot be used to report advance payments. The taxpayer's Form W-2 will show the advance EIC amount in box 9.

#### **ALERT**



Remember to check box 9 of Form W-2 for advance earned income.

#### **Exercise 4 – Advance EIC**

Kyle B. Evans is a single parent. His daughter Julie lives with him and he claims her as a dependent on his tax return. Kyle's social security number is xxx-xx-xxxx. Julie was born in November 2001. Her social security number is xxx-xx-xxxx. Kyle's earned income was \$18,751, and his total income and adjusted gross income were \$19,223. His filing status is head of household and he does not itemize deductions. Kyle's child tax credit is \$1,000 and his earned income credit is \$1,776. He received \$550 in advance earned income credit payments.

- A. Compute Kyle's refund or balance due amount based on the information given, using the attached page 2 of Form 1040A, Exhibit 16.



Form 1040A (2004)

Page 2

<b>Tax, credits, and payments</b>	<b>22</b>	Enter the amount from line 21 (adjusted gross income).	22	
<b>Standard Deduction for—</b> • People who checked any box on line 23a or 23b or who can be claimed as a dependent, see page 32. • All others: Single or Married filing separately, \$4,850 Married filing jointly or Qualifying widow(er), \$9,700 Head of household, \$7,150	<b>23a</b>	Check <input type="checkbox"/> You were born before January 2, 1940, <input type="checkbox"/> Blind } Total boxes if: <input type="checkbox"/> Spouse was born before January 2, 1940, <input type="checkbox"/> Blind } checked ▶	23a	<input type="checkbox"/>
	<b>b</b>	If you are married filing separately and your spouse itemizes deductions, see page 32 and check here ▶	23b	<input type="checkbox"/>
	<b>24</b>	Enter your <b>standard deduction</b> (see left margin).	24	
	<b>25</b>	Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.	25	
	<b>26</b>	Multiply \$3,100 by the total number of exemptions claimed on line 6d.	26	
	<b>27</b>	Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your <b>taxable income</b> .	27	
	<b>28</b>	<b>Tax, including any alternative minimum tax</b> (see page 33).	28	
	<b>29</b>	Credit for child and dependent care expenses. Attach Schedule 2.	29	
	<b>30</b>	Credit for the elderly or the disabled. Attach Schedule 3.	30	
	<b>31</b>	Education credits. Attach Form 8863.	31	
<b>32</b>	Child tax credit (see page 37).	32		
<b>33</b>	Retirement savings contributions credit. Attach Form 8880.	33		
<b>34</b>	Adoption credit. Attach Form 8839.	34		
<b>35</b>	Add lines 29 through 34. These are your <b>total credits</b> .	35		
<b>36</b>	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.	36		
<b>37</b>	Advance earned income credit payments from Form(s) W-2.	37		
<b>38</b>	Add lines 36 and 37. This is your <b>total tax</b> .	38		
<b>39</b>	Federal income tax withheld from Forms W-2 and 1099.	39		
<b>40</b>	2004 estimated tax payments and amount applied from 2003 return.	40		
<b>41</b>	<b>Earned income credit (EIC)</b> .	41		
<b>42</b>	Additional child tax credit. Attach Form 8812.	42		
<b>43</b>	Add lines 39 through 42. These are your <b>total payments</b> .	43		
<b>Refund</b>	<b>44</b>	If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you <b>overpaid</b> .	44	
Direct deposit? See page 50 and fill in 45b, 45c, and 45d.	<b>45a</b>	Amount of line 44 you want <b>refunded to you</b> .	45a	
	<b>b</b>	Routing number <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> ▶ <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
	<b>d</b>	Account number <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> ▶		
<b>46</b>	Amount of line 44 you want <b>applied to your 2005 estimated tax</b> .	46		
<b>Amount you owe</b>	<b>47</b>	<b>Amount you owe.</b> Subtract line 43 from line 38. For details on how to pay, see page 51.	47	
<b>48</b>	Estimated tax penalty (see page 52).	48		
<b>Third party designee</b>	Do you want to allow another person to discuss this return with the IRS (see page 52)? <input type="checkbox"/> <b>Yes</b> . Complete the following. <input type="checkbox"/> <b>No</b>			
	Designee's name ▶	Phone no. ▶ ( )	Personal identification number (PIN) ▶	<input type="text"/>
<b>Sign here</b>	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.			
Joint return? See page 20. Keep a copy for your records.	Your signature	Date	Your occupation	Daytime phone number ( )
	Spouse's signature. If a joint return, <b>both</b> must sign.	Date	Spouse's occupation	
<b>Paid preparer's use only</b>	Preparer's signature ▶	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN
	Firm's name (or yours if self-employed), address, and ZIP code ▶	EIN	Phone no. ( )	

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Form 1040A (2004)

**▶▶ SUMMING UP THIS LESSON ◀◀**

- ▶ EIC is a tax break for qualified taxpayers. Eligible taxpayers must file a tax return to claim the credit.
- ▶ When the credit exceeds the amount of tax owed it can result in a tax refund.
- ▶ The taxpayer may be entitled to the credit even if he or she does not meet the income filing requirements. The taxpayer must have earned income of at least \$1. A tax return must be filed to claim the credit.
- ▶ There are specific eligibility rules for all taxpayers, taxpayers with a qualifying child, and taxpayers without a qualifying child as shown below:

<b>EIC Rules</b>			
<b>Rules for all Taxpayers</b>		<b>Rules for Taxpayer With a Qualifying Child</b>	<b>Rules for Taxpayer Without a Qualifying Child</b>
Must have a valid Social Security number	Investment income is limited to a certain amount	Child must meet the relationship, age, and residency tests	Must be at least age 25 but under age 65
Filing status cannot be "Married filing separately"	Must have earned income	Qualifying child cannot be used by more than one person to claim the EIC	Cannot be the dependent of another person
Generally must be a U.S. citizen or resident alien all year	Cannot be a qualifying child of another person		Must have lived in the United States more than half the year
Cannot file Form 2555 or Form 2555-EZ (relating to foreign earned income)			

- ▶ EIC is not for everyone; the taxpayer must qualify for the credit.
- ▶ 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.

### Exercise 1

- (A) No; to be a qualifying child, the child must live with the taxpayer more than half of the year.
- (B) Neither Donna nor Doug can claim the credit; in order to claim the earned income credit, married taxpayers living together must file a joint return.
- (C) Jimmy and Anna are qualifying children of both Randy and Cara. Randy and Cara can choose which of them will claim the credit based on each child. One can claim the credit on the basis of two children, or each can claim the credit on the basis of one child. If both claim the credit on the basis of the same child or both children, Cara will be entitled to the credit because each child lived with her for the longer period of time during the year.
- (D) Yes. He is between 25 and 65; his earned income is less than \$11,490; he cannot be claimed as a dependent and he is not a qualifying child of another person.
- (E) No; to be a qualifying child, a married child must generally be eligible to be claimed as a dependent by the taxpayer.
- (F) Numbers 1 and 6 should be circled.

### Exercise 2

- (A) \$3,282
- (B) \$2,008

# EARNED INCOME CREDIT

## Lesson 10

## ANSWERS TO EXERCISES

### Exercise 2(C)

### Sam U. and Robin O.'s Eligibility Questions, page 1

#### Line 41 Earned Income Credit (EIC)

##### What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

##### To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you or let the IRS figure the credit for you.
- If you have a qualifying child, complete and attach Schedule EIC.



*If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.*

#### Step 1 All Filers

1. If, in 2004:
  - 2 children lived with you, is the amount on Form 1040A, line 22, less than \$34,458 (\$35,458 if married filing jointly)?
  - 1 child lived with you, is the amount on Form 1040A, line 22, less than \$30,338 (\$31,338 if married filing jointly)?
  - No children live with you, is the amount on Form 1040A, line 22, less than \$11,490 (\$12,490 if married filing jointly)?

**Yes.** Continue →

**No.** You cannot take the credit.

2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 41)?

**Yes.** Continue →

**No.** You cannot take the credit. Put "No" to the left of the entry space for line 41.

3. Is your filing status married filing separately?

**Yes.**

**No.** Continue →

You cannot take the credit.

4. Were you a nonresident alien for any part of 2004?

**Yes.** See *Nonresident aliens* on page 41.  **No.** Go to Step 2.

#### Step 2 Investment Income

1. Add the amounts from Form 1040A:

Line 8a	_____	\$39
Line 8b	+	_____
Line 9a	+	_____
Line 10	+	_____

Investment Income =

2. Is your investment income more than \$2,650?

**Yes.**

**No.** Continue →

You cannot take the credit.

3. Did a child live with you in 2004?

**Yes.** Go to Step 3 on page 39.  **No.** Go to Step 4 on page 39.

### Exercise 2(C)

### Sam U. and Robin O.'s Eligibility Questions, page 2

Continued from page 38

#### Step 3 Qualifying Child

A qualifying child is a child who is your...

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

**AND**

was at the end of 2004...

Under age 19

or

Under age 24 and a student (see page 41)

or

Any age and permanently and totally disabled (see page 41)

**AND**

who...

Lived with you in the United States for more than half of 2004. If the child did not live with you for the required time, see Exception to "time lived with you" condition on page 40.



If the child was married, see page 41.

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?

**Yes.**

You cannot take the credit. Put "No" to the left of the entry space for line 41.

**No.** *Continue*

2. Do you have at least one child who meets the above conditions to be your qualifying child?

**Yes.** Go to question 3.

**No.** Skip question 3; go to Step 4, question 2.

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2004?

**Yes.** See *Qualifying child of more than one person* on page 41.

**No.** This child is your qualifying child. The child must have a valid social security number as defined on page 41 unless the child was born and died in 2004. Skip Step 4; go to Step 5 on page 40.

#### Step 4 Filers Without a Qualifying Child

1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?

**Yes.**

You cannot take the credit. Put "No" to the left of the entry space for line 41.

**No.** *Continue*

2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2004 tax return?

**Yes.**

You cannot take the credit.

**No.** *Continue*

3. Were you, or your spouse if filing a joint return, born before January 2, 1980, but under age 65 at the end of 2004?

**Yes.** *Continue*

**No.**

You cannot take the credit.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2004? Members of the military stationed outside the United States, see page 41 before you answer.

**Yes.** Go to Step 5 on page 40.

**No.**

You cannot take the credit. Put "No" to the left of the entry space for line 41.

(Continued on page 40)

# EARNED INCOME CREDIT

## ANSWERS TO EXERCISES

### Lesson 10

#### Exercise 2(C)

#### Sam U. and Robin O.'s Eligibility Questions, page 3

Continued from page 39

#### Step 5 Earned Income

1. Figure earned income:

Form 1040A, line 7 21,211.00


Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

Earned Income = **21,211.00**

2. If you have:

- 2 or more qualifying children, is your earned income less than \$34,458 (\$35,458 if married filing jointly)?
- 1 qualifying child, is your earned income less than \$30,338 (\$31,338 if married filing jointly)?
- No qualifying children, is your earned income less than \$11,490 (\$12,490 if married filing jointly)?

**Yes.** Go to Step 6.     **No.**  You cannot take the credit.

#### Step 6 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

- Yes.** See *Credit figured by the IRS* on this page.     **No.** Go to the worksheet on page 42.

#### Definitions and Special Rules

(listed in alphabetical order)

**Adopted child.** An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

**Credit figured by the IRS.** To have the IRS figure the credit for you:

1. Put "EIC" to the left of the entry space for line 41 of Form 1040A.
2. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see *Form 8862, Who must file*, below.

**Exception to "time lived with you" condition.** A child is considered to have lived with you for all of 2004 if the child was born or died in 2004 and your home was this child's home for the entire time he or she was alive in 2004. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see *Members of the military* on page 41.

**Form 8862, Who must file.** You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

1. After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed, and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
2. You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit for 2 years if it was determined that your error was due to reckless or intentional disregard of the EIC rules (or 10 years if due to fraud).

(Continued on page 41)

### Exercise 2(C)

### Sam U. and Robin O.'s Eligibility Questions, page 4

Form 1040A—Line 41

#### *Continued from page 40*

**Married child.** A child who was married at the end of 2004 is a qualifying child only if (a) you can claim him or her as your dependent on Form 1040A, line 6c, or (b) this child's other parent claims him or her as a dependent under the rules on page 20 for *Children of divorced or separated parents*.

**Members of the military.** If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.

**Nonresident aliens.** If your filing status is married filing jointly, go to Step 2 on page 38. Otherwise, stop; you cannot take the EIC.

**Permanently and totally disabled child.** A child who cannot engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition:

- Has lasted or can be expected to last continuously for at least a year, or
- Can lead to death.

**Qualifying child of more than one person.** If the child meets the conditions to be a qualifying child of more than one person, only one person can take the EIC based on that child. The other person(s) cannot take the EIC for people without a qualifying child, but may take the EIC based on a different qualifying child. If you and the other person(s) cannot agree who will take the EIC, then the following rules apply.

- If only one of the persons is the child's parent, the child will be treated as the qualifying child of the parent.
- If both persons are the child's parents, the child will be treated as the qualifying child of the parent with whom the child lived for the longer period of time during 2004. If the child lived with each parent for the same amount of time, the child will be treated as the qualifying child of the parent who had the higher adjusted gross income (AGI) for 2004.
- If none of the persons is the child's parent, the child will be treated as the qualifying child of the person who had the highest AGI for 2004.

The child must have a valid social security number as defined below unless the child was born and died in 2004. If you do not have a qualifying child, stop; you cannot take the EIC. Put "No" to the left of the entry space for line 41. If you have a qualifying child, skip Step 4; go to Step 5 on page 40.

**Example.** You and your 5-year-old daughter moved in with your mother in April 2004. You are not a qualifying child of your mother. Your daughter meets the conditions to be a qualifying child for both you and your mother. If you and your mother cannot agree on who will treat your daughter as a qualifying child, the above rules apply. Under these rules, you are entitled to treat your daughter as a qualifying child because you are the child's parent. Your mother would not be entitled to claim any EIC unless she has a different qualifying child.

**Social security number (SSN).** For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless "Not Valid for Employment" is printed on the social security card and the number was issued solely to apply for or receive a federally funded benefit.

To find out how to get an SSN, see page 18. If you will not have an SSN by April 15, 2005, see *What if You Cannot File on Time?* on page 12.

**Student.** A child who during any 5 months of 2004:

- Was enrolled as a full-time student at a school, or
- Took a full-time, on-farm training course given by a school or a state, county, or local government agency.

A school includes technical, trade, and mechanical schools. It does not include on-the-job training courses, correspondence schools, or night schools.

**Welfare benefits, effect of credit on.** Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs or how much you can receive from them. But if the refund you receive because of the EIC is not spent within a certain period of time, it may count as an asset (or resource) and affect your eligibility.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

# EARNED INCOME CREDIT

## ANSWERS TO EXERCISES

### Lesson 10

#### Exercise 2(C)

#### Sam U. and Robin O.'s Completed EIC Worksheet

Form 1040A—Line 41

### Earned Income Credit (EIC) Worksheet—Line 41

Keep for Your Records



#### Part 1

#### All Filers

1. Enter your earned income from Step 5 on page 40. 

1	21,211.00
---	-----------

2. Look up the amount on line 1 above in the EIC Table on pages 43–47 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. 

2	1,616.00
---	----------

If line 2 is zero, You cannot take the credit. Put “No” to the left of the entry space for line 41.

3. Enter the amount from Form 1040A, line 22. 

3	21,250.00
---	-----------

4. Are the amounts on lines 3 and 1 the same?  
 **Yes.** Skip line 5; enter the amount from line 2 on line 6.  
 **No.** Go to line 5.

#### Part 2

#### Filers Who Answered “No” on Line 4

5. If you have:  
• No qualifying children, is the amount on line 3 less than \$6,400 (\$7,400 if married filing jointly)?  
• 1 or more qualifying children, is the amount on line 3 less than \$14,050 (\$15,050 if married filing jointly)?  
 **Yes.** Leave line 5 blank; enter the amount from line 2 on line 6.  
 **No.** Look up the amount on line 3 in the EIC Table on pages 43–47 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. 

5	1,608.00
---	----------

Look at the amounts on lines 5 and 2. Then, enter the **smaller** amount on line 6.

#### Part 3

#### Your Earned Income Credit

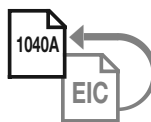
6. **This is your earned income credit.**

6	1,608.00
---	----------

Enter this amount on Form 1040A, line 41.

#### Reminder—

✓ If you have a qualifying child, complete and attach Schedule EIC.



If your EIC for a year after 1996 was reduced or disallowed, see page 40 to find out if you must file Form 8862 to take the credit for 2004.



# EARNED INCOME CREDIT

## ANSWERS TO EXERCISES

## Lesson 10

### Exercise 3

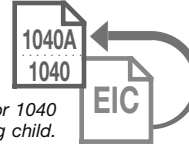
### Sam U. and Robin O.'s Schedule EIC

#### SCHEDULE EIC (Form 1040A or 1040)

Department of the Treasury  
Internal Revenue Service

### Earned Income Credit Qualifying Child Information

Complete and attach to Form 1040A or 1040  
only if you have a qualifying child.



OMB No. 1545-0074

**2004**

Attachment  
Sequence No. **43**

Name(s) shown on return

Sam U. and Robin O. Bell

Your social security number

xxx | xx | xxxxx

**Before you begin:** See the instructions for Form 1040A, line 41, or Form 1040, line 65, to make sure that (a) you can take the EIC and (b) you have a qualifying child.



- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

#### Qualifying Child Information

#### Child 1

#### Child 2

	First name	Last name	First name	Last name
<b>1 Child's name</b> If you have more than two qualifying children, you only have to list two to get the maximum credit.	Jennifer Bell			
<b>2 Child's SSN</b> The child must have an SSN as defined on page 43 of the Form 1040A instructions or page 47 of the Form 1040 instructions unless the child was born and died in 2004. If your child was born and died in 2004 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	xxx	xx	xxxxx	
<b>3 Child's year of birth</b>	Year <u>1</u> <u>9</u> <u>9</u> <u>6</u> <i>If born after 1985, skip lines 4a and 4b; go to line 5.</i>		Year _____ <i>If born after 1985, skip lines 4a and 4b; go to line 5.</i>	
<b>4 If the child was born before 1986—</b>				
<b>a</b> Was the child under age 24 at the end of 2004 and a student?	<input type="checkbox"/> Yes. <i>Go to line 5.</i>	<input type="checkbox"/> No. <i>Continue</i>	<input type="checkbox"/> Yes. <i>Go to line 5.</i>	<input type="checkbox"/> No. <i>Continue</i>
<b>b</b> Was the child permanently and totally disabled during any part of 2004?	<input type="checkbox"/> Yes. <i>Continue</i>	<input type="checkbox"/> No. The child is not a qualifying child.	<input type="checkbox"/> Yes. <i>Continue</i>	<input type="checkbox"/> No. The child is not a qualifying child.
<b>5 Child's relationship to you</b> (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)	daughter			
<b>6 Number of months child lived with you in the United States during 2004</b> • If the child lived with you for more than half of 2004 but less than 7 months, enter "7". • If the child was born or died in 2004 and your home was the child's home for the entire time he or she was alive during 2004, enter "12".	<u>12</u> months <i>Do not enter more than 12 months.</i>		_____ months <i>Do not enter more than 12 months.</i>	



You may also be able to take the additional child tax credit if your child (a) was under age 17 at the end of 2004, (b) is claimed as your dependent on line 6c of Form 1040A or Form 1040, and (c) is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 67 of Form 1040.

For Paperwork Reduction Act Notice, see Form 1040A or 1040 instructions.

Cat. No. 13339M

Schedule EIC (Form 1040A or 1040) 2004

# EARNED INCOME CREDIT

## ANSWERS TO EXERCISES

### Lesson 10

#### Exercise 4

Kyle B. Evans' 1040A, page 2

Form 1040A (2004)		Page 2
<b>Tax, credits, and payments</b>	<b>22</b> Enter the amount from line 21 (adjusted gross income).	22 19,223
<b>Standard Deduction for—</b> ● People who checked any box on line 23a or 23b or who can be claimed as a dependent, see page 32. ● All others: Single or Married filing separately, \$4,850 Married filing jointly or Qualifying widow(er), \$9,700 Head of household, \$7,150	<b>23a</b> Check if: <input type="checkbox"/> You were born before January 2, 1940, <input type="checkbox"/> Blind <input type="checkbox"/> Spouse was born before January 2, 1940, <input type="checkbox"/> Blind } <b>Total boxes checked</b> <input type="checkbox"/> <b>23a</b>	
	<b>b</b> If you are married filing separately and your spouse itemizes deductions, see page 32 and check here <input type="checkbox"/> <b>23b</b>	
	<b>24</b> Enter your <b>standard deduction</b> (see left margin).	24 7,150
	<b>25</b> Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.	25 12,073
	<b>26</b> Multiply \$3,100 by the total number of exemptions claimed on line 6d.	26 6,200
	<b>27</b> Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your <b>taxable income</b> .	27 5,873
	<b>28 Tax</b> , including any alternative minimum tax (see page 33).	28 588
	<b>29</b> Credit for child and dependent care expenses. Attach Schedule 2.	29
	<b>30</b> Credit for the elderly or the disabled. Attach Schedule 3.	30
	<b>31</b> Education credits. Attach Form 8863.	31
	<b>32</b> Child tax credit (see page 37).	32 1,000
	<b>33</b> Retirement savings contributions credit. Attach Form 8880.	33
	<b>34</b> Adoption credit. Attach Form 8839.	34
	<b>35</b> Add lines 29 through 34. These are your <b>total credits</b> .	35 1,000
	<b>36</b> Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.	36 0
	<b>37</b> Advance earned income credit payments from Form(s) W-2.	37 550
	<b>38</b> Add lines 36 and 37. This is your <b>total tax</b> .	38 550
	<b>39</b> Federal income tax withheld from Forms W-2 and 1099.	39
	<b>40</b> 2004 estimated tax payments and amount applied from 2003 return.	40
	<b>41 Earned income credit (EIC)</b> .	41
	<b>42</b> Additional child tax credit. Attach Form 8812.	42
	<b>43</b> Add lines 39 through 42. These are your <b>total payments</b> .	43
	<b>44</b> If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you <b>overpaid</b> .	44
	<b>45a</b> Amount of line 44 you want <b>refunded to you</b> .	45a
	<b>b</b> Routing number <input type="text"/> <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
	<b>d</b> Account number <input type="text"/>	
	<b>46</b> Amount of line 44 you want <b>applied to your 2005 estimated tax</b> .	46
<b>Amount you owe</b>	<b>47 Amount you owe</b> . Subtract line 43 from line 38. For details on how to pay, see page 51.	47
	<b>48</b> Estimated tax penalty (see page 52).	48
<b>Third party designee</b>	Do you want to allow another person to discuss this return with the IRS (see page 52)? <input type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No	
	Designee's name <input checked="" type="checkbox"/> X	Phone no. ( )
	Personal identification number (PIN) <input type="text"/>	
<b>Sign here</b>	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.	
Joint return? See page 20. Keep a copy for your records.	Your signature	Date
	Spouse's signature. If a joint return, <b>both</b> must sign.	Date
	Your occupation	Daytime phone number ( )
	Spouse's occupation	
<b>Paid preparer's use only</b>	Preparer's signature <input checked="" type="checkbox"/> X	Date
	Firm's name (or yours if self-employed), address, and ZIP code	Preparer's SSN or PTIN
	EIN	Check if self-employed <input type="checkbox"/>
	Phone no. ( )	

#### LESSON OVERVIEW AND OBJECTIVES

In this lesson you will explain how to compute the child tax credit, additional child tax credit and complete Form 8812, Additional Child Tax Credit. Approximately 1 to 1 1/2 hours should be devoted to covering the objectives of this lesson. See the Suggested Class Schedules in Appendix B for additional information.

After completing this lesson student should be able to:

- Calculate the child tax credit using the child tax credit worksheet.
- Calculate the additional child tax credit by using Form 8812.

#### TRAINING MATERIALS AND ON-SITE RESOURCE GUIDE

This lesson will refer to the following IRS forms, publications, and worksheets. If you would like to provide your students with the most current revision of the forms and worksheets, you can download the files from [www.irs.gov](http://www.irs.gov).

- Child Tax Credit Worksheet (1040 and 1040A Instructions and Publication 972)
- Form 8812, Additional Child Tax Credit
- Form W-4, Employee's Withholding Allowance Certificate
- Publication 4012, *Volunteer Resource Guide* is included in each student training kit. The publication is designed for both classroom and actual site usage. Direct the student to the tab entitled Child Tax Credit for this lesson and make sure the student is aware of the content of the tab and how it should be used when assisting taxpayers. For additional technical information about this topic see the applicable chapter of Publication 17, *Your Federal Tax (For Individual)* and actual site usage.

#### ADDITIONAL RESOURCES

- Publication 972, Child Tax Credit
- Publication 17, Your Federal Income Tax

#### TEACHING TIP – CHILD TAX CREDIT

1. If the taxpayer's modified adjusted gross income exceeds the threshold limit, the taxpayer must use Publication 972 to compute his or her child tax credit.

### ***TEACHING TIPS – ADDITIONAL CHILD TAX CREDIT***

1. Taxpayers who can claim the additional child tax credit should file a tax return even if they are not otherwise required to file because additional child tax credit may give the taxpayer a refund, even if he or she does not owe any tax.
2. The child tax credit must be figured before the additional child tax credit can be figured.

### ***TEACHING TIPS – ADJUSTING WITHHOLDINGS***

1. If the taxpayer can claim the child tax credit 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.
2. To check withholding allowances for 2005, the taxpayer should fill out a 2005 Form W-4.
3. If the taxpayer can claim more withholding allowances, he or she should file a new Form W-4 with his or her employer so that less income tax is withheld from his or her wages.

### ***GUIDED QUESTIONS – CHILD TAX CREDIT***

1. **Where does a taxpayer figure the child tax credit?** (Child Tax Credit Worksheet)
2. **What 2 factors affect the amount of a taxpayer's child tax credit?** (The taxpayer's modified AGI and filing status)

### ***INTERVIEW TIPS FOR VOLUNTEER ASSISTORS***

To assist volunteers in asking the right questions, interview tips are included in this lesson. The use of probes and reference material will be stressed to arrive at a quality return. Interview tips have been developed as a dialogue between a volunteer and a taxpayer to assist the volunteer in preparing an accurate and quality return.



### INTRODUCTION AND OBJECTIVES

In this lesson you will learn about the child tax credit. This credit is unique because it can be both nonrefundable and refundable. This lesson will discuss who qualifies for the credit and how to calculate the credit.

After completing this lesson you should be able to:

- 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.

### CHILD TAX CREDIT

A taxpayer can claim a child tax credit for each of the taxpayer's qualifying children. The maximum child tax credit is \$1000 per child for 2004. The credit can be claimed on either Form 1040 or 1040A.

#### Qualifying child

To qualify, the child must be:

- Under age 17 at the end of 2004, and
- A citizen or resident of the United States, and
- The taxpayer's dependent, and
- The taxpayer's:
  - Son or daughter,
  - Stepson or stepdaughter, adopted child,
  - Grandchild, or
  - Eligible foster child (Must be placed with the taxpayer by an authorized placement agency and the taxpayer care for the child as they would their own.)

The taxpayer must provide the name and identification number (usually a social security number) of each qualifying child on his or her tax return.

#### Limits on credit

The amount of a taxpayer's child tax credit depends on the taxpayer's modified adjusted gross income (modified AGI) and the taxpayer's filing status.

#### ALERT



The requirements for a "qualifying child" for purpose of the Child Tax Credit differ from those for a "qualifying child" for purpose of the Earned Income Credit.

## Modified AGI

The credit begins to phase out if the taxpayer's modified AGI is above a certain amount (**Table 1**). For most taxpayers, modified AGI is generally the same as AGI. For 2004, AGI is shown on line 21 of Form 1040A and on line 36 of Form 1040.

<b>Table 1: Child Tax Credit Threshold Modified AGI Amounts for Claiming Child Tax Credit</b>	
Filing Status	Amount
Married filing jointly	\$110,000
Qualifying widow(er)	75,000
Head of household	75,000
Single	75,000
Married filing separately	55,000

Before you can figure a taxpayer's credit amount for the year, you must have the taxpayer answer certain questions (Exhibit 1) to see if you must use the worksheet in Publication 972, *Child Tax Credit*. These questions are in the tax form instructions. If you do not need to use Publication 972, you can use the shorter *Child Tax Credit Worksheet* in the Form 1040 or 1040A instructions.

### Example 1

Bill and Mary Allen are married filing a joint return and have two dependent children under age 17. The children are qualifying children for purposes of claiming the child tax credit. Bill and Mary have modified AGI of \$55,600. Their tax on line 45 for 2004 is \$4,314. Bill and Mary need to answer questions to determine if they must use Publication 972 (Exhibit 1). The completed Child Tax Credit Worksheet (Exhibit 2) shows that their credit is \$2,000. Their modified AGI is less than the phaseout amount for their filing status (\$110,000). They do not need to use Publication 972 to compute their child tax credit.

## Line 51—Child Tax Credit

### What Is the Child Tax Credit?

This credit is for people who have a qualifying child (defined below). It is in addition to the credit for child and dependent care expenses on Form 1040, line 46, and the earned income credit on Form 1040, line 65.

### Three Steps To Take the Child Tax Credit!

- Step 1.** Make sure you have a qualifying child for the child tax credit (defined below).
- Step 2.** Make sure you checked the box on Form 1040, line 6c, column (4), for each qualifying child.
- Step 3.** Answer the questions on this page to see if you may use the worksheet on page 41 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 7.

### Qualifying Child for Child Tax Credit

A qualifying child for purposes of the child tax credit is a child who:

1. Is claimed as your dependent on line 6c, and
2. Was under age 17 at the end of 2004, and
3. Is your (a) son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild); (b) brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child; or (c) foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child), and
4. Is a U.S. citizen or resident alien.



*The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.*

An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized

placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

### Questions

**Who Must Use  
Pub. 972**



1. Are you excluding income from Puerto Rico or are you filing any of the following forms?
  - Form 2555 or 2555-EZ (relating to foreign earned income)
  - Form 4563 (exclusion of income for residents of American Samoa)

**No.** *Continue*  **Yes.** You must use Pub. 972 to figure your credit.

---

2. Is the amount on Form 1040, line 37, more than the amount shown below for your filing status?
  - Married filing jointly – \$110,000
  - Single, head of household, or qualifying widow(er) – \$75,000
  - Married filing separately – \$55,000

**No.** *Continue*  **Yes.** You must use Pub. 972 to figure your credit.

---

3. Are you claiming any of the following credits?
  - Retirement savings contributions credit, Form 8880 (see the instructions for Form 1040, line 52, on page 42)
  - Adoption credit, Form 8839 (see the instructions for Form 1040, line 53, on page 42)

**No.** Use the worksheet on page 38 to figure your child tax credit.  **Yes.** You must use Pub. 972 to figure your child tax credit. You will also need the form(s) listed above for any credit(s) you are claiming.

Form 1040—Line 51

**Child Tax Credit Worksheet—Line 51**

*Keep for Your Records*



- To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2004 and meet the other requirements listed on page 40.
- **Do not** use this worksheet if you answered “Yes” to question 1, 2, or 3 on page 40. Instead, use Pub. 972.

1. Number of qualifying children: 2 × \$1,000.  
Enter the result. 

1	2,000.00
---	----------

2. Enter the amount from Form 1040, line 45. 

2	4,314.00
---	----------

3. Add the amounts from Form 1040:  
Line 46 \_\_\_\_\_  
Line 47 + \_\_\_\_\_  
Line 48 + \_\_\_\_\_  
Line 49 + \_\_\_\_\_  
Line 50 + \_\_\_\_\_ Enter the total. 

3	0.00
---	------

4. Are the amounts on lines 2 and 3 the same?  
 **Yes.** You cannot take this credit because there is no tax to reduce. However, you may be able to take the **additional child tax credit**. See the **TIP** below.  
 **No.** Subtract line 3 from line 2. 

4	4,314.00
---	----------

5. Is the amount on line 1 more than the amount on line 4?  
 **Yes.** Enter the amount from line 4. Also, you may be able to take the **additional child tax credit**. See the **TIP** below.  
 **No.** Enter the amount from line 1. 

5	2,000.00
---	----------

  
Enter this amount on Form 1040, line 51.



You may be able to take the **additional child tax credit** on Form 1040, line 67, if you answered “Yes” on line 4 or line 5 above.

- First, complete your Form 1040 through line 66.
- Then, use Form 8812 to figure any additional child tax credit.





## Checking Your Withholding

The child tax credit decreases the tax liability dollar for dollar, but not below zero. If the taxpayer is having too much tax withheld, and he or she prefers to have the money during the year, the taxpayer may be able to reduce his or her withholding. A new Form W-4, Employee's Withholding Allowance Certificate, should be completed and given to his or her employer.

### **ADDITIONAL CHILD TAX CREDIT**

The child tax credit is a nonrefundable credit that gives eligible taxpayers \$1000 for each qualifying child. If a taxpayer's tax liability is less than the allowable nonrefundable child tax credit, the taxpayer may be eligible to claim the refundable **additional child tax credit**.

Before figuring additional child tax credit, figure the taxpayer's:

- Unused nonrefundable child tax credit amount,
- Total Social Security and Medicare taxes withheld (Form W-2, Wage and Tax Statement, boxes 4 and 6),
- Earned income credit amount,
- Total taxable earned income (back of Form 8812), and
- For 1040 filers, one-half of self-employment tax paid, Form 1040, line 30.

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 \$87,900) or
- Social Security and Medicare tax on unreported tip income.

Taxpayers must use **Form 8812, Additional Child Tax Credit**, to claim the additional child tax credit. This credit is based on 10% of the taxpayer's taxable earned income in excess of \$10,750.

### **Example 2**

Maureen Langston (SSN xxx-xx-xxxx) is filing Form 1040. Her filing status is head of household for 2004. She has five dependent children, all of whom are qualifying children for purposes of the child tax credit. Maureen's earned income (and adjusted gross income) is \$26,375, her tax is \$64, Social Security/Medicare taxes are \$2,018, and the earned income credit is \$1,702. Based on this information, Maureen's child tax credit is \$64 (Exhibit 4) and her additional child tax credit was \$1,563. Exhibits 5 and 6 illustrate how Maureen's additional child tax credit was figured.

### **POTENTIAL PITFALLS**

When figuring the additional child tax credit, you must use the back of Form 8812 to determine taxable earned income (line 4).

## Line 51—Child Tax Credit

### What Is the Child Tax Credit?

This credit is for people who have a qualifying child (defined below). It is in addition to the credit for child and dependent care expenses on Form 1040, line 46, and the earned income credit on Form 1040, line 65.

### Three Steps To Take the Child Tax Credit!

- Step 1.** Make sure you have a qualifying child for the child tax credit (defined below).
- Step 2.** Make sure you checked the box on Form 1040, line 6c, column (4), for each qualifying child.
- Step 3.** Answer the questions on this page to see if you may use the worksheet on page 41 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 7.

### Qualifying Child for Child Tax Credit

A qualifying child for purposes of the child tax credit is a child who:

1. Is claimed as your dependent on line 6c, and
2. Was under age 17 at the end of 2004, and
3. Is your (a) son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild); (b) brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child; or (c) foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child), and
4. Is a U.S. citizen or resident alien.



*The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.*

An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized

placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

### Questions

### Who Must Use Pub. 972



1. Are you excluding income from Puerto Rico or are you filing any of the following forms?
  - Form 2555 or 2555-EZ (relating to foreign earned income)
  - Form 4563 (exclusion of income for residents of American Samoa)

**No.** *Continue*  **Yes.** You must use Pub. 972 to figure your credit.

---

2. Is the amount on Form 1040, line 37, more than the amount shown below for your filing status?
  - Married filing jointly – \$110,000
  - Single, head of household, or qualifying widow(er) – \$75,000
  - Married filing separately – \$55,000

**No.** *Continue*  **Yes.** You must use Pub. 972 to figure your credit.

---

3. Are you claiming any of the following credits?
  - Retirement savings contributions credit, Form 8880 (see the instructions for Form 1040, line 52, on page 42)
  - Adoption credit, Form 8839 (see the instructions for Form 1040, line 53, on page 42)

**No.** Use the worksheet on page 38 to figure your child tax credit.  **Yes.** You must use Pub. 972 to figure your child tax credit. You will also need the form(s) listed above for any credit(s) you are claiming.

Child Tax Credit Worksheet—Line 51

Keep for Your Records



• To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2004 and meet the other requirements listed on page 40.

• **Do not** use this worksheet if you answered “Yes” to question 1, 2, or 3 on page 40. Instead, use Pub. 972.

1. Number of qualifying children: 5 × \$1,000. 1 5,000.00  
 Enter the result.

2. Enter the amount from Form 1040, line 45. 2 64.00

3. Add the amounts from Form 1040:

Line 46 \_\_\_\_\_

Line 47 + \_\_\_\_\_

Line 48 + \_\_\_\_\_

Line 49 + \_\_\_\_\_

Line 50 + \_\_\_\_\_ Enter the total. 3 0.00

4. Are the amounts on lines 2 and 3 the same?

**Yes.**

You cannot take this credit because there is no tax to reduce. However, you may be able to take the **additional child tax credit**. See the **TIP** below.

**No.** Subtract line 3 from line 2. 4 64.00

5. Is the amount on line 1 more than the amount on line 4?

**Yes.** Enter the amount from line 4. Also, you may be able to take the **additional child tax credit**. See the **TIP** below. **This is your child tax credit.**

5 64.00

**No.** Enter the amount from line 1.

Enter this amount on Form 1040, line 51.



You may be able to take the **additional child tax credit** on Form 1040, line 67, if you answered “Yes” on line 4 or line 5 above.

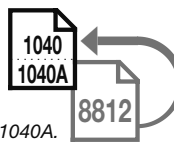


- First, complete your Form 1040 through line 66.
- Then, use Form 8812 to figure any additional child tax credit.

Need more information or forms? See page 7.

Form **8812**  
 Department of the Treasury  
 Internal Revenue Service (99)

# Additional Child Tax Credit



OMB No. 1545-1620

**2004**

Attachment  
 Sequence No. **47**

Complete and attach to Form 1040 or Form 1040A.

Name(s) shown on return: **Maureen Langston**  
 Your social security number: **XXX-XX-XXXX**

**Part I All Filers**

1	Enter the amount from line 1 of your Child Tax Credit Worksheet on page 41 of the Form 1040 instructions or page 38 of the Form 1040A instructions. If you used Pub. 972, enter the amount from line 8 of the worksheet on page 4 of the publication . . . . .	1	5,000
2	Enter the amount from Form 1040, line 51, or Form 1040A, line 32 . . . . .	2	64
3	Subtract line 2 from line 1. If zero, <b>stop</b> ; you cannot take this credit . . . . .	3	4,936
4	Enter your total taxable earned income. See the instructions on back . . . . .	4	26,375
5	Is the amount on line 4 more than \$10,750? <input type="checkbox"/> <b>No.</b> Leave line 5 blank and enter -0- on line 6. <input checked="" type="checkbox"/> <b>Yes.</b> Subtract \$10,750 from the amount on line 4. Enter the result . . . . .	5	15,625
6	Multiply the amount on line 5 by 10% (.10) and enter the result . . . . . <b>Next.</b> Do you have three or more qualifying children? <input type="checkbox"/> <b>No.</b> If line 6 is zero, <b>stop</b> ; you cannot take this credit. Otherwise, skip Part II and enter the <b>smaller</b> of line 3 or line 6 on line 13. <input checked="" type="checkbox"/> <b>Yes.</b> If line 6 is equal to or more than line 3, skip Part II and enter the amount from line 3 on line 13. Otherwise, go to line 7.	6	1,563

**Part II Certain Filers Who Have Three or More Qualifying Children**

7	Enter the total of the withheld social security and Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If you worked for a railroad, see the instructions on back . . . . .	7	2,018
8	<b>1040 filers:</b> Enter the total of the amounts from Form 1040, lines 30 and 58, plus any uncollected social security and Medicare or tier 1 RRTA taxes included on line 62. <b>1040A filers:</b> Enter -0-.	8	0
9	Add lines 7 and 8 . . . . .	9	2,018
10	<b>1040 filers:</b> Enter the total of the amounts from Form 1040, lines 65 and 66. <b>1040A filers:</b> Enter the total of the amount from Form 1040A, line 41, plus any excess social security and tier 1 RRTA taxes withheld that you entered to the left of line 43 (see the instructions on back).	10	1,702
11	Subtract line 10 from line 9. If zero or less, enter -0- . . . . .	11	316
12	Enter the <b>larger</b> of line 6 or line 11 here . . . . . <b>Next,</b> enter the <b>smaller</b> of line 3 or line 12 on line 13.	12	1,563

**Part III Your Additional Child Tax Credit**

13	This is your additional child tax credit . . . . .	13	1,563
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Enter this amount on  
 Form 1040, line 67, or  
 Form 1040A, line 42.

For Paperwork Reduction Act Notice, see back of form.

Cat. No. 10644E

Form **8812** (2004)

## Instructions

### Purpose of Form

Use Form 8812 to figure your additional child tax credit.



*The additional child tax credit may give you a refund even if you do not owe any tax.*

### Who Should Use Form 8812

First, complete the Child Tax Credit Worksheet that applies to you. See the instructions for Form 1040, line 51, or Form 1040A, line 32. If you meet the condition given in the *TIP* at the end of your Child Tax Credit Worksheet, use Form 8812 to see if you can take the additional child tax credit.

### Effect of Credit on Welfare Benefits

Any refund you receive as a result of taking the additional child tax credit will not be used to determine if you are eligible for the following programs, or how much you can receive from them.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

### Taxable Earned Income

1. Did you, or your spouse if filing a joint return, have net earnings from self-employment and use either optional method to figure those net earnings?

**No.** Go to question 2.

**Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

2. Are you claiming the earned income credit (EIC) on Form 1040, line 65, or Form 1040A, line 41?

**Yes.** Use the following chart to find the amount to enter on Form 8812, line 4.

IF you are filing Form . . .	AND you completed . . .	THEN enter on Form 8812, line 4, the amount from . . .
1040	Worksheet B on page 49 of your 1040 instructions	Worksheet B, line 4b.*
	Step 5 on page 46 of your 1040 instructions (but not Worksheet B)	Step 5, Earned Income
1040A	Step 5 on page 42 of your 1040A instructions	Step 5, Earned Income

\* If you were a member of the clergy, subtract the following from the amount on line 4b: (a) the rental value of a home or the nontaxable portion of an allowance for a home furnished to you (including payments for utilities) and (b) the value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.

**No. 1040 filers:** Go to question 3.  
**1040A filers:** Skip question 3 and go to question 4.

3. Were you, or your spouse if filing a joint return, self-employed, or are you filing Schedule SE because you were a member of the clergy or you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?

**No.** Go to question 4.

**Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

4. Does the amount on line 7 of Form 1040 or Form 1040A include any of the following amounts?

- Taxable scholarship or fellowship grants not reported on a Form W-2.
- Amounts paid to an inmate in a penal institution for work (enter "PRI" and the amount paid in the space next to line 7 of Form 1040 or 1040A).
- Amounts received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (enter "DFC" and the amount received in the space next to line 7 of Form 1040 or 1040A). This amount may be reported in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.
- Amounts from Form 2555, line 41, or Form 2555-EZ, line 18.

**No.** Enter the amount from line 7 of Form 1040 or Form 1040A on Form 8812, line 4.

**Yes.** Subtract the total of those amounts from the amount on line 7 of Form 1040 or Form 1040A. (If an amount is included in more than one of the above categories, include it only once in figuring the total amount to subtract.) Enter the result on Form 8812, line 4.

### Railroad Employees

If you worked for a railroad, include the following taxes in the total on Form 8812, line 7.

- Tier 1 tax withheld from your pay. This tax should be shown in box 14 of your Form(s) W-2 and identified as "Tier 1 tax."
- If you were an employee representative, 50% of the total tier 1 tax and tier 1 Medicare tax you paid for 2004.

### 1040A Filers

If you, or your spouse if filing a joint return, had more than one employer for 2004 and total wages of over \$87,900, figure any excess social security and tier 1 railroad retirement (RRTA) taxes withheld. See the instructions for Form 1040A, line 43. Include any excess on Form 8812, line 10.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 6 min.; **Learning about the law or the form**, 5 min.; **Preparing the form**, 28 min.; **Copying, assembling, and sending the form to the IRS**, 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040 or Form 1040A.

The interview tips you should use when determining the Child Tax Credit are shown in Exhibit 7 below.

**Exhibit 7**

**Child Tax Credit Chart**

<div style="text-align: center;"><b>INTERVIEW TIPS</b></div> <div style="text-align: center;">★ ★</div> <div style="text-align: center;">Child Tax Credit (Remember to apply the steps for each child)</div> <div style="text-align: center;"><b>Probe/Action: Ask the taxpayer:</b></div>	
Step 1: Is this child claimed as a dependent on your tax return?	If <b>yes</b> , go to Step 2. If <b>no</b> , you do not qualify for the child tax credit. STOP if you have no other children.
Step 2: Is this child under age 17 at end of the tax year?	If <b>yes</b> , go to Step 3. If <b>no</b> , you cannot claim the child tax credit for this child. STOP if you have no other children.
Step 3: Is this child a citizen or resident of the United States?	If <b>yes</b> , go to Step 4. If <b>no</b> , you cannot claim the child tax credit for this child. STOP if the taxpayer has no other children.
Step 4: Is this child a son, daughter, adopted child, stepchild, or a descendant of <sup>1</sup> any of them (for example, your grandchild)	If <b>yes</b> , go to Step 5. If <b>no</b> , you cannot claim the child tax credit for this child. STOP if the taxpayer has no other children.
<b>Or</b> a brother, sister, stepbrother, stepsister, or a descendant of <sup>1</sup> any of them (for example, your niece or nephew) if you care for the individual as you would your own child,	
<b>Or</b> an eligible foster child? (Must be placed with you by an authorized placement agency and you cared for the child as you would your own.)	
<b>Questions Who Must Use Publication 972</b>	
Step 5: Are you excluding income from Puerto Rico <b>or</b> are you filing Form 2555 or 2555-EZ (relating to foreign earned income) <b>or</b> Form 4563 (exclusion of income for residents of American Samoa)?	If <b>no</b> , go to Step 6. If <b>yes</b> , you must use Publication 972 to figure the credit.
Step 6: Is the amount of AGI on line 36 of your Form 1040, or line 21 of Form 1040A more than: <ul style="list-style-type: none"> <li>■ \$110,000 if you are married filing jointly,</li> <li>■ \$75,000 if your are filing as single, head of household, or as a qualifying widow, or</li> <li>■ \$55,000 if you are married filing separately?</li> </ul>	If <b>no</b> , go to Step 7. If <b>yes</b> , you must use Publication 972 to figure the credit.
Step 7: Are you claiming any of the following credits? <ul style="list-style-type: none"> <li>■ Adoption credit, Form 8839</li> <li>■ Mortgage interest credit, Form 8896</li> <li>■ District of Columbia first-time homebuyer credit, Form 8859</li> </ul>	If <b>no</b> , use the Child Tax Credit Worksheet to figure the credit. If <b>yes</b> , you must use Publication 972 to figure the credit.

<sup>1</sup>A descendant of is any generation.

## Exercise 1

Victor (SSN xxx-xx-xxxx) and Emily Howard are married taxpayers with four children. They file married filing jointly for 2004 on Form 1040A. All of their children are qualifying for purposes of the child tax credit. They have no itemized deductions. Their adjusted gross income is \$31,467, of which \$18,467 is taxable earned income and \$13,000 is unemployment compensation. The Howards' taxable income is \$3,167, Social Security/Medicare taxes are \$1,413, and the earned income credit is \$839. They have no other credits entered in lines 29–34. Based on the facts given for the Howards:

- A. Figure the child tax credit.
- B. Complete page 2 of Form 1040A, lines 22 through 35.
- C. Figure the additional child tax credit.

## Exhibit 8

## Victor and Emily's Child Tax Credit Questions

### Line 32—Child Tax Credit

#### What Is the Child Tax Credit?

This credit is for people who have a qualifying child (defined below). It is in addition to the credit for child and dependent care expenses on Form 1040A, line 29, and the earned income credit on Form 1040A, line 41.



*The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.*

#### Three Steps To Take the Child Tax Credit!

- Step 1. Make sure you have a qualifying child for the child tax credit (defined below).
- Step 2. Make sure you checked the box in column (4) of line 6c on Form 1040A for each qualifying child.
- Step 3. Answer the questions on this page to see if you may use the worksheet on page 36 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 7.

#### Qualifying Child for Child Tax Credit.

A qualifying child for purposes of the child tax credit is a child who:

1. Is claimed as your dependent on line 6c, and
2. Was under age 17 at the end of 2004, and
3. Is your (a) son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild); (b) brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child; or (c) foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child), and
4. Is a U.S. citizen or resident alien.


An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

#### Questions

#### Who Must Use Pub. 972



1. Is the amount on Form 1040A, line 22, more than the amount shown below for your filing status?
  - Married filing jointly – \$110,000
  - Single, head of household, or qualifying widow(er) – \$75,000
  - Married filing separately – \$55,000

**No.** Continue  **Yes.**  You must use Pub. 972 to figure your credit.
2. Are you claiming the adoption credit on Form 8839 (see the instructions for Form 1040A, line 34, on page 37)?
  - No.** Use the worksheet on page 36 to figure your child tax credit.
  - Yes.** You must use Pub. 972 to figure your child tax credit. You will also need Form 8839.

Form 1040A—Line 32

**Child Tax Credit Worksheet—Line 33**

Keep for Your Records



- To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2004 and meet the other requirements listed on page 35.
- Do not** use this worksheet if you answered “Yes” to question 1 or 2 on page 35. Instead, use Pub. 972.



1. Number of qualifying children: \_\_\_\_\_ × \$1,000. Enter the result. 1

2. Enter the amount from Form 1040A, line 28. 2

3. Add the amounts from Form 1040A:

Line 29 \_\_\_\_\_

Line 30 + \_\_\_\_\_

Line 31 + \_\_\_\_\_ Enter the total. 3

4. Are the amounts on lines 2 and 3 the same?

**Yes.**

You cannot take this credit because there is no tax to reduce. However, you may be able to take the **additional child tax credit**. See the **TIP** below before completing the rest of your Form 1040A.

**No.** Subtract line 3 from line 2. 4

5. Is the amount on line 1 more than the amount on line 4?

**Yes.** Enter the amount from line 4. Also, you may be able to take the **additional child tax credit**. See the **TIP** below.

**This is your child tax credit.**

**No.** Enter the amount from line 1.

5

Enter this amount on Form 1040A, line 32.



You may be able to take the **additional child tax credit** on Form 1040A, line 42, if you answered “Yes” on line 4 or line 5 above.

- First, complete your Form 1040A through line 41.
- Then, use Form 8812 to figure any additional child tax credit.





Form 1040A (2004)		Page 2
<b>Tax, credits, and payments</b>	<b>22</b> Enter the amount from line 21 (adjusted gross income).	22
<b>Standard Deduction for—</b> • People who checked any box on line 23a or 23b or who can be claimed as a dependent, see page 32. • All others: Single or Married filing separately, \$4,850 Married filing jointly or Qualifying widow(er), \$9,700 Head of household, \$7,150	<b>23a</b> Check if: <input type="checkbox"/> You were born before January 2, 1940, <input type="checkbox"/> Blind } <b>Total boxes checked</b> <input type="checkbox"/> <b>23a</b> <input type="checkbox"/>	
	<b>b</b> If you are married filing separately and your spouse itemizes deductions, see page 32 and check here <input type="checkbox"/> <b>23b</b>	
	<b>24</b> Enter your <b>standard deduction</b> (see left margin).	24
	<b>25</b> Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.	25
	<b>26</b> Multiply \$3,100 by the total number of exemptions claimed on line 6d.	26
	<b>27</b> Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your <b>taxable income</b> .	27
	<b>28 Tax</b> , including any alternative minimum tax (see page 33).	28
	<b>29</b> Credit for child and dependent care expenses. Attach Schedule 2.	29
	<b>30</b> Credit for the elderly or the disabled. Attach Schedule 3.	30
	<b>31</b> Education credits. Attach Form 8863.	31
<b>32</b> Child tax credit (see page 37).	32	
<b>33</b> Retirement savings contributions credit. Attach Form 8880.	33	
<b>34</b> Adoption credit. Attach Form 8839.	34	
<b>35</b> Add lines 29 through 34. These are your <b>total credits</b> .	35	
<b>36</b> Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.	36	
<b>37</b> Advance earned income credit payments from Form(s) W-2.	37	
<b>38</b> Add lines 36 and 37. This is your <b>total tax</b> .	38	
<b>39</b> Federal income tax withheld from Forms W-2 and 1099.	39	
<b>40</b> 2004 estimated tax payments and amount applied from 2003 return.	40	
<b>41 Earned income credit (EIC)</b> .	41	
<b>42</b> Additional child tax credit. Attach Form 8812.	42	
<b>43</b> Add lines 39 through 42. These are your <b>total payments</b> .	43	
If you have a qualifying child, attach Schedule EIC.	<b>44</b> If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you <b>overpaid</b> .	44
	<b>45a</b> Amount of line 44 you want <b>refunded to you</b> .	45a
Direct deposit? See page 50 and fill in 45b, 45c, and 45d.	<b>b</b> Routing number <input style="width: 100px;" type="text"/> <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
	<b>d</b> Account number <input style="width: 100px;" type="text"/>	
	<b>46</b> Amount of line 44 you want <b>applied to your 2005 estimated tax</b> .	46
<b>Amount you owe</b>	<b>47 Amount you owe</b> . Subtract line 43 from line 38. For details on how to pay, see page 51.	47
	<b>48</b> Estimated tax penalty (see page 52).	48
<b>Third party designee</b>	Do you want to allow another person to discuss this return with the IRS (see page 52)? <input type="checkbox"/> <b>Yes</b> . Complete the following. <input type="checkbox"/> <b>No</b>	
	Designee's name <input style="width: 150px;" type="text"/> Phone no. <input style="width: 50px;" type="text"/> ( ) <input style="width: 50px;" type="text"/> Personal identification number (PIN) <input style="width: 50px;" type="text"/>	
<b>Sign here</b> Joint return? See page 20. Keep a copy for your records.	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.	
	Your signature <input style="width: 150px;" type="text"/> Date <input style="width: 50px;" type="text"/> Your occupation <input style="width: 100px;" type="text"/> Daytime phone number ( ) <input style="width: 50px;" type="text"/>	Spouse's signature. If a joint return, <b>both</b> must sign. <input style="width: 150px;" type="text"/> Date <input style="width: 50px;" type="text"/> Spouse's occupation <input style="width: 100px;" type="text"/>
<b>Paid preparer's use only</b>	Preparer's signature <input style="width: 150px;" type="text"/> Date <input style="width: 50px;" type="text"/> Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN <input style="width: 50px;" type="text"/>
	Firm's name (or yours if self-employed), address, and ZIP code <input style="width: 150px;" type="text"/>	EIN <input style="width: 50px;" type="text"/>

Printed on recycled paper

Form 1040A (2004)

Form **8812**

**Additional Child Tax Credit**

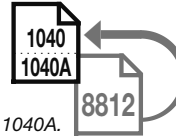
OMB No. 1545-1620

**2004**

Attachment Sequence No. **47**

Department of the Treasury  
Internal Revenue Service (99)

Complete and attach to Form 1040 or Form 1040A.



Name(s) shown on return	Your social security number
-------------------------	-----------------------------

**Part I All Filers**

<p><b>1</b> Enter the amount from line 1 of your Child Tax Credit Worksheet on page 41 of the Form 1040 instructions or page 38 of the Form 1040A instructions. If you used Pub. 972, enter the amount from line 8 of the worksheet on page 4 of the publication . . . . .</p>	<b>1</b>		
<p><b>2</b> Enter the amount from Form 1040, line 51, or Form 1040A, line 32 . . . . .</p>	<b>2</b>		
<p><b>3</b> Subtract line 2 from line 1. If zero, <b>stop</b>; you cannot take this credit . . . . .</p>	<b>3</b>		
<p><b>4</b> Enter your total taxable earned income. See the instructions on back . . . . .</p>	<b>4</b>		
<p><b>5</b> Is the amount on line 4 more than \$10,750?  <input type="checkbox"/> <b>No.</b> Leave line 5 blank and enter -0- on line 6.  <input type="checkbox"/> <b>Yes.</b> Subtract \$10,750 from the amount on line 4. Enter the result . . . . .</p>	<b>5</b>		
<p><b>6</b> Multiply the amount on line 5 by 10% (.10) and enter the result . . . . .  <b>Next.</b> Do you have three or more qualifying children?  <input type="checkbox"/> <b>No.</b> If line 6 is zero, <b>stop</b>; you cannot take this credit. Otherwise, skip Part II and enter the <b>smaller</b> of line 3 or line 6 on line 13.  <input type="checkbox"/> <b>Yes.</b> If line 6 is equal to or more than line 3, skip Part II and enter the amount from line 3 on line 13. Otherwise, go to line 7.</p>	<b>6</b>		

**Part II Certain Filers Who Have Three or More Qualifying Children**

<p><b>7</b> Enter the total of the withheld social security and Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If you worked for a railroad, see the instructions on back . . . . .</p>	<b>7</b>		
<p><b>8 1040 filers:</b> Enter the total of the amounts from Form 1040, lines 30 and 58, plus any uncollected social security and Medicare or tier 1 RRTA taxes included on line 62.  <b>1040A filers:</b> Enter -0-.</p>	<b>8</b>		
<p><b>9</b> Add lines 7 and 8 . . . . .</p>	<b>9</b>		
<p><b>10 1040 filers:</b> Enter the total of the amounts from Form 1040, lines 65 and 66.  <b>1040A filers:</b> Enter the total of the amount from Form 1040A, line 41, plus any excess social security and tier 1 RRTA taxes withheld that you entered to the left of line 43 (see the instructions on back).</p>	<b>10</b>		
<p><b>11</b> Subtract line 10 from line 9. If zero or less, enter -0- . . . . .</p>	<b>11</b>		
<p><b>12</b> Enter the <b>larger</b> of line 6 or line 11 here . . . . .  <b>Next,</b> enter the <b>smaller</b> of line 3 or line 12 on line 13.</p>	<b>12</b>		

**Part III Your Additional Child Tax Credit**

<p><b>13</b> This is your additional child tax credit . . . . .</p>	<b>13</b>		
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Enter this amount on Form 1040, line 67, or Form 1040A, line 42.

## Instructions

### Purpose of Form

Use Form 8812 to figure your additional child tax credit.



*The additional child tax credit may give you a refund even if you do not owe any tax.*

### Who Should Use Form 8812

First, complete the Child Tax Credit Worksheet that applies to you. See the instructions for Form 1040, line 51, or Form 1040A, line 32. If you meet the condition given in the *TIP* at the end of your Child Tax Credit Worksheet, use Form 8812 to see if you can take the additional child tax credit.

### Effect of Credit on Welfare Benefits

Any refund you receive as a result of taking the additional child tax credit will not be used to determine if you are eligible for the following programs, or how much you can receive from them.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

### Taxable Earned Income

1. Did you, or your spouse if filing a joint return, have net earnings from self-employment and use either optional method to figure those net earnings?

- No.** Go to question 2.
- Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

2. Are you claiming the earned income credit (EIC) on Form 1040, line 65, or Form 1040A, line 41?

- Yes.** Use the following chart to find the amount to enter on Form 8812, line 4.

IF you are filing Form . . .	AND you completed . . .	THEN enter on Form 8812, line 4, the amount from . . .
1040	Worksheet B on page 49 of your 1040 instructions	Worksheet B, line 4b.*
	Step 5 on page 46 of your 1040 instructions (but not Worksheet B)	Step 5, Earned Income
1040A	Step 5 on page 42 of your 1040A instructions	Step 5, Earned Income

\* If you were a member of the clergy, subtract the following from the amount on line 4b: (a) the rental value of a home or the nontaxable portion of an allowance for a home furnished to you (including payments for utilities) and (b) the value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.

- No. 1040 filers:** Go to question 3.  
**1040A filers:** Skip question 3 and go to question 4.

3. Were you, or your spouse if filing a joint return, self-employed, or are you filing Schedule SE because you were a member of the clergy or you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?

- No.** Go to question 4.
- Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

4. Does the amount on line 7 of Form 1040 or Form 1040A include any of the following amounts?

- Taxable scholarship or fellowship grants not reported on a Form W-2.
  - Amounts paid to an inmate in a penal institution for work (enter "PRI" and the amount paid in the space next to line 7 of Form 1040 or 1040A).
  - Amounts received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (enter "DFC" and the amount received in the space next to line 7 of Form 1040 or 1040A). This amount may be reported in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.
  - Amounts from Form 2555, line 41, or Form 2555-EZ, line 18.
- No.** Enter the amount from line 7 of Form 1040 or Form 1040A on Form 8812, line 4.
- Yes.** Subtract the total of those amounts from the amount on line 7 of Form 1040 or Form 1040A. (If an amount is included in more than one of the above categories, include it only once in figuring the total amount to subtract.) Enter the result on Form 8812, line 4.

### Railroad Employees

If you worked for a railroad, include the following taxes in the total on Form 8812, line 7.

- Tier 1 tax withheld from your pay. This tax should be shown in box 14 of your Form(s) W-2 and identified as "Tier 1 tax."
- If you were an employee representative, 50% of the total tier 1 tax and tier I Medicare tax you paid for 2004.

### 1040A Filers

If you, or your spouse if filing a joint return, had more than one employer for 2004 and total wages of over \$87,900, figure any excess social security and tier 1 railroad retirement (RRTA) taxes withheld. See the instructions for Form 1040A, line 43. Include any excess on Form 8812, line 10.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 6 min.; **Learning about the law or the form**, 5 min.; **Preparing the form**, 28 min.; **Copying, assembling, and sending the form to the IRS**, 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040 or Form 1040A.

## Exercise 1(A)

## The Howard's Child Tax Questions

## Line 32—Child Tax Credit

## What Is the Child Tax Credit?

This credit is for people who have a qualifying child (defined below). It is in addition to the credit for child and dependent care expenses on Form 1040A, line 29, and the earned income credit on Form 1040A, line 41.



The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.

## Three Steps To Take the Child Tax Credit!

- Step 1. Make sure you have a qualifying child for the child tax credit (defined below).
- Step 2. Make sure you checked the box in column (4) of line 6c on Form 1040A for each qualifying child.
- Step 3. Answer the questions on this page to see if you may use the worksheet on page 36 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 7.

## Qualifying Child for Child Tax Credit.

A qualifying child for purposes of the child tax credit is a child who:

1. Is claimed as your dependent on line 6c, and
2. Was under age 17 at the end of 2004, and
3. Is your (a) son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild); (b) brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child; or (c) foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child), and
4. Is a U.S. citizen or resident alien.

An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

## Questions

## Who Must Use Pub. 972



1. Is the amount on Form 1040A, line 22, more than the amount shown below for your filing status?
  - Married filing jointly – \$110,000
  - Single, head of household, or qualifying widow(er) – \$75,000
  - Married filing separately – \$55,000

**No.** Continue  **Yes.** You must use Pub. 972 to figure your credit.
2. Are you claiming the adoption credit on Form 8839 (see the instructions for Form 1040A, line 34, on page 37)?
  - No.** Use the worksheet on page 36 to figure your child tax credit.
  - Yes.** You must use Pub. 972 to figure your child tax credit. You will also need Form 8839.

## Exercise 1(A)

## The Howard's Additional Child Tax, page 2

Form 8812 (2004)

Page **2**

### Instructions

#### Purpose of Form

Use Form 8812 to figure your additional child tax credit.



*The additional child tax credit may give you a refund even if you do not owe any tax.*

#### Who Should Use Form 8812

First, complete the Child Tax Credit Worksheet that applies to you. See the instructions for Form 1040, line 51, or Form 1040A, line 32. If you meet the condition given in the *TIP* at the end of your Child Tax Credit Worksheet, use Form 8812 to see if you can take the additional child tax credit.

#### Effect of Credit on Welfare Benefits

Any refund you receive as a result of taking the additional child tax credit will not be used to determine if you are eligible for the following programs, or how much you can receive from them.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

#### Taxable Earned Income

1. Did you, or your spouse if filing a joint return, have net earnings from self-employment and use either optional method to figure those net earnings?

- No.** Go to question 2.
- Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

2. Are you claiming the earned income credit (EIC) on Form 1040, line 65, or Form 1040A, line 41?

- Yes.** Use the following chart to find the amount to enter on Form 8812, line 4.

IF you are filing Form . . .	AND you completed . . .	THEN enter on Form 8812, line 4, the amount from . . .
1040	Worksheet B on page 49 of your 1040 instructions	Worksheet B, line 4b.*
	Step 5 on page 46 of your 1040 instructions (but not Worksheet B)	Step 5, Earned Income
1040A	Step 5 on page 42 of your 1040A instructions	Step 5, Earned Income

\* If you were a member of the clergy, subtract the following from the amount on line 4b: (a) the rental value of a home or the nontaxable portion of an allowance for a home furnished to you (including payments for utilities) and (b) the value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.

- No. 1040 filers:** Go to question 3.  
**1040A filers:** Skip question 3 and go to question 4.

3. Were you, or your spouse if filing a joint return, self-employed, or are you filing Schedule SE because you were a member of the clergy or you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?

- No.** Go to question 4.
- Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

4. Does the amount on line 7 of Form 1040 or Form 1040A include any of the following amounts?

- Taxable scholarship or fellowship grants not reported on a Form W-2.
- Amounts paid to an inmate in a penal institution for work (enter "PRI" and the amount paid in the space next to line 7 of Form 1040 or 1040A).
- Amounts received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (enter "DFC" and the amount received in the space next to line 7 of Form 1040 or 1040A). This amount may be reported in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.
- Amounts from Form 2555, line 41, or Form 2555-EZ, line 18.

**No.** Enter the amount from line 7 of Form 1040 or Form 1040A on Form 8812, line 4.

**Yes.** Subtract the total of those amounts from the amount on line 7 of Form 1040 or Form 1040A. (If an amount is included in more than one of the above categories, include it only once in figuring the total amount to subtract.) Enter the result on Form 8812, line 4.

#### Railroad Employees

If you worked for a railroad, include the following taxes in the total on Form 8812, line 7.

- Tier 1 tax withheld from your pay. This tax should be shown in box 14 of your Form(s) W-2 and identified as "Tier 1 tax."
- If you were an employee representative, 50% of the total tier 1 tax and tier 1 Medicare tax you paid for 2004.

#### 1040A Filers

If you, or your spouse if filing a joint return, had more than one employer for 2004 and total wages of over \$87,900, figure any excess social security and tier 1 railroad retirement (RRTA) taxes withheld. See the instructions for Form 1040A, line 43. Include any excess on Form 8812, line 10.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

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The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 6 min.; **Learning about the law or the form**, 5 min.; **Preparing the form**, 28 min.; **Copying, assembling, and sending the form to the IRS**, 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040 or Form 1040A.

Form 1040A—Line 32

**Child Tax Credit Worksheet—Line 33**

Keep for Your Records



- To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2004 and meet the other requirements listed on page 35.
- Do not** use this worksheet if you answered “Yes” to question 1 or 2 on page 35. Instead, use Pub. 972.



1. Number of qualifying children: 4 × \$1,000. Enter the result. 

1	4,000.00
---	----------

2. Enter the amount from Form 1040A, line 28. 

2	318.00
---	--------

3. Add the amounts from Form 1040A:  
 Line 29 \_\_\_\_\_  
 Line 30 + \_\_\_\_\_  
 Line 31 + \_\_\_\_\_ Enter the total. 

3	0.00
---	------

4. Are the amounts on lines 2 and 3 the same?  
 **Yes.** You cannot take this credit because there is no tax to reduce. However, you may be able to take the **additional child tax credit**. See the **TIP** below before completing the rest of your Form 1040A.  
 **No.** Subtract line 3 from line 2. 

4	318.00
---	--------

5. Is the amount on line 1 more than the amount on line 4?  
 **Yes.** Enter the amount from line 4. Also, you may be able to take the **additional child tax credit**. See the **TIP** below. **This is your child tax credit.**

5	318.00
---	--------

  
 **No.** Enter the amount from line 1. Enter this amount on Form 1040A, line 32.



You may be able to take the **additional child tax credit** on Form 1040A, line 42, if you answered “Yes” on line 4 or line 5 above.

- First, complete your Form 1040A through line 41.
- Then, use Form 8812 to figure any additional child tax credit.



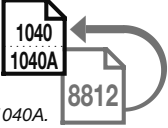
#### Exercise 1(B)

#### The Howard's 1040A, page 2

Form 1040A (2004)		Page 2				
<b>Tax, credits, and payments</b>	<b>22</b> Enter the amount from line 21 (adjusted gross income).	22      31,467				
<b>Standard Deduction for—</b> ● People who checked any box on line 23a or 23b or who can be claimed as a dependent, see page 32. ● All others: Single or Married filing separately, \$4,850 Married filing jointly or Qualifying widow(er), \$9,700 Head of household, \$7,150	<b>23a</b> Check if: <table style="display: inline-table; vertical-align: middle;"> <tr> <td><input type="checkbox"/> You were born before January 2, 1940,</td> <td><input type="checkbox"/> Blind</td> </tr> <tr> <td><input type="checkbox"/> Spouse was born before January 2, 1940,</td> <td><input type="checkbox"/> Blind</td> </tr> </table> Total boxes checked ▶ 23a <input type="checkbox"/>	<input type="checkbox"/> You were born before January 2, 1940,	<input type="checkbox"/> Blind	<input type="checkbox"/> Spouse was born before January 2, 1940,	<input type="checkbox"/> Blind	
	<input type="checkbox"/> You were born before January 2, 1940,	<input type="checkbox"/> Blind				
	<input type="checkbox"/> Spouse was born before January 2, 1940,	<input type="checkbox"/> Blind				
	<b>b</b> If you are married filing separately and your spouse itemizes deductions, see page 32 and check here ▶ 23b <input type="checkbox"/>					
	<b>24</b> Enter your <b>standard deduction</b> (see left margin).	24      9,700				
	<b>25</b> Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.	25      21,767				
	<b>26</b> Multiply \$3,100 by the total number of exemptions claimed on line 6d.	26      18,600				
	<b>27</b> Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your <b>taxable income</b> .	▶ 27      3,167				
	<b>28</b> <b>Tax, including any alternative minimum tax</b> (see page 33).	28      318				
	<b>29</b> Credit for child and dependent care expenses. Attach Schedule 2.	29				
<b>30</b> Credit for the elderly or the disabled. Attach Schedule 3.	30					
<b>31</b> Education credits. Attach Form 8863.	31					
<b>32</b> Child tax credit (see page 37).	32      318					
<b>33</b> Retirement savings contributions credit. Attach Form 8880.	33					
<b>34</b> Adoption credit. Attach Form 8839.	34					
<b>35</b> Add lines 29 through 34. These are your <b>total credits</b> .	35      318					
<b>36</b> Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.	36					
<b>37</b> Advance earned income credit payments from Form(s) W-2.	37					
<b>38</b> Add lines 36 and 37. This is your <b>total tax</b> .	▶ 38					
<b>39</b> Federal income tax withheld from Forms W-2 and 1099.	39					
<b>40</b> 2004 estimated tax payments and amount applied from 2003 return.	40					
<b>41</b> <b>Earned income credit (EIC)</b> .	41					
<b>42</b> Additional child tax credit. Attach Form 8812.	42					
<b>43</b> Add lines 39 through 42. These are your <b>total payments</b> .	▶ 43					
<b>Refund</b>	<b>44</b> If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you <b>overpaid</b> .	44				
Direct deposit? See page 50 and fill in 45b, 45c, and 45d.	<b>45a</b> Amount of line 44 you want <b>refunded to you</b> .	▶ 45a				
	<b>b</b> Routing number <input style="width: 100px;" type="text"/>	<b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings				
	<b>d</b> Account number <input style="width: 100px;" type="text"/>					
	<b>46</b> Amount of line 44 you want <b>applied to your 2005 estimated tax</b> .	46				
<b>Amount you owe</b>	<b>47</b> <b>Amount you owe</b> . Subtract line 43 from line 38. For details on how to pay, see page 51.	▶ 47				
	<b>48</b> Estimated tax penalty (see page 52).	48				
<b>Third party designee</b>	Do you want to allow another person to discuss this return with the IRS (see page 52)? <input type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No					
	Designee's name ▶ _____	Phone no. ▶ (    ) _____	Personal identification number (PIN) ▶ <input style="width: 50px;" type="text"/>			
<b>Sign here</b>	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.					
Joint return? See page 20. Keep a copy for your records.	Your signature _____	Date _____	Your occupation _____	Daytime phone number (    ) _____		
	Spouse's signature. If a joint return, <b>both</b> must sign. _____	Date _____	Spouse's occupation _____			
<b>Paid preparer's use only</b>	Preparer's signature ▶ _____	Date _____	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN _____		
	Firm's name (or yours if self-employed), address, and ZIP code ▶ _____	EIN _____				
			Phone no. (    ) _____			

Exercise 1(C)

The Howard's Form 8812, page 1

Form <b>8812</b>  Department of the Treasury Internal Revenue Service (99)	<h2 style="margin:0;">Additional Child Tax Credit</h2> <p style="font-size: small; margin-top: 10px;">Complete and attach to Form 1040 or Form 1040A.</p>		OMB No. 1545-1620  <h1 style="margin:0;">2004</h1> Attachment Sequence No. <b>47</b>
Name(s) shown on return <b>Victor and Emily Howard</b>		Your social security number XXX   XX   XXXX	
<b>Part I All Filers</b>			
1 Enter the amount from line 1 of your Child Tax Credit Worksheet on page 41 of the Form 1040 instructions or page 38 of the Form 1040A instructions. If you used Pub. 972, enter the amount from line 8 of the worksheet on page 4 of the publication . . . . .	1	4,000	
2 Enter the amount from Form 1040, line 51, or Form 1040A, line 32 . . . . .	2	318	
3 Subtract line 2 from line 1. If zero, <b>stop</b> ; you cannot take this credit . . . . .	3	3,682	
4 Enter your total taxable earned income. See the instructions on back . . . . .	4	18,467	
5 Is the amount on line 4 more than \$10,750? <input type="checkbox"/> <b>No.</b> Leave line 5 blank and enter -0- on line 6. <input checked="" type="checkbox"/> <b>Yes.</b> Subtract \$10,750 from the amount on line 4. Enter the result . . . . .	5	7,717	
6 Multiply the amount on line 5 by 10% (.10) and enter the result . . . . . <b>Next.</b> Do you have three or more qualifying children? <input type="checkbox"/> <b>No.</b> If line 6 is zero, <b>stop</b> ; you cannot take this credit. Otherwise, skip Part II and enter the smaller of line 3 or line 6 on line 13. <input checked="" type="checkbox"/> <b>Yes.</b> If line 6 is equal to or more than line 3, skip Part II and enter the amount from line 3 on line 13. Otherwise, go to line 7.	6	772	
<b>Part II Certain Filers Who Have Three or More Qualifying Children</b>			
7 Enter the total of the withheld social security and Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If you worked for a railroad, see the instructions on back . . . . .	7	1,413	
8 <b>1040 filers:</b> Enter the total of the amounts from Form 1040, lines 30 and 58, plus any uncollected social security and Medicare or tier 1 RRTA taxes included on line 62. <b>1040A filers:</b> Enter -0-.	8	0	
9 Add lines 7 and 8 . . . . .	9	1,413	
10 <b>1040 filers:</b> Enter the total of the amounts from Form 1040, lines 65 and 66. <b>1040A filers:</b> Enter the total of the amount from Form 1040A, line 41, plus any excess social security and tier 1 RRTA taxes withheld that you entered to the left of line 43 (see the instructions on back).	10	839	
11 Subtract line 10 from line 9. If zero or less, enter -0- . . . . .	11	574	
12 Enter the <b>larger</b> of line 6 or line 11 here . . . . . <b>Next,</b> enter the <b>smaller</b> of line 3 or line 12 on line 13.	12	772	
<b>Part III Your Additional Child Tax Credit</b>			
13 This is your additional child tax credit . . . . .	13	772	
		Enter this amount on Form 1040, line 67, or Form 1040A, line 42.	
For Paperwork Reduction Act Notice, see back of form.		Cat. No. 10644E	Form <b>8812</b> (2004)



# WAGE EARNER COMPREHENSIVE PROBLEMS

## INTRODUCTION


In this section, you will complete tax returns for several common wage earner scenarios often encountered at volunteer assistance sites. This will be valuable practice as you prepare to help taxpayers. Although answers to each of the problems are shown at the end of this section, you should try to complete the blank forms for each problem before referring to its answers.

After completing this section, you will be able to:

- accurately complete a basic tax return.

## PROBLEM 1

John Marshall, a sophomore in college, wants help with preparing his tax return. He tells you he is 20 years old (born May 28, 1984). Although he lives in the dorm at college, his parents can claim him as a dependent on their tax return. He does not wish to contribute to the presidential election campaign. If he receives a refund he would like it direct deposited into his checking account (account number xxxxxx, routing number xxxxxxxxx). John does not want to name a third party designee. His address and SSN are correct on his Form W-2 and Form 1099-INT. Your site identification number is Sxxxxxxx.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .									
b Employer identification number <b>xx-xxxxxxx</b>				1 Wages, tips, other compensation <b>2,694.00</b>	2 Federal income tax withheld <b>52.00</b>										
c Employer's name, address, and ZIP code  <b>Norfolk Trading Company</b> <b>819 Ferris St.</b> <b>Your City, State, and Zip Code</b>				3 Social security wages <b>2,694.00</b>		4 Social security tax withheld <b>94.00</b>									
				5 Medicare wages and tips <b>2,694.00</b>		6 Medicare tax withheld <b>39.00</b>									
				7 Social security tips		8 Allocated tips									
d Employee's social security number <b>xxx-xx-xxxx</b>				9 Advance EIC payment		10 Dependent care benefits									
e Employee's first name and initial Last name <b>John Marshall</b> <b>878 Hudson Ave</b> <b>Your City, State, and Zip Code</b>				11 Nonqualified plans		12a See instructions for box 12									
				13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b									
				14 Other		12c									
						12d									
f Employee's address and ZIP code				15 State Employer's state ID number Your <b>xx-xxxxxxx</b>		16 State wages, tips, etc. <b>2,694.00</b>		17 State income tax <b>25.00</b>		18 Local wages, tips, etc.		19 Local income tax		20 Locality name	

Form **W-2** Wage and Tax Statement **2004** Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.

# WAGE EARNER COMPREHENSIVE PROBLEMS

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>First Bank</b> <b>2940 N. Second St.</b> <b>Your City, State, and Zip Code</b>		Payer's RTN (optional)	OMB No. 1545-0112 <b>2004</b> Form <b>1099-INT</b>	<b>Interest Income</b>
PAYER'S Federal identification number <b>xx-xxxxxxx</b>	RECIPIENT'S identification number <b>xxx-xx-xxxx</b>	1 Interest income not included in box 3 \$ <b>50.00</b>		
RECIPIENT'S name <b>John Marshall</b>  Street address (including apt. no.) <b>878 Hudson</b> City, state, and ZIP code <b>Your City, State, and Zip Code</b>		2 Early withdrawal penalty \$	3 Interest on U.S. Savings Bonds and Treas. obligations \$	<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Account number (optional)		4 <b>Federal income tax withheld</b> \$	5 Investment expenses \$	
		6 Foreign tax paid \$	7 Foreign country or U.S. possession	

Form **1099-INT**

(keep for your records)

Department of the Treasury - Internal Revenue Service

# WAGE EARNER COMPREHENSIVE PROBLEMS

Problem 1

Form 1040EZ, front

Department of the Treasury—Internal Revenue Service <b>Income Tax Return for Single and Joint Filers With No Dependents (99) 2004</b>		OMB No. 1545-0675
Form <b>1040EZ</b>		
<b>Label</b> (See page 12.) <b>Use the IRS label.</b> Otherwise, please print or type.  <b>Presidential Election Campaign</b> (page 12)	Your first name and initial _____ Last name _____	Your social security number _____
	If a joint return, spouse's first name and initial _____ Last name _____	Spouse's social security number _____
	Home address (number and street). If you have a P.O. box, see page 12. _____ Apt. no. _____	
	City, town or post office, state, and ZIP code. If you have a foreign address, see page 12. _____	
	<b>▲ Important! ▲</b> You <b>must</b> enter your SSN(s) above.	
	Note. Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if a joint return, want \$3 to go to this fund? . . . . .	
	You                      Spouse <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>Income</b>  <b>Attach Form(s) W-2 here.</b> Enclose, but do not attach, any payment.  Note. You must check Yes or No.	<b>1</b> Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2. <span style="float: right;">1</span>	
	<b>2</b> Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ. <span style="float: right;">2</span>	
	<b>3</b> Unemployment compensation and Alaska Permanent Fund dividends (see page 14). <span style="float: right;">3</span>	
	<b>4</b> Add lines 1, 2, and 3. This is your <b>adjusted gross income</b> . <span style="float: right;">4</span>	
	<b>5</b> Can your parents (or someone else) claim you on their return? Yes. Enter amount from <input type="checkbox"/> worksheet on back.      No. If <b>single</b> , enter \$7,950. If <b>married filing jointly</b> , enter \$15,900. See back for explanation. <span style="float: right;">5</span>	
	<b>6</b> Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your <b>taxable income</b> . <span style="float: right;">▶ 6</span>	
<b>Payments and tax</b>	<b>7</b> Federal income tax withheld from box 2 of your Form(s) W-2. <span style="float: right;">7</span>	
	<b>8</b> Earned income credit (EIC). <span style="float: right;">8</span>	
	<b>9</b> Add lines 7 and 8. These are your <b>total payments</b> . <span style="float: right;">▶ 9</span>	
	<b>10</b> <b>Tax.</b> Use the amount on <b>line 6</b> above to find your tax in the tax table on pages 24–28 of the booklet. Then, enter the tax from the table on this line. <span style="float: right;">10</span>	
<b>Refund</b> Have it directly deposited! See page 19 and fill in 11b, 11c, and 11d.	<b>11a</b> If line 9 is larger than line 10, subtract line 10 from line 9. This is your <b>refund</b> . <span style="float: right;">▶ 11a</span>	
	▶ <b>b</b> Routing number <input style="width: 100px;" type="text"/> ▶ <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
	▶ <b>d</b> Account number <input style="width: 100px;" type="text"/>	
<b>Amount you owe</b>	<b>12</b> If line 10 is larger than line 9, subtract line 9 from line 10. This is the <b>amount you owe</b> . For details on how to pay, see page 20. <span style="float: right;">▶ 12</span>	
	Do you want to allow another person to discuss this return with the IRS (see page 20)? <input type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No	
<b>Third party designee</b>	Designee's name ▶ _____ Phone no. ▶ ( ) _____ Personal identification number (PIN) <input style="width: 50px;" type="text"/>	
	Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.	
<b>Sign here</b> Joint return? See page 11. Keep a copy for your records.	Your signature _____ Date _____ Your occupation _____ Daytime phone number ( ) _____	
	Spouse's signature. If a joint return, <b>both</b> must sign. _____ Date _____ Spouse's occupation _____	
<b>Paid preparer's use only</b>	Preparer's signature ▶ _____ Date _____ Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN _____	
	Firm's name (or yours if self-employed), address, and ZIP code ▶ _____ EIN _____	
	Phone no. ( ) _____	
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 23. <span style="float: right;">Cat. No. 11329W Form <b>1040EZ</b> (2004)</span>		

# WAGE EARNER COMPREHENSIVE PROBLEMS

### Use this form if

- Your filing status is single or married filing jointly. If you are not sure about your filing status, see page 11.
  - You (and your spouse if married filing jointly) were under age 65 and not blind at the end of 2004. If you were born on January 1, 1940, you are considered to be age 65 at the end of 2004.
  - You do not claim any dependents. For information on dependents, use TeleTax topic 354 (see page 6).
  - Your taxable income (line 6) is less than \$50,000.
  - You do not claim any adjustments to income. For information on adjustments to income, use TeleTax topics 451-458 (see page 6).
  - The only tax credit you can claim is the earned income credit. For information on credits, use TeleTax topics 601-608 and 610 (see page 6).
  - You had **only** wages, salaries, tips, taxable scholarship or fellowship grants, unemployment compensation, or Alaska Permanent Fund dividends, and your taxable interest was not over \$1,500. **But** if you earned tips, including allocated tips, that are not included in box 5 and box 7 of your W-2, you may not be able to use Form 1040EZ (see page 13). If you are planning to use Form 1040EZ for a child who received Alaska Permanent Fund dividends, see page 14.
  - You did not receive any advance earned income credit payments.
- If you have questions about dependents, use TeleTax topic 354 (see page 6). If you **cannot use this form**, use TeleTax topic 352 (see page 6).

### Filling in your return

For tips on how to avoid common mistakes, see page 21.

If you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds, see the booklet before filling in the form. Also, see the booklet if you received a Form 1099-INT showing Federal income tax withheld or if Federal income tax was withheld from your unemployment compensation or Alaska Permanent Fund dividends.

**Remember**, you must report all wages, salaries, and tips even if you do not get a Form W-2 from your employer. You must also report all your taxable interest, including interest from banks, savings and loans, credit unions, etc., even if you do not get a Form 1099-INT.

### Worksheet for dependents who checked "Yes" on line 5

(keep a copy for your records)

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married filing jointly) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, use TeleTax topic 354 (see page 6).

- A. Amount, if any, from line 1 on front \_\_\_\_\_  
 + 250.00 Enter total ► A. \_\_\_\_\_
- B. Minimum standard deduction . . . . . B. 800.00
- C. Enter the **larger** of line A or line B here . . . . . C. \_\_\_\_\_
- D. Maximum standard deduction. If **single**, enter \$4,850; if **married filing jointly**, enter \$9,700 . . . . . D. \_\_\_\_\_
- E. Enter the **smaller** of line C or line D here. This is your standard deduction . . . . . E. \_\_\_\_\_
- F. Exemption amount. } F. \_\_\_\_\_
- If single, enter -0-.
  - If married filing jointly and—
    - both you and your spouse can be claimed as dependents, enter -0-.
    - only one of you can be claimed as a dependent, enter \$3,100.
- G. Add lines E and F. Enter the total here and on line 5 on the front . . . G. \_\_\_\_\_

If you checked **"No"** on line 5 because no one can claim you (or your spouse if married filing jointly) as a dependent, enter on line 5 the amount shown below that applies to you.

- Single, enter \$7,950. This is the total of your standard deduction (\$4,850) and your exemption (\$3,100).
- Married filing jointly, enter \$15,900. This is the total of your standard deduction (\$9,700), your exemption (\$3,100), and your spouse's exemption (\$3,100).

### Mailing return


Mail your return by **April 15, 2005**. Use the envelope that came with your booklet. If you do not have that envelope or if you moved during the year, see the back cover for the address to use.



# WAGE EARNER COMPREHENSIVE PROBLEMS

## PROBLEM 2

Melody York is 35 years old (born August 31, 1969) and single. Melody was laid off from her job as a clerk in September and received unemployment compensation for the remainder of the year. She would like to contribute to the Presidential election campaign. If she receives a refund, she would like it direct deposited into her savings account (account number xxxxxxxxxxxx; routing transit number xxxxxxxxxxxx). Melody does not want to name a third party designee. Her address and SSN are correct as shown on her Form W-2 and Form 1099-G. Your site identification number is Sxxxxxxxxx.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use  Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .		
b Employer identification number xx-xxxxxxx		1 Wages, tips, other compensation 6,923.12	2 Federal income tax withheld 261.00			
c Employer's name, address, and ZIP code  Miller Industries 975 Parks Blvd  Your City, State, and Zip Code		3 Social security wages 6,923.12	4 Social security tax withheld 429.00			
		5 Medicare wages and tips 6,923.12	6 Medicare tax withheld 100.00			
		7 Social security tips	8 Allocated tips			
d Employee's social security number xxx-xx-xxxx		9 Advance EIC payment		10 Dependent care benefits		
e Employee's first name and initial Last name Melody York  17 North 9th Avenue  Your City, State, and Zip Code		11 Nonqualified plans		12a See instructions for box 12		
		13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b		12c	
		14 Other		12d		
f Employee's address and ZIP code						
15 State Your	Employer's state ID number xx-xxxxxxx	16 State wages, tips, etc. 6,923.12	17 State income tax 192.36	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement

2004

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.

# WAGE EARNER COMPREHENSIVE PROBLEMS

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

**Department of Employment Security**

**4010 West Third St.**

**Your City, State, and Zip Code**

1 Unemployment compensation

\$ **3,240.00**

2 State or local income tax refunds, credits, or offsets

\$

OMB No. 1545-0120

**2004**

Form **1099-G**

**Certain Government Payments**

PAYER'S Federal identification number

**xx-xxxxxxx**

RECIPIENT'S identification number

**xxx-xx-xxxx**

3 Box 2 amount is for tax year

\$

4 Federal income tax withheld

\$ **0.00**

**Copy B For Recipient**

RECIPIENT'S name

**Melody York**

Street address (including apt. no.)

**17 North 9th Avenue**

City, state, and ZIP code

**Your City, State, and Zip Code**

5

[Hatched area]

6 Taxable grants

\$

7 Agriculture payments

\$

8 Box 2 is trade or business income

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Account number (optional)

Form **1099-G**

(keep for your records)

Department of the Treasury - Internal Revenue Service

# WAGE EARNER COMPREHENSIVE PROBLEMS

Problem 2

Form 1040A, front

Form 1040A U.S. Individual Income Tax Return 2004

Department of the Treasury—Internal Revenue Service

IRS Use Only—Do not write or staple in this space.

OMB No. 1545-0085

**Label** (See page 19.)

**Use the IRS label.** Otherwise, please print or type.

**LABEL HERE**

Your first name and initial: \_\_\_\_\_ Last name: \_\_\_\_\_

If a joint return, spouse's first name and initial: \_\_\_\_\_ Last name: \_\_\_\_\_

Home address (number and street). If you have a P.O. box, see page 20. \_\_\_\_\_ Apt. no. \_\_\_\_\_

City, town or post office, state, and ZIP code. If you have a foreign address, see page 20. \_\_\_\_\_

**Important!** You must enter your SSN(s) above.

**Presidential Election Campaign** (See page 20.)

**Note.** Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? . . . . .

You  Yes  No Spouse  Yes  No

**Filing status** (Check only one box.)

1  Single

2  Married filing jointly (even if only one had income)

3  Married filing separately. Enter spouse's SSN above and full name here. ▶ \_\_\_\_\_

4  Head of household (with qualifying person). (See page 20.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ \_\_\_\_\_

5  Qualifying widow(er) with dependent child (see page 21)

**Exemptions**

6a  Yourself. If someone can claim you as a dependent, do not check box 6a.

b  Spouse

c **Dependents:**

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 23)
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

If more than six dependents, see page 21.

Boxes checked on 6a and 6b: \_\_\_\_\_

No. of children on 6c who:

- lived with you
- did not live with you due to divorce or separation (see page 23)

Dependents on 6c not entered above: \_\_\_\_\_

Add numbers on lines above ▶

d Total number of exemptions claimed. \_\_\_\_\_

**Income**

Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 24.

Enclose, but do not attach, any payment.

7	Wages, salaries, tips, etc. Attach Form(s) W-2.	7
8a	Taxable interest. Attach Schedule 1 if required.	8a
8b	Tax-exempt interest. Do not include on line 8a.	8b
9a	Ordinary dividends. Attach Schedule 1 if required.	9a
9b	Qualified dividends (see page 25).	9b
10	Capital gain distributions (see page 25).	10
11a	IRA distributions.	11a
11b	Taxable amount (see page 25).	11b
12a	Pensions and annuities.	12a
12b	Taxable amount (see page 26).	12b
13	Unemployment compensation and Alaska Permanent Fund dividends.	13
14a	Social security benefits.	14a
14b	Taxable amount (see page 28).	14b
15	Add lines 7 through 14b (far right column). This is your <b>total income</b> .	15
16	Deduction for clean-fuel vehicles (see page 28).	16
17	IRA deduction (see page 28).	17
18	Student loan interest deduction (see page 31).	18
19	Tuition and fees deduction (see page 31).	19
20	Add lines 16 through 19. These are your <b>total adjustments</b> .	20
21	Subtract line 20 from line 15. This is your <b>adjusted gross income</b> .	21

**Adjusted gross income**

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 57. Cat. No. 11327A Form 1040A (2004)

# WAGE EARNER COMPREHENSIVE PROBLEMS

Problem 2

Form 1040A, page 2

Form 1040A (2004)	Page 2
<b>Tax, credits, and payments</b>	<b>22</b> Enter the amount from line 21 (adjusted gross income). <span style="float:right;">22</span>
<b>Standard Deduction for—</b> • People who checked any box on line 23a or 23b or who can be claimed as a dependent, see page 32. • All others: Single or Married filing separately, \$4,850 Married filing jointly or Qualifying widow(er), \$9,700 Head of household, \$7,150	<b>23a</b> Check if: <input type="checkbox"/> You were born before January 2, 1940, <input type="checkbox"/> Blind <input type="checkbox"/> Spouse was born before January 2, 1940, <input type="checkbox"/> Blind } <b>Total boxes checked</b> ▶ <span style="border:1px solid black; padding:2px;">23a</span>
	<b>b</b> If you are married filing separately and your spouse itemizes deductions, see page 32 and check here ▶ <span style="border:1px solid black; padding:2px;">23b</span>
	<b>24</b> Enter your <b>standard deduction</b> (see left margin). <span style="float:right;">24</span>
	<b>25</b> Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-. <span style="float:right;">25</span>
	<b>26</b> Multiply \$3,100 by the total number of exemptions claimed on line 6d. <span style="float:right;">26</span>
	<b>27</b> Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your <b>taxable income</b> . ▶ <span style="float:right;">27</span>
	<b>28 Tax</b> , including any alternative minimum tax (see page 33). <span style="float:right;">28</span>
	<b>29</b> Credit for child and dependent care expenses. Attach Schedule 2. <span style="float:right;">29</span>
	<b>30</b> Credit for the elderly or the disabled. Attach Schedule 3. <span style="float:right;">30</span>
	<b>31</b> Education credits. Attach Form 8863. <span style="float:right;">31</span>
<b>32</b> Child tax credit (see page 37). <span style="float:right;">32</span>	
<b>33</b> Retirement savings contributions credit. Attach Form 8880. <span style="float:right;">33</span>	
<b>34</b> Adoption credit. Attach Form 8839. <span style="float:right;">34</span>	
<b>35</b> Add lines 29 through 34. These are your <b>total credits</b> . <span style="float:right;">35</span>	
<b>36</b> Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-. <span style="float:right;">36</span>	
<b>37</b> Advance earned income credit payments from Form(s) W-2. <span style="float:right;">37</span>	
<b>38</b> Add lines 36 and 37. This is your <b>total tax</b> . ▶ <span style="float:right;">38</span>	
<b>39</b> Federal income tax withheld from Forms W-2 and 1099. <span style="float:right;">39</span>	
<b>40</b> 2004 estimated tax payments and amount applied from 2003 return. <span style="float:right;">40</span>	
<b>41 Earned income credit (EIC)</b> . <span style="float:right;">41</span>	
<b>42</b> Additional child tax credit. Attach Form 8812. <span style="float:right;">42</span>	
<b>43</b> Add lines 39 through 42. These are your <b>total payments</b> . ▶ <span style="float:right;">43</span>	
<b>Refund</b>	<b>44</b> If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you <b>overpaid</b> . <span style="float:right;">44</span>
	<b>45a</b> Amount of line 44 you want <b>refunded to you</b> . ▶ <span style="float:right;">45a</span>
Direct deposit? See page 50 and fill in 45b, 45c, and 45d.	<b>b</b> Routing number <span style="border:1px solid black; display:inline-block; width:100px; height:15px;"></span> ▶ <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
	<b>d</b> Account number <span style="border:1px solid black; display:inline-block; width:250px; height:15px;"></span>
	<b>46</b> Amount of line 44 you want <b>applied to your 2005 estimated tax</b> . <span style="float:right;">46</span>
<b>Amount you owe</b>	<b>47 Amount you owe</b> . Subtract line 43 from line 38. For details on how to pay, see page 51. ▶ <span style="float:right;">47</span>
	<b>48</b> Estimated tax penalty (see page 52). <span style="float:right;">48</span>
<b>Third party designee</b>	Do you want to allow another person to discuss this return with the IRS (see page 52)? <input type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No
	Designee's name ▶ _____ Phone no. ▶ ( ) _____ Personal identification number (PIN) ▶ <span style="border:1px solid black; display:inline-block; width:50px; height:15px;"></span>
<b>Sign here</b> Joint return? See page 20. Keep a copy for your records.	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.
	Your signature _____ Date _____ Your occupation _____ Daytime phone number ( ) _____
	Spouse's signature. If a joint return, <b>both</b> must sign. _____ Date _____ Spouse's occupation _____
	Preparer's signature _____ Date _____ Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN _____
<b>Paid preparer's use only</b>	Firm's name (or yours if self-employed), address, and ZIP code ▶ _____ EIN _____ Phone no. ( ) _____
	_____

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Form 1040A (2004)



# WAGE EARNER COMPREHENSIVE PROBLEMS

Problem 2

Form 1040A, Earned Income Credit Worksheet, page 1

Form 1040A—Line 41

## Line 41 Earned Income Credit (EIC)

### What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

### To Take the EIC:


- Follow the steps below.
- Complete the worksheet that applies to you or let the IRS figure the credit for you.
- If you have a qualifying child, complete and attach Schedule EIC.





*If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.*

### Step 1 All Filers

1. If, in 2004:
  - 2 children lived with you, is the amount on Form 1040A, line 22, less than \$34,458 (\$35,458 if married filing jointly)?
  - 1 child lived with you, is the amount on Form 1040A, line 22, less than \$30,338 (\$31,338 if married filing jointly)?
  - No children live with you, is the amount on Form 1040A, line 22, less than \$11,490 (\$12,490 if married filing jointly)?

**Yes.** *Continue* →       **No.**  You cannot take the credit.
2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 41)?

**Yes.** *Continue* →       **No.**  You cannot take the credit. Put "No" to the left of the entry space for line 41.
3. Is your filing status married filing separately?

**Yes.**  You cannot take the credit.       **No.** *Continue* →
4. Were you a nonresident alien for any part of 2004?

**Yes.** See *Nonresident aliens* on page 41.       **No.** Go to Step 2.


### Step 2 Investment Income

1. Add the amounts from Form 1040A:

Line 8a \_\_\_\_\_  
Line 8b + \_\_\_\_\_  
Line 9a + \_\_\_\_\_  
Line 10 + \_\_\_\_\_

**Investment Income** =

2. Is your investment income more than \$2,650?

**Yes.**        **No.** *Continue* →  
You cannot take the credit.
3. Did a child live with you in 2004?

**Yes.** Go to Step 3 on page 39.       **No.** Go to Step 4 on page 39.

(Continued on page 39)

Need more information or forms? See page 7.

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# WAGE EARNER COMPREHENSIVE PROBLEMS

Problem 2

Form 1040A, Earned Income Credit Worksheet, page 2

Form 1040A—Line 41

Continued from page 38

## Step 3 Qualifying Child

A qualifying child is a child who is your...

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

**AND**

was at the end of 2004...

Under age 19

or

Under age 24 and a student (see page 41)

or

Any age and permanently and totally disabled (see page 41)

**AND**


who...

Lived with you in the United States for more than half of 2004. If the child did not live with you for the required time, see Exception to "time lived with you" condition on page 40.



If the child was married, see page 41.

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?

**Yes.**   **No.** *Continue* →  
You cannot take the credit. Put "No" to the left of the entry space for line 41.

2. Do you have at least one child who meets the above conditions to be your qualifying child?


**Yes.** Go to question 3.  **No.** Skip question 3; go to Step 4, question 2.

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2004?


**Yes.** See *Qualifying child of more than one person* on page 41.  **No.** This child is your qualifying child. The child must have a valid social security number as defined on page 41 unless the child was born and died in 2004. Skip Step 4; go to Step 5 on page 40.

## Step 4 Filers Without a Qualifying Child


1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?

**Yes.**   **No.** *Continue* →  
You cannot take the credit. Put "No" to the left of the entry space for line 41.


2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2004 tax return?

**Yes.**   **No.** *Continue* →  
You cannot take the credit.

3. Were you, or your spouse if filing a joint return, born before January 2, 1980, but under age 65 at the end of 2004?

**Yes.** *Continue* →  **No.**   
You cannot take the credit.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2004? Members of the military stationed outside the United States, see page 41 before you answer.

**Yes.** Go to Step 5 on page 40.  **No.**   
You cannot take the credit. Put "No" to the left of the entry space for line 41.

(Continued on page 40)

Form 1040A—Line 41

*Continued from page 39***Step 5 Earned Income**

## 1. Figure earned income:

Form 1040A, line 7 \_\_\_\_\_


Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

Earned Income = 

## 2. If you have:

- 2 or more qualifying children, is your earned income less than \$34,458 (\$35,458 if married filing jointly)?
- 1 qualifying child, is your earned income less than \$30,338 (\$31,338 if married filing jointly)?
- No qualifying children, is your earned income less than \$11,490 (\$12,490 if married filing jointly)?

 **Yes.** Go to Step 6. **No.** 

You cannot take the credit.

**Step 6 How To Figure the Credit**

## 1. Do you want the IRS to figure the credit for you?

 **Yes.** See *Credit figured by the IRS* on this page. **No.** Go to the worksheet on page 42.**Definitions and Special Rules**

(listed in alphabetical order)

**Adopted child.** An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

**Credit figured by the IRS.** To have the IRS figure the credit for you:

1. Put "EIC" to the left of the entry space for line 41 of Form 1040A.
2. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see *Form 8862, Who must file*, below.

**Exception to "time lived with you" condition.** A child is considered to have lived with you for all of 2004 if the child was born or died in 2004 and your home was this child's home for the entire time he or she was alive in 2004. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see *Members of the military* on page 41.

**Form 8862, Who must file.** You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

1. After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed, and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
2. You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit for 2 years if it was determined that your error was due to reckless or intentional disregard of the EIC rules (or 10 years if due to fraud).

*(Continued on page 41)*

Need more information or forms? See page 7.

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# WAGE EARNER COMPREHENSIVE PROBLEMS

## Problem 2

## Form 1040A, Earned Income Credit Worksheets, page 4

Form 1040A—Line 41

*Continued from page 40*

**Married child.** A child who was married at the end of 2004 is a qualifying child only if (a) you can claim him or her as your dependent on Form 1040A, line 6c, or (b) this child's other parent claims him or her as a dependent under the rules on page 20 for *Children of divorced or separated parents*.

**Members of the military.** If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.

**Nonresident aliens.** If your filing status is married filing jointly, go to Step 2 on page 38. Otherwise, stop; you cannot take the EIC.

**Permanently and totally disabled child.** A child who cannot engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition:

- Has lasted or can be expected to last continuously for at least a year, or
- Can lead to death.

**Qualifying child of more than one person.** If the child meets the conditions to be a qualifying child of more than one person, only one person can take the EIC based on that child. The other person(s) cannot take the EIC for people without a qualifying child, but may take the EIC based on a different qualifying child. If you and the other person(s) cannot agree who will take the EIC, then the following rules apply.

- If only one of the persons is the child's parent, the child will be treated as the qualifying child of the parent.
- If both persons are the child's parents, the child will be treated as the qualifying child of the parent with whom the child lived for the longer period of time during 2004. If the child lived with each parent for the same amount of time, the child will be treated as the qualifying child of the parent who had the higher adjusted gross income (AGI) for 2004.
- If none of the persons is the child's parent, the child will be treated as the qualifying child of the person who had the highest AGI for 2004.

The child must have a valid social security number as defined below unless the child was born and died in 2004. If you do not have a qualifying child, stop; you cannot take the EIC. Put "No" to the left of the entry space for line 41. If you have a qualifying child, skip Step 4; go to Step 5 on page 40.

**Example.** You and your 5-year-old daughter moved in with your mother in April 2004. You are not a qualifying child of your mother. Your daughter meets the conditions to be a qualifying child for both you and your mother. If you and your mother cannot agree on who will treat your daughter as a qualifying child, the above rules apply. Under these rules, you are entitled to treat your daughter as a qualifying child because you are the child's parent. Your mother would not be entitled to claim any EIC unless she has a different qualifying child.

**Social security number (SSN).** For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless "Not Valid for Employment" is printed on the social security card and the number was issued solely to apply for or receive a federally funded benefit.

To find out how to get an SSN, see page 18. If you will not have an SSN by April 15, 2005, see *What if You Cannot File on Time?* on page 12.

**Student.** A child who during any 5 months of 2004:

- Was enrolled as a full-time student at a school, or
- Took a full-time, on-farm training course given by a school or a state, county, or local government agency.

A school includes technical, trade, and mechanical schools. It does not include on-the-job training courses, correspondence schools, or night schools.

**Welfare benefits, effect of credit on.** Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs or how much you can receive from them. But if the refund you receive because of the EIC is not spent within a certain period of time, it may count as an asset (or resource) and affect your eligibility.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

# WAGE EARNER COMPREHENSIVE PROBLEMS

## Problem 2

## Form 1040A, Earned Income Credit Worksheets, page 5

Form 1040A—Line 41

### Earned Income Credit (EIC) Worksheet—Line 41

Keep for Your Records



#### Part 1


#### All Filers

1. Enter your earned income from Step 5 on page 40.

1	
---	--

2. Look up the amount on line 1 above in the EIC Table on pages 43–47 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

2	
---	--

If line 2 is zero,  You cannot take the credit. Put “No” to the left of the entry space for line 41.

3. Enter the amount from Form 1040A, line 22.

3	
---	--

4. Are the amounts on lines 3 and 1 the same?

- Yes.** Skip line 5; enter the amount from line 2 on line 6.
- No.** Go to line 5.

#### Part 2

#### Filers Who Answered “No” on Line 4

5. If you have:

- No qualifying children, is the amount on line 3 less than \$6,400 (\$7,400 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 3 less than \$14,050 (\$15,050 if married filing jointly)?

**Yes.** Leave line 5 blank; enter the amount from line 2 on line 6.

**No.** Look up the amount on line 3 in the EIC Table on pages 43–47 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

5	
---	--

Look at the amounts on lines 5 and 2. Then, enter the **smaller** amount on line 6.

#### Part 3

#### Your Earned Income Credit

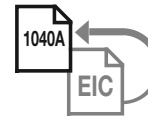
6. This is your earned income credit.

6	
---	--

Enter this amount on Form 1040A, line 41.

#### Reminder—

- ✓ If you have a qualifying child, complete and attach Schedule EIC.



If your EIC for a year after 1996 was reduced or disallowed, see page 40 to find out if you must file Form 8862 to take the credit for 2004.

Need more information or forms? See page 7.

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# WAGE EARNER COMPREHENSIVE PROBLEMS


## PROBLEM 3

Marvin Simmons is 56 (born on December 4, 1948). His grandson, Eric Simmons (SSN xxx-xx-xxxx; born on March 10, 1993), has lived with him for the last two years. Marvin pays the total cost of keeping up a home for himself and his grandson and provides all the support for Eric. Eric is a qualifying child for EIC purposes.

Marvin paid \$978 in child care expenses to allow him to work. The provider information is as follows:

Joy Day Care  
 9192 East Huron St.  
 Your City, State, Zip Code  
 EIN: xx-xxxxxxx

He does not want to contribute to the presidential election campaign and if he is due a refund, he would like a direct deposit to his checking account (account xxxxxxxxxxxxxxxx; routing transit number xxxxxxxxx). His address and SSN are correct on his Form W-2. He does not want to designate a third party. Marvin is a mechanic. Your site identification number is Sxxxxxxxx.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .			
b Employer identification number xx-xxxxxxx				1 Wages, tips, other compensation 24,952.00	2 Federal income tax withheld 1,964.00				
c Employer's name, address, and ZIP code  Endicott Motors 473 Endicott Lane Your City, State, and Zip Code				3 Social security wages 24,952.00	4 Social security tax withheld 1,547.00				
				5 Medicare wages and tips 24,952.00	6 Medicare tax withheld 362.00				
				7 Social security tips	8 Allocated tips				
d Employee's social security number xxx-xx-xxxx				9 Advance EIC payment 600.00		10 Dependent care benefits			
e Employee's first name and initial Marvin Simmons		Last name		11 Nonqualified plans		12a See instructions for box 12			
9701 Austin Rd.		Your City, State, and Zip Code		13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b			
f Employee's address and ZIP code				14 Other		12c			
						12d			
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name			
Your	xx-xxxxxxx	24,952.00	875.00						

Form **W-2** Wage and Tax Statement **2004** Department of the Treasury—Internal Revenue Service  
 Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
 This information is being furnished to the Internal Revenue Service.

# WAGE EARNER COMPREHENSIVE PROBLEMS

Problem 3

Form 1040, front

Form	<b>1040</b>	Department of the Treasury—Internal Revenue Service <b>U.S. Individual Income Tax Return 2004</b>	(99)	IRS Use Only—Do not write or staple in this space.																																																																																				
		For the year Jan. 1–Dec. 31, 2004, or other tax year beginning _____, 2004, ending _____, 20		OMB No. 1545-0074																																																																																				
<b>Label</b> <small>(See instructions on page 19.)</small> <b>Use the IRS label.</b> <small>Otherwise, please print or type.</small>	<b>L A B E L  H E R E</b>	Your first name and initial _____ Last name _____		<b>Your social security number</b> _____																																																																																				
		If a joint return, spouse's first name and initial _____ Last name _____		<b>Spouse's social security number</b> _____																																																																																				
		Home address (number and street). If you have a P.O. box, see page 19. _____ Apt. no. _____		<b>▲ Important! ▲</b> You <b>must</b> enter your SSN(s) above.																																																																																				
		City, town or post office, state, and ZIP code. If you have a foreign address, see page 19. _____																																																																																						
<b>Presidential Election Campaign</b> (See page 19.) <input type="checkbox"/> <b>Note.</b> Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? . . . . . <input type="checkbox"/> <b>You</b> <input type="checkbox"/> <b>Spouse</b> <input type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b> <input type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>																																																																																								
<b>Filing Status</b> Check only one box.		1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. <input type="checkbox"/> 4 <input type="checkbox"/> Head of household (with qualifying person). (See page 20.) If the qualifying person is a child but not your dependent, enter this child's name here. <input type="checkbox"/> 5 <input type="checkbox"/> Qualifying widow(er) with dependent child (see page 20)																																																																																						
<b>Exemptions</b>		6a <input type="checkbox"/> <b>Yourself.</b> If someone can claim you as a dependent, <b>do not</b> check box 6a b <input type="checkbox"/> <b>Spouse</b> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: left;">c <b>Dependents:</b></th> <th rowspan="2" style="text-align: center;">(2) Dependent's social security number</th> <th rowspan="2" style="text-align: center;">(3) Dependent's relationship to you</th> <th rowspan="2" style="text-align: center;">(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 21)</th> </tr> <tr> <th style="text-align: left;">(1) First name</th> <th style="text-align: left;">Last name</th> </tr> <tr><td> </td><td> </td><td> </td><td> </td><td style="text-align: center;"><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td style="text-align: center;"><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td style="text-align: center;"><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td style="text-align: center;"><input type="checkbox"/></td></tr> </table> d Total number of exemptions claimed _____			c <b>Dependents:</b>		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 21)	(1) First name	Last name					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>																																																									
c <b>Dependents:</b>		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 21)																																																																																				
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<b>Income</b> Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.  If you did not get a W-2, see page 22.  Enclose, but do not attach, any payment. Also, please use Form 1040-V.		<table border="1" style="width:100%; border-collapse: collapse;"> <tr><td>7</td><td>Wages, salaries, tips, etc. Attach Form(s) W-2</td><td>7</td><td></td></tr> <tr><td>8a</td><td>Taxable interest. Attach Schedule B if required</td><td>8a</td><td></td></tr> <tr><td>b</td><td>Tax-exempt interest. Do not include on line 8a</td><td>8b</td><td></td></tr> <tr><td>9a</td><td>Ordinary dividends. Attach Schedule B if required</td><td>9a</td><td></td></tr> <tr><td>b</td><td>Qualified dividends (see page 23)</td><td>9b</td><td></td></tr> <tr><td>10</td><td>Taxable refunds, credits, or offsets of state and local income taxes (see page 23)</td><td>10</td><td></td></tr> <tr><td>11</td><td>Alimony received</td><td>11</td><td></td></tr> <tr><td>12</td><td>Business income or (loss). Attach Schedule C or C-EZ</td><td>12</td><td></td></tr> <tr><td>13</td><td>Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/></td><td>13</td><td></td></tr> <tr><td>14</td><td>Other gains or (losses). Attach Form 4797</td><td>14</td><td></td></tr> <tr><td>15a</td><td>IRA distributions</td><td>15a</td><td></td></tr> <tr><td>b</td><td>Taxable amount (see page 25)</td><td>15b</td><td></td></tr> <tr><td>16a</td><td>Pensions and annuities</td><td>16a</td><td></td></tr> <tr><td>b</td><td>Taxable amount (see page 25)</td><td>16b</td><td></td></tr> <tr><td>17</td><td>Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E</td><td>17</td><td></td></tr> <tr><td>18</td><td>Farm income or (loss). Attach Schedule F</td><td>18</td><td></td></tr> <tr><td>19</td><td>Unemployment compensation</td><td>19</td><td></td></tr> <tr><td>20a</td><td>Social security benefits</td><td>20a</td><td></td></tr> <tr><td>b</td><td>Taxable amount (see page 27)</td><td>20b</td><td></td></tr> <tr><td>21</td><td>Other income. List type and amount (see page 27)</td><td>21</td><td></td></tr> <tr><td>22</td><td>Add the amounts in the far right column for lines 7 through 21. This is your <b>total income</b></td><td>22</td><td></td></tr> </table>			7	Wages, salaries, tips, etc. Attach Form(s) W-2	7		8a	Taxable interest. Attach Schedule B if required	8a		b	Tax-exempt interest. Do not include on line 8a	8b		9a	Ordinary dividends. Attach Schedule B if required	9a		b	Qualified dividends (see page 23)	9b		10	Taxable refunds, credits, or offsets of state and local income taxes (see page 23)	10		11	Alimony received	11		12	Business income or (loss). Attach Schedule C or C-EZ	12		13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13		14	Other gains or (losses). Attach Form 4797	14		15a	IRA distributions	15a		b	Taxable amount (see page 25)	15b		16a	Pensions and annuities	16a		b	Taxable amount (see page 25)	16b		17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17		18	Farm income or (loss). Attach Schedule F	18		19	Unemployment compensation	19		20a	Social security benefits	20a		b	Taxable amount (see page 27)	20b		21	Other income. List type and amount (see page 27)	21		22	Add the amounts in the far right column for lines 7 through 21. This is your <b>total income</b>	22	
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For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 77.

Cat. No. 11320B

Form 1040 (2004)





# WAGE EARNER COMPREHENSIVE PROBLEMS

Problem 3

Form 2441, page 1

Form **2441**

## Child and Dependent Care Expenses

OMB No. 1545-0068

**2004**

Attachment Sequence No. **21**

Department of the Treasury  
Internal Revenue Service (99)

▶ Attach to Form 1040.

▶ See separate instructions.

Name(s) shown on Form 1040

Your social security number

**Before you begin:** You need to understand the following terms. See **Definitions** on page 1 of the instructions.

- Dependent Care Benefits
- Qualifying Person(s)
- Qualified Expenses
- Earned Income

**Part I** Persons or Organizations Who Provided the Care—You must complete this part.  
(If you need more space, use the bottom of page 2.)

1	(a) Care provider's name	(b) Address (number, street, apt. no., city, state, and ZIP code)	(c) Identifying number (SSN or EIN)	(d) Amount paid (see instructions)

Did you receive dependent care benefits?

**No** → Complete only Part II below.

**Yes** → Complete Part III on the back next.

**Caution.** If the care was provided in your home, you may owe employment taxes. See the instructions for Form 1040, line 61.

**Part II** Credit for Child and Dependent Care Expenses

**2** Information about your **qualifying person(s)**. If you have more than two qualifying persons, see the instructions.

(a) Qualifying person's name		(b) Qualifying person's social security number	(c) Qualified expenses you incurred and paid in 2004 for the person listed in column (a)
First	Last		

<b>3</b> Add the amounts in column (c) of line 2. <b>Do not</b> enter more than \$3,000 for one qualifying person or \$6,000 for two or more persons. If you completed Part III, enter the amount from line 34	<b>3</b>																																																													
<b>4</b> Enter your <b>earned income</b>	<b>4</b>																																																													
<b>5</b> If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions); <b>all others</b> , enter the amount from line 4	<b>5</b>																																																													
<b>6</b> Enter the <b>smallest</b> of line 3, 4, or 5	<b>6</b>																																																													
<b>7</b> Enter the amount from Form 1040, line 37	<b>7</b>																																																													
<b>8</b> Enter on line 8 the decimal amount shown below that applies to the amount on line 7	<b>8</b>	X .																																																												
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<b>9</b> Multiply line 6 by the decimal amount on line 8. If you paid 2003 expenses in 2004, see the instructions	<b>9</b>																																																													
<b>10</b> Enter the amount from Form 1040, line 43	<b>10</b>																																																													
<b>11</b> Enter the amount, if any, from Form 6251, line 31 (see the instructions)	<b>11</b>																																																													
<b>12</b> Subtract line 11 from line 10. If zero or less, <b>stop</b> . You cannot take the credit	<b>12</b>																																																													
<b>13</b> <b>Credit for child and dependent care expenses.</b> Enter the <b>smaller</b> of line 9 or line 12 here and on Form 1040, line 46	<b>13</b>																																																													

For Paperwork Reduction Act Notice, see page 3 of the instructions.

Cat. No. 11862M

Form **2441** (2004)

# WAGE EARNER COMPREHENSIVE PROBLEMS

Form 2441 (2004)


Page **2**

**Part III Dependent Care Benefits**

<b>14</b>	Enter the total amount of <b>dependent care benefits</b> you received in 2004. Amounts you received as an employee should be shown in box 10 of your Form(s) W-2. <b>Do not</b> include amounts reported as wages in box 1 of Form(s) W-2. If you were self-employed or a partner, include amounts you received under a dependent care assistance program from your sole proprietorship or partnership . . . . .	<b>14</b>		
<b>15</b>	Enter the amount forfeited, if any (see the instructions) . . . . .	<b>15</b>		
<b>16</b>	Subtract line 15 from line 14 . . . . .	<b>16</b>		
<b>17</b>	Enter the total amount of <b>qualified expenses</b> incurred in 2004 for the care of the <b>qualifying person(s)</b> . . . . .	<b>17</b>		
<b>18</b>	Enter the <b>smaller</b> of line 16 or 17 . . . . .	<b>18</b>		
<b>19</b>	Enter your <b>earned income</b> . . . . .	<b>19</b>		
<b>20</b>	Enter the amount shown below that applies to you. <ul style="list-style-type: none"> <li>• If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions for line 5) . . . . .</li> <li>• If married filing separately, see the instructions for the amount to enter.</li> <li>• All others, enter the amount from line 19.</li> </ul>	<b>20</b>		
<b>21</b>	Enter the <b>smallest</b> of line 18, 19, or 20 . . . . .	<b>21</b>		
<b>22</b>	Enter the amount from line 14 that you received from your sole proprietorship or partnership. If you did not receive any such amounts, enter -0- . . . . .	<b>22</b>		
<b>23</b>	Subtract line 22 from line 16 . . . . .	<b>23</b>		
<b>24</b>	Enter \$5,000 (\$2,500 if married filing separately <b>and</b> you were required to enter your spouse's earned income on line 20) . . . . .	<b>24</b>		
<b>25</b>	<b>Deductible benefits.</b> Enter the <b>smallest</b> of line 21, 22, or 24. Also, include this amount on the appropriate line(s) of your return (see the instructions) . . . . .	<b>25</b>		
<b>26</b>	Enter the <b>smaller</b> of line 21 or 24 . . . . .	<b>26</b>		
<b>27</b>	Enter the amount from line 25 . . . . .	<b>27</b>		
<b>28</b>	<b>Excluded benefits.</b> Subtract line 27 from line 26. If zero or less, enter -0- . . . . .	<b>28</b>		
<b>29</b>	<b>Taxable benefits.</b> Subtract line 28 from line 23. If zero or less, enter -0-. Also, include this amount on Form 1040, line 7. On the dotted line next to line 7, enter "DCB" . . . . .	<b>29</b>		

To claim the child and dependent care credit, complete lines 30-34 below.

<b>30</b>	Enter \$3,000 (\$6,000 if two or more qualifying persons) . . . . .	<b>30</b>		
<b>31</b>	Add lines 25 and 28 . . . . .	<b>31</b>		
<b>32</b>	Subtract line 31 from line 30. If zero or less, <b>stop</b> . You cannot take the credit. <b>Exception.</b> If you paid 2003 expenses in 2004, see the instructions for line 9 . . . . .	<b>32</b>		
<b>33</b>	Complete line 2 on the front of this form. <b>Do not</b> include in column (c) any benefits shown on line 31 above. Then, add the amounts in column (c) and enter the total here . . . . .	<b>33</b>		
<b>34</b>	Enter the <b>smaller</b> of line 32 or 33. Also, enter this amount on line 3 on the front of this form and complete lines 4-13 . . . . .	<b>34</b>		

 Printed on recycled paper

Form **2441** (2004)

Form 1040—Line 51

## Line 51—Child Tax Credit

### What Is the Child Tax Credit?

This credit is for people who have a qualifying child (defined below). It is in addition to the credit for child and dependent care expenses on Form 1040, line 46, and the earned income credit on Form 1040, line 65.

### Three Steps To Take the Child Tax Credit!

- Step 1.** Make sure you have a qualifying child for the child tax credit (defined below).
- Step 2.** Make sure you checked the box on Form 1040, line 6c, column (4), for each qualifying child.
- Step 3.** Answer the questions on this page to see if you may use the worksheet on page 41 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 7.

### Qualifying Child for Child Tax Credit

A qualifying child for purposes of the child tax credit is a child who:

1. Is claimed as your dependent on line 6c, and
2. Was under age 17 at the end of 2004, and
3. Is your (a) son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild); (b) brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child; or (c) foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child), and
4. Is a U.S. citizen or resident alien.



*The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.*

An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized

placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

### Questions

### Who Must Use Pub. 972



1. Are you excluding income from Puerto Rico or are you filing any of the following forms?
  - Form 2555 or 2555-EZ (relating to foreign earned income)
  - Form 4563 (exclusion of income for residents of American Samoa)

**No.** *Continue* →  **Yes.** You must use Pub. 972 to figure your credit.
2. Is the amount on Form 1040, line 37, more than the amount shown below for your filing status?
  - Married filing jointly – \$110,000
  - Single, head of household, or qualifying widow(er) – \$75,000
  - Married filing separately – \$55,000

**No.** *Continue* →  **Yes.** You must use Pub. 972 to figure your credit.
3. Are you claiming any of the following credits?
  - Retirement savings contributions credit, Form 8880 (see the instructions for Form 1040, line 52, on page 42)
  - Adoption credit, Form 8839 (see the instructions for Form 1040, line 53, on page 42)

**No.** Use the worksheet on page 38 to figure your child tax credit.  **Yes.** You must use Pub. 972 to figure your child tax credit. You will also need the form(s) listed above for any credit(s) you are claiming.

# WAGE EARNER COMPREHENSIVE PROBLEMS

Problem 3

Form 1040 Child Tax Credit Worksheet, Page 2

## Child Tax Credit Worksheet—Line 51

Keep for Your Records



• To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2004 and meet the other requirements listed on page 40.

• **Do not** use this worksheet if you answered “Yes” to question 1, 2, or 3 on page 40. Instead, use Pub. 972.

1. Number of qualifying children: \_\_\_\_\_ × \$1,000.  
Enter the result.

1	
---	--

2. Enter the amount from Form 1040, line 45.

2	
---	--

3. Add the amounts from Form 1040:

Line 46 \_\_\_\_\_

Line 47 + \_\_\_\_\_

Line 48 + \_\_\_\_\_

Line 49 + \_\_\_\_\_

Line 50 + \_\_\_\_\_ Enter the total.

3	
---	--

4. Are the amounts on lines 2 and 3 the same?

**Yes.**

You cannot take this credit because there is no tax to reduce. However, you may be able to take the **additional child tax credit**. See the **TIP** below.

**No.** Subtract line 3 from line 2.

4	
---	--

5. Is the amount on line 1 more than the amount on line 4?

**Yes.** Enter the amount from line 4. Also, you may be able to take the **additional child tax credit**. See the **TIP** below.

**This is your child tax credit.**

**No.** Enter the amount from line 1.

5	
---	--

Enter this amount on Form 1040, line 51.



You may be able to take the **additional child tax credit** on Form 1040, line 67, if you answered “Yes” on line 4 or line 5 above.

- First, complete your Form 1040 through line 66.
- Then, use Form 8812 to figure any additional child tax credit.



# WAGE EARNER COMPREHENSIVE PROBLEMS

Problem 3

Form 1040 EIC Worksheet, Page 1

## Line 65 Earned Income Credit (EIC)

### What Is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

### To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you or let the IRS figure the credit for you.
- If you have a qualifying child, complete and attach Schedule EIC.



*If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.*

### Step 1 All Filers

1. If, in 2004:
  - 2 children lived with you, is the amount on Form 1040, line 37, less than \$34,458 (\$35,458 if married filing jointly)?
  - 1 child lived with you, is the amount on Form 1040, line 37, less than \$30,338 (\$31,338 if married filing jointly)?
  - No children lived with you, is the amount on Form 1040, line 37, less than \$11,490 (\$12,490 if married filing jointly)? **Yes.** Continue  **No.** You cannot take the credit.
2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 47)?  
 **Yes.** Continue  **No.** You cannot take the credit. Put "No" on the dotted line next to line 65.
3. Is your filing status married filing separately?  
 **Yes.** You cannot take the credit.  **No.** Continue
4. Are you filing Form 2555 or 2555-EZ (relating to foreign earned income)?  
 **Yes.** You cannot take the credit.  **No.** Continue
5. Were you a nonresident alien for any part of 2004?  
 **Yes.** See *Nonresident aliens* on page 47.  **No.** Go to Step 2.

### Step 2 Investment Income

1. Add the amounts from Form 1040:

Line 8a		_____
Line 8b	+	_____
Line 9a	+	_____
Line 13*	+	_____

**Investment Income** =

\*Do not include if line 13 is a loss.

2. Is your investment income more than \$2,650?  
 **Yes.** Continue  **No.** Skip question 3; go to question 4.
3. Are you filing Form 4797 (relating to sales of business property)?  
 **Yes.** See Form 4797 filers on page 46.  **No.** You cannot take the credit.
4. Do any of the following apply for 2004?
  - You are filing Schedule E.
  - You are reporting income or a loss from the rental of personal property not used in a trade or business.
  - You are reporting income on Form 1040, line 21, from Form 8814 (relating to election to report child's interest and dividends). **Yes.** You must use Worksheet 1 in Pub. 596 to see if you can take the credit. To get Pub. 596, see page 7.  **No.** Continue
5. Did a child live with you in 2004?  
 **Yes.** Go to Step 3 on page 45.  **No.** Go to Step 4 on page 45.

(Continued on page 45)

Continued from page 44

### Step 3 Qualifying Child

**A qualifying child is a child who is your...**

- Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)
- or
- Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child
- or
- Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

**AND**

**was at the end of 2004...**

- Under age 19
- or
- Under age 24 and a student (see page 47)
- or
- Any age and permanently and totally disabled (see page 47)

**AND**

**who...**

- Lived with you in the United States for more than half of 2004.
- If the child did not live with you for the required time, see *Exception to "time lived with you" condition* on page 46.



*If the child was married, see page 47.*

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?
  - Yes.** You cannot take the credit. Put "No" on the dotted line next to line 65.
  - No.** *Continue* →
2. Do you have at least one child who meets the above conditions to be your qualifying child?
  - Yes.** Go to question 3.
  - No.** Skip the next two questions; go to Step 4, question 2.

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2004?
  - Yes.** See *Qualifying child of more than one person* on page 47.
  - No.** This child is your qualifying child. The child must have a valid social security number as defined on page 47 unless the child was born and died in 2004. Skip Step 4; go to Step 5 on page 46.

### Step 4 Filers Without a Qualifying Child

1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?
  - Yes.** You cannot take the credit. Put "No" on the dotted line next to line 65.
  - No.** *Continue* →
2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2004 tax return?
  - Yes.** You cannot take the credit.
  - No.** *Continue* →
3. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2004?
  - Yes.** *Continue* →
  - No.** You cannot take the credit.
4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2004? Members of the military stationed outside the United States, see page 47 before you answer.
  - Yes.** Go to Step 5 on page 46.
  - No.** You cannot take the credit. Put "No" on the dotted line next to line 65.

(Continued on page 46)

# WAGE EARNER COMPREHENSIVE PROBLEMS

Problem 3

Form 1040 EIC Worksheet, Page 3

## Step 5 Earned Income

1. Are you filing Schedule SE because you were a member of the clergy or you had church employee income of \$108.28 or more?

**Yes.** See *Clergy or Church employees*, whichever applies, on this page.  **No.** Continue →

2. Figure earned income:

Form 1040, line 7 \_\_\_\_\_

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted on the dotted line next to Form 1040, line 7).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted on the dotted line next to Form 1040, line 7). This amount may be shown in Form W-2, box 11. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.


**Earned Income** =

3. Were you self-employed, or are you filing Schedule SE because you were a member of the clergy or you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?

**Yes.** Skip question 4 and Step 6; go to Worksheet B on page 49.  **No.** Continue →

4. If you have:

- 2 or more qualifying children, is your earned income less than \$34,458 (\$35,458 if married filing jointly)?
- 1 qualifying child, is your earned income less than \$30,338 (\$31,338 if married filing jointly)?
- No qualifying children, is your earned income less than \$11,490 (\$12,490 if married filing jointly)?

**Yes.** Go to Step 6.  **No.**  You cannot take the credit.

## Step 6 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

**Yes.** See *Credit figured by the IRS* on this page.  **No.** Go to Worksheet A on page 48.

### Definitions and Special Rules

(listed in alphabetical order)

**Adopted child.** An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

**Church employees.** Determine how much of the amount on Form 1040, line 7, was also reported on Schedule SE, line 5a. Subtract that amount from the amount on Form 1040, line 7, and enter the result in the first space of Step 5, line 2. Be sure to answer "Yes" on Step 5, line 3.

**Clergy.** The following instructions apply to ministers, members of religious orders who have not taken a vow of poverty, and Christian Science practitioners. If you are filing Schedule SE and the amount on line 2 of that schedule includes an amount that was also reported on Form 1040, line 7:

1. Put "Clergy" on the dotted line next to Form 1040, line 65.
2. Determine how much of the amount on Form 1040, line 7, was also reported on Schedule SE, line 2.
3. Subtract that amount from the amount on Form 1040, line 7. Enter the result in the first space of Step 5, line 2.
4. Be sure to answer "Yes" to question 3 in Step 5.

**Credit figured by the IRS.** To have the IRS figure the credit for you:

- Put "EIC" on the dotted line next to Form 1040, line 65.
- If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see *Form 8862, Who must file below*.

**Exception to "time lived with you" condition.** A child is considered to have lived with you for all of 2004 if the child was born or died in 2004 and your home was this child's home for the entire time he or she was alive in 2004. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see *Members of the military* on page 47.

**Form 4797 filers.** If the amount on Form 1040, line 13, includes an amount from Form 4797, you must use Worksheet 1 in Pub. 596 to see if you can take the EIC. To get Pub. 596, see page 7. Otherwise, stop; you cannot take the EIC.

**Form 8862, Who must file.** You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But do not file Form 8862 if either of the following applies.

1. After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed, and (b) your EIC has not been



## Form 1040—Line 63

reduced or disallowed again for any reason other than a math or clerical error.

2. You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit for 2 years if it was determined that your error was due to reckless or intentional disregard of the EIC rules (10 years if due to fraud).

**Married child.** A child who was married at the end of 2004 is a qualifying child only if (a) you can claim him or her as your dependent on Form 1040, line 6c, or (b) this child's other parent claims him or her as a dependent under the rules in Pub. 501 for children of divorced or separated parents.

**Members of the military.** If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.

**Nonresident aliens.** If your filing status is married filing jointly, go to Step 2 on page 44. Otherwise, stop; you cannot take the EIC.

**Permanently and totally disabled child.** A child who cannot engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition:

- Has lasted or can be expected to last continuously for at least a year, or
- Can lead to death.

**Qualifying child of more than one person.** If the child meets the conditions to be a qualifying child of more than one person, only one person can take the EIC based on that child. The other person(s) cannot take the EIC for people without a qualifying child, but may take the EIC based on a different qualifying child. If you and the other person(s) cannot agree who will take the EIC, then the following rules apply.

- If only one of the persons is the child's parent, the child will be treated as the qualifying child of the parent.
- If both persons are the child's parents, the child will be treated as the qualifying child of the parent with whom the child lived for the longer period of time during 2004. If the child lived with each parent for the same amount of time, the child will be treated as the qualifying child of the parent who had the higher adjusted gross income (AGI) for 2004.

- If none of the persons is the child's parent, the child will be treated as the qualifying child of the person who had the highest AGI for 2004.

The child must have a valid social security number as defined on this page unless the child was born and died in 2004. If you do not have a qualifying child, stop; you cannot take the EIC. Put "No" on the dotted line next to line 65. If you have a qualifying child, skip Step 4; go to Step 5 on page 46.

**Example.** You and your 5-year-old daughter moved in with your mother in April 2004. You are not a qualifying child of your mother. Your daughter meets the conditions to be a qualifying child for both you and your mother. If you and your mother cannot agree on who will treat your daughter as a qualifying child, the rules above apply. Under these rules, you are entitled to treat your daughter as a qualifying child because you are the child's parent. Your mother would not be entitled to claim any EIC unless she has a different qualifying child.

**Social security number (SSN).** For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless "Not Valid for Employment" is printed on the social security card and the number was issued solely to apply for or receive a federally funded benefit.

To find out how to get an SSN, see page 15. If you will not have an SSN by April 15, 2005, see *What if You Cannot File on Time?* on page 12.

**Student.** A child who during any 5 months of 2004:

- Was enrolled as a full-time student at a school, or
- Took a full-time, on-farm training course given by a school or a state, county, or local government agency.

A school includes technical, trade, and mechanical schools. It does not include on-the-job training courses, correspondence schools, or night schools.

**Welfare benefits, effect of credit on.** Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs or how much you can receive from them. But if the refund you receive because of the EIC is not spent within a certain period of time, it may count as an asset (or resource) and affect your eligibility.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

# WAGE EARNER COMPREHENSIVE PROBLEMS

Problem 3

Form 1040 EIC Worksheet

## Worksheet A—Earned Income Credit (EIC)—Line 65

Keep for Your Records

**Before you begin:** ✓ Be sure you are using the correct worksheet. Do not use this worksheet if you were self-employed, or you are filing Schedule SE because you were a member of the clergy or you had church employee income, or you are filing Schedule C or C-EZ as a statutory employee. Instead, use Worksheet B that begins on page 49.



### Part 1


#### All Filers Using Worksheet A

1. Enter your earned income from Step 5 on page 46.

1	
---	--

2. Look up the amount on line 1 above in the EIC Table on pages 51–55 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

2	
---	--

If line 2 is zero,  You cannot take the credit. Put “No” on the dotted line next to line 65.

3. Enter the amount from Form 1040, line 37.

3	
---	--

4. Are the amounts on lines 3 and 1 the same?

**Yes.** Skip line 5; enter the amount from line 2 on line 6.

**No.** Go to line 5.

### Part 2

#### Filers Who Answered “No” on Line 4

5. If you have:

- No qualifying children, is the amount on line 3 less than \$6,400 (\$7,400 if married filing jointly)?
- 1 or more qualifying children, is the amount on line 3 less than \$14,050 (\$15,050 if married filing jointly)?

**Yes.** Leave line 5 blank; enter the amount from line 2 on line 6.

**No.** Look up the amount on line 3 in the EIC Table on pages 51–55 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

Look at the amounts on lines 5 and 2. Then, enter the **smaller** amount on line 6.

5	
---	--

### Part 3

#### Your Earned Income Credit

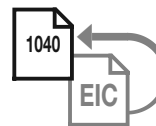
6. This is your earned income credit.

6	
---	--

Enter this amount on Form 1040, line 65.

#### Reminder—

✓ If you have a qualifying child, complete and attach Schedule EIC.



If your EIC for a year after 1996 was reduced or disallowed, see page 46 to find out if you must file Form 8862 to take the credit for 2004.

# WAGE EARNER COMPREHENSIVE PROBLEMS

Problem 3

Schedule EIC, Page 1

**SCHEDULE EIC**  
(Form 1040A or 1040)

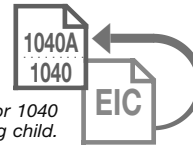
Department of the Treasury  
Internal Revenue Service

Name(s) shown on return

## Earned Income Credit

### Qualifying Child Information

Complete and attach to Form 1040A or 1040  
only if you have a qualifying child.



OMB No. 1545-0074

**2004**

Attachment  
Sequence No. **43**

Your social security number

**Before you begin:** See the instructions for Form 1040A, line 41, or Form 1040, line 65, to make sure that (a) you can take the EIC and (b) you have a qualifying child.



- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

### Qualifying Child Information

Child 1

Child 2

1 Child's name	Child 1		Child 2	
	First name	Last name	First name	Last name
If you have more than two qualifying children, you only have to list two to get the maximum credit.				
2 Child's SSN The child must have an SSN as defined on page 43 of the Form 1040A instructions or page 47 of the Form 1040 instructions unless the child was born and died in 2004. If your child was born and died in 2004 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.				
3 Child's year of birth	Year _____ <i>If born after 1985, skip lines 4a and 4b; go to line 5.</i>		Year _____ <i>If born after 1985, skip lines 4a and 4b; go to line 5.</i>	
4 If the child was born before 1986—				
a Was the child under age 24 at the end of 2004 and a student?	<input type="checkbox"/> Yes. <i>Go to line 5.</i>	<input type="checkbox"/> No. <i>Continue</i>	<input type="checkbox"/> Yes. <i>Go to line 5.</i>	<input type="checkbox"/> No. <i>Continue</i>
b Was the child permanently and totally disabled during any part of 2004?	<input type="checkbox"/> Yes. <i>Continue</i>	<input type="checkbox"/> No. The child is not a qualifying child.	<input type="checkbox"/> Yes. <i>Continue</i>	<input type="checkbox"/> No. The child is not a qualifying child.
5 Child's relationship to you (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)				
6 Number of months child lived with you in the United States during 2004				
• If the child lived with you for more than half of 2004 but less than 7 months, enter "7".				
• If the child was born or died in 2004 and your home was the child's home for the entire time he or she was alive during 2004, enter "12".	_____ months <i>Do not enter more than 12 months.</i>		_____ months <i>Do not enter more than 12 months.</i>	



You may also be able to take the additional child tax credit if your child (a) was under age 17 at the end of 2004, (b) is claimed as your dependent on line 6c of Form 1040A or Form 1040, and (c) is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 67 of Form 1040.

For Paperwork Reduction Act Notice, see Form 1040A or 1040 instructions.

Cat. No. 13339M

Schedule EIC (Form 1040A or 1040) 2004

## Purpose of Schedule

The purpose of this schedule is to give the IRS information about your qualifying child after you have figured your earned income credit (EIC).

To figure the amount of your credit or to have the IRS figure it for you, see the instructions for Form 1040A, line 41, or Form 1040, line 65.

**Taking the EIC When Not Eligible.** If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.

## Qualifying Child

**A qualifying child is a child who is your . . .**

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

**AND**

**was at the end of 2004 . . .**

Under age 19

or

Under age 24 and a student

or

Any age and permanently and totally disabled

**AND**

**who . . .**

Lived with you in the United States for more than half of 2004. If the child did not live with you for the required time, see Exception to "Time Lived With You" Condition on page 42 of the Form 1040A instructions or page 46 of the Form 1040 instructions.

**Note.** If the child was married or meets the conditions to be a qualifying child of another person (other than your spouse if filing a joint return), special rules apply. For details, see page 43 of the Form 1040A instructions or page 47 of the Form 1040 instructions.

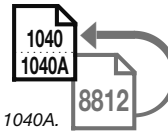


Do you want part of the EIC added to your take-home pay in 2005? To see if you qualify, get Form W-5 from your employer, call the IRS at 1-800-TAX-FORM (1-800-829-3676), or go to [www.irs.gov](http://www.irs.gov).

# WAGE EARNER COMPREHENSIVE PROBLEMS

Form **8812**

## Additional Child Tax Credit



OMB No. 1545-1620

**2004**

Attachment  
Sequence No. **47**

Department of the Treasury  
Internal Revenue Service (99)

Complete and attach to Form 1040 or Form 1040A.

Name(s) shown on return

Your social security number

### Part I All Filers

1	Enter the amount from line 1 of your Child Tax Credit Worksheet on page 41 of the Form 1040 instructions or page 38 of the Form 1040A instructions. If you used Pub. 972, enter the amount from line 8 of the worksheet on page 4 of the publication				1
2	Enter the amount from Form 1040, line 51, or Form 1040A, line 32				2
3	Subtract line 2 from line 1. If zero, <b>stop</b> ; you cannot take this credit				3
4	Enter your total taxable earned income. See the instructions on back	4			
5	Is the amount on line 4 more than \$10,750? <input type="checkbox"/> <b>No.</b> Leave line 5 blank and enter -0- on line 6. <input type="checkbox"/> <b>Yes.</b> Subtract \$10,750 from the amount on line 4. Enter the result	5			
6	Multiply the amount on line 5 by 10% (.10) and enter the result <b>Next.</b> Do you have three or more qualifying children? <input type="checkbox"/> <b>No.</b> If line 6 is zero, <b>stop</b> ; you cannot take this credit. Otherwise, skip Part II and enter the <b>smaller</b> of line 3 or line 6 on line 13. <input type="checkbox"/> <b>Yes.</b> If line 6 is equal to or more than line 3, skip Part II and enter the amount from line 3 on line 13. Otherwise, go to line 7.	6			

### Part II Certain Filers Who Have Three or More Qualifying Children

7	Enter the total of the withheld social security and Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If you worked for a railroad, see the instructions on back	7			
8	<b>1040 filers:</b> Enter the total of the amounts from Form 1040, lines 30 and 58, plus any uncollected social security and Medicare or tier 1 RRTA taxes included on line 62. <b>1040A filers:</b> Enter -0-.	8			
9	Add lines 7 and 8	9			
10	<b>1040 filers:</b> Enter the total of the amounts from Form 1040, lines 65 and 66. <b>1040A filers:</b> Enter the total of the amount from Form 1040A, line 41, plus any excess social security and tier 1 RRTA taxes withheld that you entered to the left of line 43 (see the instructions on back).	10			
11	Subtract line 10 from line 9. If zero or less, enter -0-	11			
12	Enter the <b>larger</b> of line 6 or line 11 here <b>Next,</b> enter the <b>smaller</b> of line 3 or line 12 on line 13.	12			

### Part III Your Additional Child Tax Credit

13	This is your additional child tax credit	13			
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Enter this amount on Form 1040, line 67, or Form 1040A, line 42.

For Paperwork Reduction Act Notice, see back of form.

Cat. No. 10644E

Form **8812** (2004)

# WAGE EARNER COMPREHENSIVE PROBLEMS

## Instructions

### Purpose of Form

Use Form 8812 to figure your additional child tax credit.



*The additional child tax credit may give you a refund even if you do not owe any tax.*

### Who Should Use Form 8812

First, complete the Child Tax Credit Worksheet that applies to you. See the instructions for Form 1040, line 51, or Form 1040A, line 32. If you meet the condition given in the *TIP* at the end of your Child Tax Credit Worksheet, use Form 8812 to see if you can take the additional child tax credit.

### Effect of Credit on Welfare Benefits

Any refund you receive as a result of taking the additional child tax credit will not be used to determine if you are eligible for the following programs, or how much you can receive from them.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

### Taxable Earned Income

1. Did you, or your spouse if filing a joint return, have net earnings from self-employment and use either optional method to figure those net earnings?

- No.** Go to question 2.
- Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

2. Are you claiming the earned income credit (EIC) on Form 1040, line 65, or Form 1040A, line 41?

- Yes.** Use the following chart to find the amount to enter on Form 8812, line 4.

IF you are filing Form . . .	AND you completed . . .	THEN enter on Form 8812, line 4, the amount from . . .
1040	Worksheet B on page 49 of your 1040 instructions	Worksheet B, line 4b.*
	Step 5 on page 46 of your 1040 instructions (but not Worksheet B)	Step 5, Earned Income
1040A	Step 5 on page 42 of your 1040A instructions	Step 5, Earned Income

\* If you were a member of the clergy, subtract the following from the amount on line 4b: (a) the rental value of a home or the nontaxable portion of an allowance for a home furnished to you (including payments for utilities) and (b) the value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.

- No.** **1040 filers:** Go to question 3.  
**1040A filers:** Skip question 3 and go to question 4.

3. Were you, or your spouse if filing a joint return, self-employed, or are you filing Schedule SE because you were a member of the clergy or you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?

- No.** Go to question 4.
- Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

4. Does the amount on line 7 of Form 1040 or Form 1040A include any of the following amounts?

- Taxable scholarship or fellowship grants not reported on a Form W-2.
- Amounts paid to an inmate in a penal institution for work (enter "PRI" and the amount paid in the space next to line 7 of Form 1040 or 1040A).
- Amounts received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (enter "DFC" and the amount received in the space next to line 7 of Form 1040 or 1040A). This amount may be reported in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.
- Amounts from Form 2555, line 41, or Form 2555-EZ, line 18.

**No.** Enter the amount from line 7 of Form 1040 or Form 1040A on Form 8812, line 4.

**Yes.** Subtract the total of those amounts from the amount on line 7 of Form 1040 or Form 1040A. (If an amount is included in more than one of the above categories, include it only once in figuring the total amount to subtract.) Enter the result on Form 8812, line 4.

### Railroad Employees

If you worked for a railroad, include the following taxes in the total on Form 8812, line 7.

- Tier 1 tax withheld from your pay. This tax should be shown in box 14 of your Form(s) W-2 and identified as "Tier 1 tax."
- If you were an employee representative, 50% of the total tier 1 tax and tier 1 Medicare tax you paid for 2004.

### 1040A Filers

If you, or your spouse if filing a joint return, had more than one employer for 2004 and total wages of over \$87,900, figure any excess social security and tier 1 railroad retirement (RRTA) taxes withheld. See the instructions for Form 1040A, line 43. Include any excess on Form 8812, line 10.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 6 min.; **Learning about the law or the form**, 5 min.; **Preparing the form**, 28 min.; **Copying, assembling, and sending the form to the IRS**, 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040 or Form 1040A.

# WAGE EARNER COMPREHENSIVE

# PROBLEMS

# ANSWERS TO PROBLEMS

## Problem 1

Department of the Treasury—Internal Revenue Service		<b>Income Tax Return for Single and Joint Filers With No Dependents</b> (99) <b>2004</b>		OMB No. 1545-0675																													
Form <b>1040EZ</b>																																	
<b>Label</b> (See page 12.) <b>Use the IRS label.</b> Otherwise, please print or type.  <b>Presidential Election Campaign</b> (page 12)	L A B E L  H E R E	Your first name and initial <b>John</b>	Last name <b>Marshall</b>	Your social security number xxx-xx-xxxx																													
	If a joint return, spouse's first name and initial		Last name		Spouse's social security number																												
	Home address (number and street). If you have a P.O. box, see page 12. <b>878 Hudson Ave</b>			Apt. no.																													
	City, town or post office, state, and ZIP code. If you have a foreign address, see page 12. <b>Your City, State, and Zip Code</b>																																
<p style="text-align: center;"><b>▲ Important! ▲</b></p> <p style="text-align: center;">You <b>must</b> enter your SSN(s) above.</p>																																	
<p style="text-align: center;">Note. Checking "Yes" will not change your tax or reduce your refund.                  Do you, or your spouse if a joint return, want \$3 to go to this fund? <span style="float: right;"><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No</span></p>																																	
<b>Income</b>  Attach Form(s) W-2 here. Enclose, but do not attach, any payment.	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width: 5%;">1</td> <td style="width: 75%;">Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.</td> <td style="width: 10%; text-align: center;">1</td> <td style="width: 10%; text-align: right;">2,694</td> </tr> <tr> <td>2</td> <td>Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.</td> <td style="text-align: center;">2</td> <td style="text-align: right;">50</td> </tr> <tr> <td>3</td> <td>Unemployment compensation and Alaska Permanent Fund dividends (see page 14).</td> <td style="text-align: center;">3</td> <td></td> </tr> <tr> <td>4</td> <td>Add lines 1, 2, and 3. This is your <b>adjusted gross income</b>.</td> <td style="text-align: center;">4</td> <td style="text-align: right;">2,744</td> </tr> <tr> <td>5</td> <td>Can your parents (or someone else) claim you on their return?                      Yes. Enter amount from <input checked="" type="checkbox"/> worksheet on back.      No. If <b>single</b>, enter \$7,950. If <b>married filing jointly</b>, enter \$15,900. See back for explanation. <input type="checkbox"/></td> <td style="text-align: center;">5</td> <td style="text-align: right;">2,944</td> </tr> <tr> <td>6</td> <td>Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your <b>taxable income</b>.</td> <td style="text-align: center;">6</td> <td style="text-align: right;">0</td> </tr> </table>				1	Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1	2,694	2	Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.	2	50	3	Unemployment compensation and Alaska Permanent Fund dividends (see page 14).	3		4	Add lines 1, 2, and 3. This is your <b>adjusted gross income</b> .	4	2,744	5	Can your parents (or someone else) claim you on their return? Yes. Enter amount from <input checked="" type="checkbox"/> worksheet on back.      No. If <b>single</b> , enter \$7,950. If <b>married filing jointly</b> , enter \$15,900. See back for explanation. <input type="checkbox"/>	5	2,944	6	Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your <b>taxable income</b> .	6	0					
1	Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1	2,694																														
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6	Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your <b>taxable income</b> .	6	0																														
<b>Payments and tax</b>	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width: 5%;">7</td> <td style="width: 75%;">Federal income tax withheld from box 2 of your Form(s) W-2.</td> <td style="width: 10%; text-align: center;">7</td> <td style="width: 10%; text-align: right;">52</td> </tr> <tr> <td>8</td> <td><b>Earned income credit (EIC)</b>.</td> <td style="text-align: center;">8</td> <td style="text-align: right;">0</td> </tr> <tr> <td>9</td> <td>Add lines 7 and 8. These are your <b>total payments</b>.</td> <td style="text-align: center;">9</td> <td style="text-align: right;">52</td> </tr> <tr> <td>10</td> <td><b>Tax.</b> Use the amount on <b>line 6 above</b> to find your tax in the tax table on pages 24–28 of the booklet. Then, enter the tax from the table on this line.</td> <td style="text-align: center;">10</td> <td style="text-align: right;">0</td> </tr> </table>				7	Federal income tax withheld from box 2 of your Form(s) W-2.	7	52	8	<b>Earned income credit (EIC)</b> .	8	0	9	Add lines 7 and 8. These are your <b>total payments</b> .	9	52	10	<b>Tax.</b> Use the amount on <b>line 6 above</b> to find your tax in the tax table on pages 24–28 of the booklet. Then, enter the tax from the table on this line.	10	0													
7	Federal income tax withheld from box 2 of your Form(s) W-2.	7	52																														
8	<b>Earned income credit (EIC)</b> .	8	0																														
9	Add lines 7 and 8. These are your <b>total payments</b> .	9	52																														
10	<b>Tax.</b> Use the amount on <b>line 6 above</b> to find your tax in the tax table on pages 24–28 of the booklet. Then, enter the tax from the table on this line.	10	0																														
<b>Refund</b> Have it directly deposited! See page 19 and fill in 11b, 11c, and 11d.	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width: 5%;">11a</td> <td style="width: 75%;">If line 9 is larger than line 10, subtract line 10 from line 9. This is your <b>refund</b>.</td> <td style="width: 10%; text-align: center;">11a</td> <td style="width: 10%; text-align: right;">52</td> </tr> <tr> <td>▶ b</td> <td>Routing number <input type="text" value="x x x x x x x x x x"/></td> <td>▶ c</td> <td>Type: <input checked="" type="checkbox"/> Checking <input type="checkbox"/> Savings</td> </tr> <tr> <td>▶ d</td> <td colspan="3">Account number <input type="text" value="x x x x x x x x x x"/></td> </tr> </table>				11a	If line 9 is larger than line 10, subtract line 10 from line 9. This is your <b>refund</b> .	11a	52	▶ b	Routing number <input type="text" value="x x x x x x x x x x"/>	▶ c	Type: <input checked="" type="checkbox"/> Checking <input type="checkbox"/> Savings	▶ d	Account number <input type="text" value="x x x x x x x x x x"/>																			
11a	If line 9 is larger than line 10, subtract line 10 from line 9. This is your <b>refund</b> .	11a	52																														
▶ b	Routing number <input type="text" value="x x x x x x x x x x"/>	▶ c	Type: <input checked="" type="checkbox"/> Checking <input type="checkbox"/> Savings																														
▶ d	Account number <input type="text" value="x x x x x x x x x x"/>																																
<b>Amount you owe</b>	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width: 5%;">12</td> <td style="width: 75%;">If line 10 is larger than line 9, subtract line 9 from line 10. This is the <b>amount you owe</b>. For details on how to pay, see page 20.</td> <td style="width: 10%; text-align: center;">12</td> <td style="width: 10%;"></td> </tr> <tr> <td colspan="4">                 Do you want to allow another person to discuss this return with the IRS (see page 20)? <input type="checkbox"/> Yes. Complete the following. <input checked="" type="checkbox"/> No             </td> </tr> <tr> <td style="vertical-align: top;"> <b>Third party designee</b> </td> <td colspan="3">                 Designee's name _____ Phone no. ( ) _____ Personal identification number (PIN) _____             </td> </tr> <tr> <td style="vertical-align: top;"> <b>Sign here</b>                  Joint return? See page 11. Keep a copy for your records.             </td> <td colspan="4">                 Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.             </td> </tr> <tr> <td colspan="2">                 Your signature _____ Date _____ Your occupation <b>Student</b> Daytime phone number ( ) _____             </td> <td colspan="2">                 Spouse's signature. If a joint return, <b>both</b> must sign. _____ Date _____ Spouse's occupation _____             </td> </tr> <tr> <td style="vertical-align: top;"> <b>Paid preparer's use only</b> </td> <td colspan="3">                 Preparer's signature _____ Date _____ Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN Sxxxxxxxxx             </td> </tr> <tr> <td colspan="2">                 Firm's name (or yours if self-employed), address, and ZIP code _____             </td> <td colspan="2">                 EIN _____ Phone no. ( ) _____             </td> </tr> </table>				12	If line 10 is larger than line 9, subtract line 9 from line 10. This is the <b>amount you owe</b> . For details on how to pay, see page 20.	12		Do you want to allow another person to discuss this return with the IRS (see page 20)? <input type="checkbox"/> Yes. Complete the following. <input checked="" type="checkbox"/> No				<b>Third party designee</b>	Designee's name _____ Phone no. ( ) _____ Personal identification number (PIN) _____			<b>Sign here</b> Joint return? See page 11. Keep a copy for your records.	Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.				Your signature _____ Date _____ Your occupation <b>Student</b> Daytime phone number ( ) _____		Spouse's signature. If a joint return, <b>both</b> must sign. _____ Date _____ Spouse's occupation _____		<b>Paid preparer's use only</b>	Preparer's signature _____ Date _____ Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN Sxxxxxxxxx			Firm's name (or yours if self-employed), address, and ZIP code _____		EIN _____ Phone no. ( ) _____	
12	If line 10 is larger than line 9, subtract line 9 from line 10. This is the <b>amount you owe</b> . For details on how to pay, see page 20.	12																															
Do you want to allow another person to discuss this return with the IRS (see page 20)? <input type="checkbox"/> Yes. Complete the following. <input checked="" type="checkbox"/> No																																	
<b>Third party designee</b>	Designee's name _____ Phone no. ( ) _____ Personal identification number (PIN) _____																																
<b>Sign here</b> Joint return? See page 11. Keep a copy for your records.	Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.																																
Your signature _____ Date _____ Your occupation <b>Student</b> Daytime phone number ( ) _____		Spouse's signature. If a joint return, <b>both</b> must sign. _____ Date _____ Spouse's occupation _____																															
<b>Paid preparer's use only</b>	Preparer's signature _____ Date _____ Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN Sxxxxxxxxx																																
Firm's name (or yours if self-employed), address, and ZIP code _____		EIN _____ Phone no. ( ) _____																															
<p style="font-size: small;">For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 23. <span style="float: right;">Cat. No. 11329W <b>Form 1040EZ</b> (2004)</span></p>																																	

# WAGE EARNER COMPREHENSIVE

## PROBLEMS

## ANSWERS TO PROBLEMS

### Problem 1

Form 1040EZ (2004)

Page **2**

#### Use this form if

- Your filing status is single or married filing jointly. If you are not sure about your filing status, see page 11.
- You (and your spouse if married filing jointly) were under age 65 and not blind at the end of 2004. If you were born on January 1, 1940, you are considered to be age 65 at the end of 2004.
- You do not claim any dependents. For information on dependents, use TeleTax topic 354 (see page 6).
- Your taxable income (line 6) is less than \$50,000.
- You do not claim any adjustments to income. For information on adjustments to income, use TeleTax topics 451-458 (see page 6).
- The only tax credit you can claim is the earned income credit. For information on credits, use TeleTax topics 601-608 and 610 (see page 6).
- You had **only** wages, salaries, tips, taxable scholarship or fellowship grants, unemployment compensation, or Alaska Permanent Fund dividends, and your taxable interest was not over \$1,500. **But** if you earned tips, including allocated tips, that are not included in box 5 and box 7 of your W-2, you may not be able to use Form 1040EZ (see page 13). If you are planning to use Form 1040EZ for a child who received Alaska Permanent Fund dividends, see page 14.
- You did not receive any advance earned income credit payments.

If you have questions about dependents, use TeleTax topic 354 (see page 6). If you **cannot use this form**, use TeleTax topic 352 (see page 6).

#### Filling in your return

For tips on how to avoid common mistakes, see page 21.

If you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds, see the booklet before filling in the form. Also, see the booklet if you received a Form 1099-INT showing Federal income tax withheld or if Federal income tax was withheld from your unemployment compensation or Alaska Permanent Fund dividends.

**Remember**, you must report all wages, salaries, and tips even if you do not get a Form W-2 from your employer. You must also report all your taxable interest, including interest from banks, savings and loans, credit unions, etc., even if you do not get a Form 1099-INT.

#### Worksheet for dependents who checked "Yes" on line 5

(keep a copy for your records)

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married filing jointly) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, use TeleTax topic 354 (see page 6).

A. Amount, if any, from line 1 on front	2,694.00		
	+ 250.00	Enter total ▶	A. <u>2,944.00</u>
B. Minimum standard deduction			B. <u>800.00</u>
C. Enter the <b>larger</b> of line A or line B here			C. <u>2,944.00</u>
D. Maximum standard deduction. If <b>single</b> , enter \$4,850; if <b>married filing jointly</b> , enter \$9,700			D. <u>4,850.00</u>
E. Enter the <b>smaller</b> of line C or line D here. This is your standard deduction			E. <u>2,944.00</u>
F. Exemption amount.			F. <u>0.00</u>
• If single, enter -0-.			
• If married filing jointly and— —both you and your spouse can be claimed as dependents, enter -0-. —only one of you can be claimed as a dependent, enter \$3,100.			
G. Add lines E and F. Enter the total here and on line 5 on the front			G. <u>2,944.00</u>

If you checked **"No"** on line 5 because no one can claim you (or your spouse if married filing jointly) as a dependent, enter on line 5 the amount shown below that applies to you.

- Single, enter \$7,950. This is the total of your standard deduction (\$4,850) and your exemption (\$3,100).
- Married filing jointly, enter \$15,900. This is the total of your standard deduction (\$9,700), your exemption (\$3,100), and your spouse's exemption (\$3,100).

#### Mailing return

Mail your return by **April 15, 2005**. Use the envelope that came with your booklet. If you do not have that envelope or if you moved during the year, see the back cover for the address to use.



Form **1040EZ** (2004)



# WAGE EARNER COMPREHENSIVE

# PROBLEMS

# ANSWERS TO PROBLEMS

## Problem 2

Form 1040A U.S. Individual Income Tax Return 2004

Department of the Treasury—Internal Revenue Service

IRS Use Only—Do not write or staple in this space.

OMB No. 1545-0085

Your first name and initial: **Melody** Last name: **York**

If a joint return, spouse's first name and initial: Last name:

Home address (number and street). If you have a P.O. box, see page 20. **17 North 9th Avenue** Apt. no.:

City, town or post office, state, and ZIP code. If you have a foreign address, see page 20. **Your City, State, and Zip Code**

**Label** (See page 19.)

**Use the IRS label.** Otherwise, please print or type.

**Important!** You must enter your SSN(s) above.

**Presidential Election Campaign** (See page 20.) **Note.** Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund?  **You** Yes  No  **Spouse** Yes  No

**Filing status** Check only one box.

1  **Single** 4  **Head of household** (with qualifying person). (See page 20.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶

2  **Married filing jointly** (even if only one had income)

3  **Married filing separately.** Enter spouse's SSN above and full name here. ▶

5  **Qualifying widow(er) with dependent child** (see page 21)

**Exemptions**

6a  **Yourself.** If someone can claim you as a dependent, do not check box 6a.

b  **Spouse**

c **Dependents:**

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 23)
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

If more than six dependents, see page 21.

Boxes checked on 6a and 6b: **1**

No. of children on 6c who:  
 • lived with you: \_\_\_\_\_  
 • did not live with you due to divorce or separation (see page 23): \_\_\_\_\_

Dependents on 6c not entered above: \_\_\_\_\_

Add numbers on lines above: **1**

d Total number of exemptions claimed.

**Income**

Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 24.

Enclose, but do not attach, any payment.

7	Wages, salaries, tips, etc. Attach Form(s) W-2.	7	6,923
8a	Taxable interest. Attach Schedule 1 if required.	8a	
b	Tax-exempt interest. Do not include on line 8a.	8b	
9a	Ordinary dividends. Attach Schedule 1 if required.	9a	
b	Qualified dividends (see page 25).	9b	
10	Capital gain distributions (see page 25).	10	
11a	IRA distributions.	11a	
11b	Taxable amount (see page 25).	11b	
12a	Pensions and annuities.	12a	
12b	Taxable amount (see page 26).	12b	
13	Unemployment compensation and Alaska Permanent Fund dividends.	13	3,240
14a	Social security benefits.	14a	
14b	Taxable amount (see page 28).	14b	
15	Add lines 7 through 14b (far right column). This is your <b>total income</b> .	15	10,163
16	Deduction for clean-fuel vehicles (see page 28).	16	
17	IRA deduction (see page 28).	17	
18	Student loan interest deduction (see page 31).	18	
19	Tuition and fees deduction (see page 31).	19	
20	Add lines 16 through 19. These are your <b>total adjustments</b> .	20	
21	Subtract line 20 from line 15. This is your <b>adjusted gross income</b> .	21	10,163

**Adjusted gross income**

**For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 57.** Cat. No. 11327A Form 1040A (2004)

# WAGE EARNER COMPREHENSIVE

## PROBLEMS

## ANSWERS TO PROBLEMS

### Problem 2

Form 1040A (2004)

Page 2

<b>Tax, credits, and payments</b>	<b>22</b>	Enter the amount from line 21 (adjusted gross income).	22	10,163																	
<b>Standard Deduction for—</b> ● People who checked any box on line 23a or 23b or who can be claimed as a dependent, see page 32. ● All others: Single or Married filing separately, \$4,850 Married filing jointly or Qualifying widow(er), \$9,700 Head of household, \$7,150	<b>23a</b>	Check if: <input type="checkbox"/> You were born before January 2, 1940, <input type="checkbox"/> Blind } <b>Total boxes checked</b> <input type="checkbox"/> <b>23a</b>																			
	<b>b</b>	If you are married filing separately and your spouse itemizes deductions, see page 32 and check here <input type="checkbox"/> <b>23b</b>																			
	<b>24</b>	Enter your <b>standard deduction</b> (see left margin).	24	4,850																	
	<b>25</b>	Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.	25	5,313																	
	<b>26</b>	Multiply \$3,100 by the total number of exemptions claimed on line 6d.	26	3,100																	
	<b>27</b>	Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. <b>This is your taxable income.</b>	27	2,213																	
	<b>28</b>	<b>Tax, including any alternative minimum tax (see page 33).</b>	28	221																	
	<b>29</b>	Credit for child and dependent care expenses. Attach Schedule 2.	29																		
	<b>30</b>	Credit for the elderly or the disabled. Attach Schedule 3.	30																		
	<b>31</b>	Education credits. Attach Form 8863.	31																		
	<b>32</b>	Child tax credit (see page 37).	32																		
	<b>33</b>	Retirement savings contributions credit. Attach Form 8880.	33																		
	<b>34</b>	Adoption credit. Attach Form 8839.	34																		
	<b>35</b>	Add lines 29 through 34. These are your <b>total credits</b> .	35	0																	
	<b>36</b>	Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.	36	221																	
<b>37</b>	Advance earned income credit payments from Form(s) W-2.	37																			
<b>38</b>	Add lines 36 and 37. This is your <b>total tax</b> .	38	221																		
<b>39</b>	Federal income tax withheld from Forms W-2 and 1099.	39	261																		
<b>40</b>	2004 estimated tax payments and amount applied from 2003 return.	40																			
If you have a qualifying child, attach Schedule EIC.	<b>41</b>	<b>Earned income credit (EIC).</b>	41	101																	
	<b>42</b>	Additional child tax credit. Attach Form 8812.	42																		
	<b>43</b>	Add lines 39 through 42. These are your <b>total payments</b> .	43	362																	
<b>Refund</b>	<b>44</b>	If line 43 is more than line 38, subtract line 38 from line 43. <b>This is the amount you overpaid.</b>	44	141																	
Direct deposit? See page 50 and fill in 45b, 45c, and 45d.	<b>45a</b>	Amount of line 44 you want <b>refunded to you</b> .	45a	141																	
	<b>b</b>	Routing number: <table border="1" style="display: inline-table; text-align: center;"><tr><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td></tr></table> <b>c</b> Type: <input checked="" type="checkbox"/> Checking <input type="checkbox"/> Savings	x	x	x	x	x	x	x	x	x	x									
	x	x	x	x	x	x	x	x	x	x											
<b>d</b>	Account number: <table border="1" style="display: inline-table; text-align: center;"><tr><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td><td>x</td></tr></table>	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		
x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x				
<b>46</b>	Amount of line 44 you want <b>applied to your 2005 estimated tax</b> .	46																			
<b>Amount you owe</b>	<b>47</b>	<b>Amount you owe.</b> Subtract line 43 from line 38. For details on how to pay, see page 51.	47																		
<b>48</b>	Estimated tax penalty (see page 52).	48																			
<b>Third party designee</b>	Do you want to allow another person to discuss this return with the IRS (see page 52)? <input type="checkbox"/> Yes. Complete the following. <input checked="" type="checkbox"/> No																				
	Designee's name	Phone no.	Personal identification number (PIN)																		
<b>Sign here</b>	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.																				
Joint return? See page 20. Keep a copy for your records.	Your signature	Date	Your occupation <b>Clerk</b>	Daytime phone number ( )																	
	Spouse's signature. If a joint return, <b>both</b> must sign.	Date	Spouse's occupation																		
<b>Paid preparer's use only</b>	Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN <b>Sxxxxxxx</b>																	
	Firm's name (or yours if self-employed), address, and ZIP code	EIN	Phone no. ( )																		

## Problem 2

Form 1040A—Line 41

### Line 41 Earned Income Credit (EIC)

#### What is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

#### To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you or let the IRS figure the credit for you.
- If you have a qualifying child, complete and attach Schedule EIC.



*If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.*

#### Step 1 All Filers

1. If, in 2004:
  - 2 children lived with you, is the amount on Form 1040A, line 22, less than \$34,458 (\$35,458 if married filing jointly)?
  - 1 child lived with you, is the amount on Form 1040A, line 22, less than \$30,338 (\$31,338 if married filing jointly)?
  - No children live with you, is the amount on Form 1040A, line 22, less than \$11,490 (\$12,490 if married filing jointly)?

**Yes.** Continue →       **No.** STOP  
You cannot take the credit.
2. Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 41)?

**Yes.** Continue →       **No.** STOP  
You cannot take the credit.  
Put "No" to the left of the entry space for line 41.
3. Is your filing status married filing separately?

**Yes.** STOP       **No.** Continue →  
You cannot take the credit.
4. Were you a nonresident alien for any part of 2004?

**Yes.** See *Nonresident aliens* on page 41.       **No.** Go to Step 2.

#### Step 2 Investment Income

1. Add the amounts from Form 1040A:

Line 8a \_\_\_\_\_  
Line 8b + \_\_\_\_\_  
Line 9a + \_\_\_\_\_  
Line 10 + \_\_\_\_\_

Investment Income =

2. Is your investment income more than \$2,650?

**Yes.** STOP       **No.** Continue →  
You cannot take the credit.
3. Did a child live with you in 2004?

**Yes.** Go to Step 3 on page 39.       **No.** Go to Step 4 on page 39.

## Problem 2

Form 1040A, Earned Income Credit Worksheet, line 8, page 2

Continued from page 38

### Step 3 Qualifying Child

A qualifying child is a child who is your...

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew) whom you cared for as you would your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

AND

was at the end of 2004...

Under age 19

or

Under age 24 and a student (see page 41)

or

Any age and permanently and totally disabled (see page 41)

AND

who...

Lived with you in the United States for more than half of 2004. If the child did not live with you for the required time, see Exception to "time lived with you" condition on page 40.



If the child was married, see page 41.

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?

Yes. STOP

No. Continue

You cannot take the credit. Put "No" to the left of the entry space for line 41.

2. Do you have at least one child who meets the above conditions to be your qualifying child?

Yes. Go to question 3.

No. Skip question 3; go to Step 4, question 2.

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2004?

Yes. See *Qualifying child of more than one person* on page 41.

No. This child is your qualifying child. The child must have a valid social security number as defined on page 41 unless the child was born and died in 2004. Skip Step 4; go to Step 5 on page 40.

### Step 4 Filers Without a Qualifying Child

1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?

Yes. STOP

No. Continue

You cannot take the credit. Put "No" to the left of the entry space for line 41.

2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2004 tax return?

Yes. STOP

No. Continue

You cannot take the credit.

3. Were you, or your spouse if filing a joint return, born before January 2, 1980, but under age 65 at the end of 2004?

Yes. Continue

No. STOP

You cannot take the credit.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2004? Members of the military stationed outside the United States, see page 41 before you answer.

Yes. Go to Step 5 on page 40.

No. STOP

You cannot take the credit. Put "No" to the left of the entry space for line 41.

(Continued on page 40)

## Problem 2

Form 1040A, Earned Income Credit Worksheet, line 8, page 3

Continued from page 39

### Step 5 Earned Income

1. Figure earned income:

Form 1040A, line 7 6,923.00

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted to the left of the entry space for line 7 of Form 1040A).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted to the left of the entry space for line 7 of Form 1040A). This amount may be shown in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

Earned Income = 6,923.00

2. If you have:

- 2 or more qualifying children, is your earned income less than \$34,458 (\$35,458 if married filing jointly)?
- 1 qualifying child, is your earned income less than \$30,338 (\$31,338 if married filing jointly)?
- No qualifying children, is your earned income less than \$11,490 (\$12,490 if married filing jointly)?

**Yes.** Go to Step 6.  **No.** 

You cannot take the credit.

### Step 6 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

- Yes.** See *Credit figured by the IRS* on this page.  **No.** Go to the worksheet on page 42.

### Definitions and Special Rules

(listed in alphabetical order)

**Adopted child.** An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

**Credit figured by the IRS.** To have the IRS figure the credit for you:

1. Put "EIC" to the left of the entry space for line 41 of Form 1040A.
2. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see *Form 8862, Who must file*, below.

**Exception to "time lived with you" condition.** A child is considered to have lived with you for all of 2004 if the child was born or died in 2004 and your home was this child's home for the entire time he or she was alive in 2004. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see *Members of the military* on page 41.

**Form 8862, Who must file.** You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But you do not have to file Form 8862 if either of the following applies.

1. After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed, and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
2. You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit for 2 years if it was determined that your error was due to reckless or intentional disregard of the EIC rules (or 10 years if due to fraud).

(Continued on page 41)

## Problem 2

## Form 1040A, Earned Income Credit Worksheet, line 8, page 4

Form 1040A—Line 41

*Continued from page 40*

**Married child.** A child who was married at the end of 2004 is a qualifying child only if (a) you can claim him or her as your dependent on Form 1040A, line 6c, or (b) this child's other parent claims him or her as a dependent under the rules on page 20 for *Children of divorced or separated parents*.

**Members of the military.** If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.

**Nonresident aliens.** If your filing status is married filing jointly, go to Step 2 on page 38. Otherwise, stop; you cannot take the EIC.

**Permanently and totally disabled child.** A child who cannot engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition:

- Has lasted or can be expected to last continuously for at least a year, or
- Can lead to death.

**Qualifying child of more than one person.** If the child meets the conditions to be a qualifying child of more than one person, only one person can take the EIC based on that child. The other person(s) cannot take the EIC for people without a qualifying child, but may take the EIC based on a different qualifying child. If you and the other person(s) cannot agree who will take the EIC, then the following rules apply.

- If only one of the persons is the child's parent, the child will be treated as the qualifying child of the parent.
- If both persons are the child's parents, the child will be treated as the qualifying child of the parent with whom the child lived for the longer period of time during 2004. If the child lived with each parent for the same amount of time, the child will be treated as the qualifying child of the parent who had the higher adjusted gross income (AGI) for 2004.
- If none of the persons is the child's parent, the child will be treated as the qualifying child of the person who had the highest AGI for 2004.

The child must have a valid social security number as defined below unless the child was born and died in 2004. If you do not have a qualifying child, stop; you cannot take the EIC. Put "No" to the left of the entry space for line 41. If you have a qualifying child, skip Step 4; go to Step 5 on page 40.

**Example.** You and your 5-year-old daughter moved in with your mother in April 2004. You are not a qualifying child of your mother. Your daughter meets the conditions to be a qualifying child for both you and your mother. If you and your mother cannot agree on who will treat your daughter as a qualifying child, the above rules apply. Under these rules, you are entitled to treat your daughter as a qualifying child because you are the child's parent. Your mother would not be entitled to claim any EIC unless she has a different qualifying child.

**Social security number (SSN).** For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless "Not Valid for Employment" is printed on the social security card and the number was issued solely to apply for or receive a federally funded benefit.

To find out how to get an SSN, see page 18. If you will not have an SSN by April 15, 2005, see *What if You Cannot File on Time?* on page 12.

**Student.** A child who during any 5 months of 2004:

- Was enrolled as a full-time student at a school, or
- Took a full-time, on-farm training course given by a school or a state, county, or local government agency.

A school includes technical, trade, and mechanical schools. It does not include on-the-job training courses, correspondence schools, or night schools.

**Welfare benefits, effect of credit on.** Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs or how much you can receive from them. But if the refund you receive because of the EIC is not spent within a certain period of time, it may count as an asset (or resource) and affect your eligibility.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

Problem 2

Form 1040A, Earned Income Credit Worksheet, line 8, page 5

**Earned Income Credit (EIC) Worksheet—Line 41**

Keep for Your Records

**Part 1****All Filers**

1. Enter your earned income from Step 5 on page 40. 

1	6,923.00
---	----------

2. Look up the amount on line 1 above in the EIC Table on pages 43–47 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. 

2	349.00
---	--------

If line 2 is zero, You cannot take the credit. Put “No” to the left of the entry space for line 41.

3. Enter the amount from Form 1040A, line 22. 

3	10,163.00
---	-----------

4. Are the amounts on lines 3 and 1 the same?  
 **Yes.** Skip line 5; enter the amount from line 2 on line 6.  
 **No.** Go to line 5.

**Part 2****Filers Who Answered “No” on Line 4**

5. If you have:  
• No qualifying children, is the amount on line 3 less than \$6,400 (\$7,400 if married filing jointly)?  
• 1 or more qualifying children, is the amount on line 3 less than \$14,050 (\$15,050 if married filing jointly)?  
 **Yes.** Leave line 5 blank; enter the amount from line 2 on line 6.  
 **No.** Look up the amount on line 3 in the EIC Table on pages 43–47 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here. 

5	101.00
---	--------

Look at the amounts on lines 5 and 2. Then, enter the **smaller** amount on line 6.

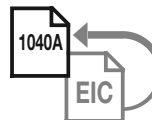
**Part 3****Your Earned Income Credit**

6. **This is your earned income credit.**

6	101.00
---	--------

Enter this amount on Form 1040A, line 41.

**Reminder—**  
✓ If you have a qualifying child, complete and attach Schedule EIC.



If your EIC for a year after 1996 was reduced or disallowed, see page 40 to find out if you must file Form 8862 to take the credit for 2004.

**STUDENT NOTES**

Lined paper template for student notes. The page features a header section at the top left containing the text "STUDENT NOTES". The rest of the page is filled with horizontal lines, providing a space for writing notes. A vertical margin line is present on the left side of the page.



# WAGE EARNER COMPREHENSIVE

# PROBLEMS

# ANSWERS TO PROBLEMS

### Problem 3

Form	1040	Department of the Treasury—Internal Revenue Service <b>U.S. Individual Income Tax Return 2004</b>	(99) IRS Use Only—Do not write or staple in this space.																																																																																																										
<b>Label</b> (See instructions on page 19.)  <b>Use the IRS label.</b> Otherwise, please print or type.  <b>Presidential Election Campaign</b> (See page 19.)		For the year Jan. 1–Dec. 31, 2004, or other tax year beginning _____, 2004, ending _____, 20																																																																																																											
		Your first name and initial <b>Marvin</b>		Last name <b>Simmons</b>																																																																																																									
		If a joint return, spouse's first name and initial		Last name																																																																																																									
		Home address (number and street). If you have a P.O. box, see page 19. <b>9701 Austin Rd.</b>		Apt. no.																																																																																																									
<b>Important!</b> You must enter your SSN(s) above.		City, town or post office, state, and ZIP code. If you have a foreign address, see page 19. <b>Your City, State, and Zip Code</b>																																																																																																											
<b>Filing Status</b> Check only one box.		Note. Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? . . . . . <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No																																																																																																											
<b>Exemptions</b> If more than four dependents, see page 21.		1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. <input type="checkbox"/> 4 <input checked="" type="checkbox"/> Head of household (with qualifying person). (See page 20.) If the qualifying person is a child but not your dependent, enter this child's name here. <input type="checkbox"/> 5 <input type="checkbox"/> Qualifying widow(er) with dependent child (see page 20)																																																																																																											
6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a b <input type="checkbox"/> Spouse		Boxes checked on 6a and 6b: <b>1</b> No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see page 21) Dependents on 6c not entered above Add numbers on lines above: <b>2</b>																																																																																																											
<b>Income</b> Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld.  If you did not get a W-2, see page 22.  Enclose, but do not attach, any payment. Also, please use Form 1040-V.		<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:5%;"></td> <td style="width:15%;">7</td> <td style="width:60%;">Wages, salaries, tips, etc. Attach Form(s) W-2</td> <td style="width:10%;"></td> <td style="width:10%; text-align: right;">24,952</td> </tr> <tr> <td></td> <td>8a</td> <td>Taxable interest. Attach Schedule B if required</td> <td></td> <td></td> </tr> <tr> <td></td> <td>b</td> <td>Tax-exempt interest. Do not include on line 8a</td> <td>8b</td> <td></td> </tr> <tr> <td></td> <td>9a</td> <td>Ordinary dividends. Attach Schedule B if required</td> <td></td> <td></td> </tr> <tr> <td></td> <td>b</td> <td>Qualified dividends (see page 23)</td> <td>9b</td> <td></td> </tr> <tr> <td></td> <td>10</td> <td>Taxable refunds, credits, or offsets of state and local income taxes (see page 23)</td> <td></td> <td></td> </tr> <tr> <td></td> <td>11</td> <td>Alimony received</td> <td></td> <td></td> </tr> <tr> <td></td> <td>12</td> <td>Business income or (loss). Attach Schedule C or C-EZ</td> <td></td> <td></td> </tr> <tr> <td></td> <td>13</td> <td>Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/></td> <td></td> <td></td> </tr> <tr> <td></td> <td>14</td> <td>Other gains or (losses). Attach Form 4797</td> <td></td> <td></td> </tr> <tr> <td></td> <td>15a</td> <td>IRA distributions</td> <td>15a</td> <td></td> </tr> <tr> <td></td> <td>b</td> <td>Taxable amount (see page 25)</td> <td>15b</td> <td></td> </tr> <tr> <td></td> <td>16a</td> <td>Pensions and annuities</td> <td>16a</td> <td></td> </tr> <tr> <td></td> <td>b</td> <td>Taxable amount (see page 25)</td> <td>16b</td> <td></td> </tr> <tr> <td></td> <td>17</td> <td>Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E</td> <td></td> <td></td> </tr> <tr> <td></td> <td>18</td> <td>Farm income or (loss). Attach Schedule F</td> <td></td> <td></td> </tr> <tr> <td></td> <td>19</td> <td>Unemployment compensation</td> <td></td> <td></td> </tr> <tr> <td></td> <td>20a</td> <td>Social security benefits</td> <td>20a</td> <td></td> </tr> <tr> <td></td> <td>b</td> <td>Taxable amount (see page 27)</td> <td>20b</td> <td></td> </tr> <tr> <td></td> <td>21</td> <td>Other income. List type and amount (see page 27)</td> <td></td> <td></td> </tr> <tr> <td></td> <td>22</td> <td>Add the amounts in the far right column for lines 7 through 21. This is your <b>total income</b></td> <td>22</td> <td style="text-align: right;">24,952</td> </tr> </table>				7	Wages, salaries, tips, etc. Attach Form(s) W-2		24,952		8a	Taxable interest. Attach Schedule B if required				b	Tax-exempt interest. Do not include on line 8a	8b			9a	Ordinary dividends. Attach Schedule B if required				b	Qualified dividends (see page 23)	9b			10	Taxable refunds, credits, or offsets of state and local income taxes (see page 23)				11	Alimony received				12	Business income or (loss). Attach Schedule C or C-EZ				13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>				14	Other gains or (losses). Attach Form 4797				15a	IRA distributions	15a			b	Taxable amount (see page 25)	15b			16a	Pensions and annuities	16a			b	Taxable amount (see page 25)	16b			17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E				18	Farm income or (loss). Attach Schedule F				19	Unemployment compensation				20a	Social security benefits	20a			b	Taxable amount (see page 27)	20b			21	Other income. List type and amount (see page 27)				22	Add the amounts in the far right column for lines 7 through 21. This is your <b>total income</b>	22	24,952
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	21	Other income. List type and amount (see page 27)																																																																																																											
	22	Add the amounts in the far right column for lines 7 through 21. This is your <b>total income</b>	22	24,952																																																																																																									
<b>Adjusted Gross Income</b>		<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:5%;"></td> <td style="width:15%;">23</td> <td style="width:60%;">Deduction for clean-fuel vehicles (see page 29)</td> <td style="width:10%;"></td> <td style="width:10%;"></td> </tr> <tr> <td></td> <td>24</td> <td>Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ</td> <td></td> <td></td> </tr> <tr> <td></td> <td>25</td> <td>IRA deduction (see page 29)</td> <td></td> <td></td> </tr> <tr> <td></td> <td>26</td> <td>Student loan interest deduction (see page 31)</td> <td></td> <td></td> </tr> <tr> <td></td> <td>27</td> <td>Tuition and fees deduction (see page 32)</td> <td></td> <td></td> </tr> <tr> <td></td> <td>28</td> <td>Health savings account deduction. Attach Form 8889</td> <td></td> <td></td> </tr> <tr> <td></td> <td>29</td> <td>Moving expenses. Attach Form 3903</td> <td></td> <td></td> </tr> <tr> <td></td> <td>30</td> <td>One-half of self-employment tax. Attach Schedule SE</td> <td></td> <td></td> </tr> <tr> <td></td> <td>31</td> <td>Self-employed health insurance deduction (see page 33)</td> <td></td> <td></td> </tr> <tr> <td></td> <td>32</td> <td>Self-employed SEP, SIMPLE, and qualified plans</td> <td></td> <td></td> </tr> <tr> <td></td> <td>33</td> <td>Penalty on early withdrawal of savings</td> <td></td> <td></td> </tr> <tr> <td></td> <td>34a</td> <td>Alimony paid b Recipient's SSN</td> <td>34a</td> <td></td> </tr> <tr> <td></td> <td>35</td> <td>Add lines 23 through 34a</td> <td></td> <td></td> </tr> <tr> <td></td> <td>36</td> <td>Subtract line 35 from line 22. This is your <b>adjusted gross income</b></td> <td>36</td> <td style="text-align: right;">24,952</td> </tr> </table>				23	Deduction for clean-fuel vehicles (see page 29)				24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ				25	IRA deduction (see page 29)				26	Student loan interest deduction (see page 31)				27	Tuition and fees deduction (see page 32)				28	Health savings account deduction. Attach Form 8889				29	Moving expenses. Attach Form 3903				30	One-half of self-employment tax. Attach Schedule SE				31	Self-employed health insurance deduction (see page 33)				32	Self-employed SEP, SIMPLE, and qualified plans				33	Penalty on early withdrawal of savings				34a	Alimony paid b Recipient's SSN	34a			35	Add lines 23 through 34a				36	Subtract line 35 from line 22. This is your <b>adjusted gross income</b>	36	24,952																																			
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For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 77.

Cat. No. 11320B

Form 1040 (2004)

# WAGE EARNER COMPREHENSIVE

## PROBLEMS

## ANSWERS TO PROBLEMS

### Problem 3

Form 1040 (2004)

Page **2**

#### Tax and Credits

##### Standard Deduction for—

• People who checked any box on line 38a or 38b or who can be claimed as a dependent, see page 34.

• All others:

Single or Married filing separately, \$4,850

Married filing jointly or Qualifying widow(er), \$9,700

Head of household, \$7,150

<b>37</b>	Amount from line 36 (adjusted gross income) . . . . .	<b>37</b>	<b>24,952</b>
<b>38a</b>	Check <input type="checkbox"/> <b>You</b> were born before January 2, 1940, <input type="checkbox"/> <b>Blind.</b> } <b>Total boxes</b> if: <input type="checkbox"/> <b>Spouse</b> was born before January 2, 1940, <input type="checkbox"/> <b>Blind.</b> } <b>checked ▶ 38a</b> <input type="checkbox"/>		
<b>b</b>	If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 34 and check here . . . . . ▶ <b>38b</b> <input type="checkbox"/>		
<b>39</b>	<b>Itemized deductions</b> (from Schedule A) or your <b>standard deduction</b> (see left margin) . .	<b>39</b>	<b>7,150</b>
<b>40</b>	Subtract line 39 from line 37 . . . . .	<b>40</b>	<b>17,802</b>
<b>41</b>	If line 37 is \$107,025 or less, multiply \$3,100 by the total number of exemptions claimed on line 6d. If line 37 is over \$107,025, see the worksheet on page 35 . . . . .	<b>41</b>	<b>6,200</b>
<b>42</b>	<b>Taxable income.</b> Subtract line 41 from line 40. If line 41 is more than line 40, enter -0-	<b>42</b>	<b>11,602</b>
<b>43</b>	<b>Tax</b> (see page 36). Check if any tax is from: <b>a</b> <input type="checkbox"/> Form(s) 8814 <b>b</b> <input type="checkbox"/> Form 4972 . . . . .	<b>43</b>	<b>1,234</b>
<b>44</b>	<b>Alternative minimum tax</b> (see page 38). Attach Form 6251 . . . . .	<b>44</b>	
<b>45</b>	Add lines 43 and 44 . . . . . ▶	<b>45</b>	<b>1,234</b>
<b>46</b>	Credit for child and dependent care expenses. Attach Form 2441 . . . . .	<b>46</b>	<b>293</b>
<b>47</b>	Credit for the elderly or the disabled. Attach Schedule R . . . . .	<b>47</b>	
<b>48</b>	Education credits. Attach Form 8863 . . . . .	<b>48</b>	
<b>49</b>	Credits from: <b>a</b> <input type="checkbox"/> Form 8396 <b>b</b> <input type="checkbox"/> Form 8859 . . . . .	<b>49</b>	
<b>50</b>	Foreign tax credit. Attach Form 1116 if required . . . . .	<b>50</b>	
<b>51</b>	Child tax credit (see page 40) . . . . .	<b>51</b>	<b>941</b>
<b>52</b>	Retirement savings contributions credit. Attach Form 8880 . . . . .	<b>52</b>	
<b>53</b>	Adoption credit. Attach Form 8839 . . . . .	<b>53</b>	
<b>54</b>	Other credits. Check applicable box(es): <b>a</b> <input type="checkbox"/> Form 3800 <b>b</b> <input type="checkbox"/> Form 8801 <b>c</b> <input type="checkbox"/> Specify	<b>54</b>	
<b>55</b>	Add lines 46 through 54. These are your <b>total credits</b> . . . . .	<b>55</b>	<b>1,234</b>
<b>56</b>	Subtract line 55 from line 45. If line 55 is more than line 45, enter -0- . . . . . ▶	<b>56</b>	<b>0</b>
<b>57</b>	Self-employment tax. Attach Schedule SE . . . . .	<b>57</b>	
<b>58</b>	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137 . .	<b>58</b>	
<b>59</b>	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required . .	<b>59</b>	
<b>60</b>	Advance earned income credit payments from Form(s) W-2 . . . . .	<b>60</b>	<b>600</b>
<b>61</b>	Household employment taxes. Attach Schedule H . . . . .	<b>61</b>	
<b>62</b>	Add lines 56 through 61. This is your <b>total tax</b> . . . . . ▶	<b>62</b>	<b>600</b>
<b>63</b>	Federal income tax withheld from Forms W-2 and 1099 . . . . .	<b>63</b>	<b>1,964</b>
<b>64</b>	2004 estimated tax payments and amount applied from 2003 return . . . . .	<b>64</b>	
<b>65</b>	<b>Earned income credit (EIC)</b> . . . . .	<b>65</b>	<b>857</b>
<b>66</b>	Excess social security and tier 1 RRTA tax withheld (see page 56) . . . . .	<b>66</b>	
<b>67</b>	Additional child tax credit. Attach Form 8812 . . . . .	<b>67</b>	<b>59</b>
<b>68</b>	Amount paid with request for extension to file (see page 56) . . . . .	<b>68</b>	
<b>69</b>	Other payments from: <b>a</b> <input type="checkbox"/> Form 2439 <b>b</b> <input type="checkbox"/> Form 4136 <b>c</b> <input type="checkbox"/> Form 8885 . . . . .	<b>69</b>	
<b>70</b>	Add lines 63 through 69. These are your <b>total payments</b> . . . . . ▶	<b>70</b>	<b>2,880</b>
<b>71</b>	If line 70 is more than line 62, subtract line 62 from line 70. This is the amount you <b>overpaid</b>	<b>71</b>	<b>2,280</b>
<b>72a</b>	Amount of line 71 you want <b>refunded to you</b> . . . . . ▶	<b>72a</b>	<b>2,280</b>
<b>b</b>	Routing number <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> ▶ <b>c</b> Type: <input checked="" type="checkbox"/> Checking <input type="checkbox"/> Savings		
<b>d</b>	Account number <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> ▶		
<b>73</b>	Amount of line 71 you want <b>applied to your 2005 estimated tax</b> ▶ <b>73</b>	<b>73</b>	
<b>74</b>	<b>Amount you owe.</b> Subtract line 70 from line 62. For details on how to pay, see page 57 ▶	<b>74</b>	
<b>75</b>	Estimated tax penalty (see page 58) . . . . .	<b>75</b>	

#### Other Taxes

#### Payments

If you have a qualifying child, attach Schedule EIC.

#### Refund

Direct deposit? See page 56 and fill in 72b, 72c, and 72d.

#### Third Party Designee

#### Sign Here

Joint return? See page 20. Keep a copy for your records.

#### Paid Preparer's Use Only

Do you want to allow another person to discuss this return with the IRS (see page 58)?  Yes. Complete the following.  No

Designee's name ▶	Phone no. ▶ ( )	Personal identification number (PIN) ▶	
Your signature	Date	Your occupation <b>Mechanic</b>	Daytime phone number ( )
Spouse's signature. If a joint return, <b>both</b> must sign.	Date	Spouse's occupation	
Preparer's signature ▶	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN <b>Sxxxxxxxxx</b>
Firm's name (or yours if self-employed), address, and ZIP code ▶	EIN	Phone no. ( )	

Problem 3

Form <b>2441</b> Department of the Treasury Internal Revenue Service (99)	<b>Child and Dependent Care Expenses</b> ▶ Attach to Form 1040. ▶ See separate instructions.	OMB No. 1545-0068 <b>2004</b> Attachment Sequence No. <b>21</b>																													
Name(s) shown on Form 1040 <b>Marvin Simmons</b>		Your social security number XXX : XX : XXXX																													
<p><b>Before you begin:</b> You need to understand the following terms. See <b>Definitions</b> on page 1 of the instructions.</p> <p>● <b>Dependent Care Benefits</b>      ● <b>Qualifying Person(s)</b>      ● <b>Qualified Expenses</b>      ● <b>Earned Income</b></p>																															
<p><b>Part I</b> <b>Persons or Organizations Who Provided the Care</b>—You must complete this part.                  (If you need more space, use the bottom of page 2.)</p>																															
1	(a) Care provider's name <b>Joy Day Care</b>	(b) Address (number, street, apt. no., city, state, and ZIP code) <b>9192 East Huron</b> <b>Your City, State, and Zip Code</b>	(c) Identifying number (SSN or EIN) <b>XX-XXXXXXX</b>	(d) Amount paid (see instructions) <b>978</b>																											
Did you receive dependent care benefits? <table style="display: inline-table; margin-left: 20px;"> <tr> <td style="width: 50px;">No</td> <td>→ Complete only Part II below.</td> </tr> <tr> <td>Yes</td> <td>→ Complete Part III on the back next.</td> </tr> </table>					No	→ Complete only Part II below.	Yes	→ Complete Part III on the back next.																							
No	→ Complete only Part II below.																														
Yes	→ Complete Part III on the back next.																														
<p><b>Caution.</b> If the care was provided in your home, you may owe employment taxes. See the instructions for Form 1040, line 61.</p>																															
<p><b>Part II</b> <b>Credit for Child and Dependent Care Expenses</b></p>																															
2 Information about your <b>qualifying person(s)</b> . If you have more than two qualifying persons, see the instructions.																															
	(a) Qualifying person's name First Last <b>Eric Simmons</b>	(b) Qualifying person's social security number XXX : XX : XXXX <b>XXX : XX : XXXX</b>	(c) Qualified expenses you incurred and paid in 2004 for the person listed in column (a) <b>978</b>																												
3	Add the amounts in column (c) of line 2. <b>Do not</b> enter more than \$3,000 for one qualifying person or \$6,000 for two or more persons. If you completed Part III, enter the amount from line 34			978																											
4	Enter your <b>earned income</b>			24,952																											
5	If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions); <b>all others</b> , enter the amount from line 4			24,952																											
6	Enter the <b>smallest</b> of line 3, 4, or 5			978																											
7	Enter the amount from Form 1040, line 37			24,952																											
8	Enter on line 8 the decimal amount shown below that applies to the amount on line 7 If line 7 is: <table style="display: inline-table; margin-left: 20px;"> <thead> <tr> <th>Over</th> <th>But not over</th> <th>Decimal amount is</th> </tr> </thead> <tbody> <tr><td>\$0—15,000</td><td></td><td>.35</td></tr> <tr><td>15,000—17,000</td><td></td><td>.34</td></tr> <tr><td>17,000—19,000</td><td></td><td>.33</td></tr> <tr><td>19,000—21,000</td><td></td><td>.32</td></tr> <tr><td>21,000—23,000</td><td></td><td>.31</td></tr> <tr><td>23,000—25,000</td><td></td><td>.30</td></tr> <tr><td>25,000—27,000</td><td></td><td>.29</td></tr> <tr><td>27,000—29,000</td><td></td><td>.28</td></tr> </tbody> </table>			Over	But not over	Decimal amount is	\$0—15,000		.35	15,000—17,000		.34	17,000—19,000		.33	19,000—21,000		.32	21,000—23,000		.31	23,000—25,000		.30	25,000—27,000		.29	27,000—29,000		.28	× .30
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27,000—29,000		.28																													
9	Multiply line 6 by the decimal amount on line 8. If you paid 2003 expenses in 2004, see the instructions			293																											
10	Enter the amount from Form 1040, line 43			1,234																											
11	Enter the amount, if any, from Form 6251, line 31 (see the instructions)			0																											
12	Subtract line 11 from line 10. If zero or less, <b>stop</b> . You cannot take the credit			1,234																											
13	<b>Credit for child and dependent care expenses.</b> Enter the <b>smaller</b> of line 9 or line 12 here and on Form 1040, line 46			293																											
<p><b>For Paperwork Reduction Act Notice, see page 3 of the instructions.</b>      Cat. No. 11862M      Form <b>2441</b> (2004)</p>																															

### Problem 3

Form 2441 (2004)		Page <b>2</b>																																
<b>Part III Dependent Care Benefits</b>																																		
<p><b>14</b> Enter the total amount of <b>dependent care benefits</b> you received in 2004. Amounts you received as an employee should be shown in box 10 of your Form(s) W-2. <b>Do not</b> include amounts reported as wages in box 1 of Form(s) W-2. If you were self-employed or a partner, include amounts you received under a dependent care assistance program from your sole proprietorship or partnership</p> <p><b>15</b> Enter the amount forfeited, if any (see the instructions)</p> <p><b>16</b> Subtract line 15 from line 14</p> <p><b>17</b> Enter the total amount of <b>qualified expenses</b> incurred in 2004 for the care of the <b>qualifying person(s)</b></p> <p><b>18</b> Enter the <b>smaller</b> of line 16 or 17</p> <p><b>19</b> Enter your <b>earned income</b></p> <p><b>20</b> Enter the amount shown below that applies to you.</p> <ul style="list-style-type: none"> <li>• If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions for line 5).</li> <li>• If married filing separately, see the instructions for the amount to enter.</li> <li>• All others, enter the amount from line 19.</li> </ul> <p><b>21</b> Enter the <b>smallest</b> of line 18, 19, or 20</p> <p><b>22</b> Enter the amount from line 14 that you received from your sole proprietorship or partnership. If you did not receive any such amounts, enter -0-</p> <p><b>23</b> Subtract line 22 from line 16</p> <p><b>24</b> Enter \$5,000 (\$2,500 if married filing separately <b>and</b> you were required to enter your spouse's earned income on line 20)</p> <p><b>25</b> <b>Deductible benefits.</b> Enter the <b>smallest</b> of line 21, 22, or 24. Also, include this amount on the appropriate line(s) of your return (see the instructions)</p> <p><b>26</b> Enter the <b>smaller</b> of line 21 or 24</p> <p><b>27</b> Enter the amount from line 25</p> <p><b>28</b> <b>Excluded benefits.</b> Subtract line 27 from line 26. If zero or less, enter -0-</p> <p><b>29</b> <b>Taxable benefits.</b> Subtract line 28 from line 23. If zero or less, enter -0-. Also, include this amount on Form 1040, line 7. On the dotted line next to line 7, enter "DCB"</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50px; height: 20px;">14</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">15</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">16</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">17</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">18</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">19</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">20</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">21</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">22</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">23</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">24</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">25</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">26</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">27</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">28</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">29</td><td style="width: 50px;"></td></tr> </table>	14		15		16		17		18		19		20		21		22		23		24		25		26		27		28		29		
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To claim the child and dependent care credit, complete lines 30-34 below.																																		
<p><b>30</b> Enter \$3,000 (\$6,000 if two or more qualifying persons)</p> <p><b>31</b> Add lines 25 and 28</p> <p><b>32</b> Subtract line 31 from line 30. If zero or less, <b>stop</b>. You cannot take the credit. <b>Exception.</b> If you paid 2003 expenses in 2004, see the instructions for line 9</p> <p><b>33</b> Complete line 2 on the front of this form. <b>Do not</b> include in column (c) any benefits shown on line 31 above. Then, add the amounts in column (c) and enter the total here</p> <p><b>34</b> Enter the <b>smaller</b> of line 32 or 33. Also, enter this amount on line 3 on the front of this form and complete lines 4-13</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50px; height: 20px;">30</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">31</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">32</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">33</td><td style="width: 50px;"></td></tr> <tr><td style="width: 50px; height: 20px;">34</td><td style="width: 50px;"></td></tr> </table>	30		31		32		33		34																								
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## Problem 3

## Form 1040, Child Tax Credit Worksheet, line 51

### Line 51—Child Tax Credit

#### What Is the Child Tax Credit?

This credit is for people who have a qualifying child (defined below). It is in addition to the credit for child and dependent care expenses on Form 1040, line 46, and the earned income credit on Form 1040, line 65.

#### Three Steps To Take the Child Tax Credit!

- Step 1.** Make sure you have a qualifying child for the child tax credit (defined below).
- Step 2.** Make sure you checked the box on Form 1040, line 6c, column (4), for each qualifying child.
- Step 3.** Answer the questions on this page to see if you may use the worksheet on page 41 to figure your credit or if you must use Pub. 972, Child Tax Credit. If you need Pub. 972, see page 7.

#### Qualifying Child for Child Tax Credit

A qualifying child for purposes of the child tax credit is a child who:

1. Is claimed as your dependent on line 6c, and
2. Was under age 17 at the end of 2004, and
3. Is your (a) son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild); (b) brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child; or (c) foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child), and
4. Is a U.S. citizen or resident alien.



*The above requirements are not the same as the requirements to be a qualifying child for the earned income credit.*

An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized


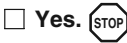
placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.



#### Questions

#### Who Must Use Pub. 972



1. Are you excluding income from Puerto Rico or are you filing any of the following forms?
  - Form 2555 or 2555-EZ (relating to foreign earned income)
  - Form 4563 (exclusion of income for residents of American Samoa)

**No.** *Continue*   **Yes.**  You must use Pub. 972 to figure your credit.
2. Is the amount on Form 1040, line 37, more than the amount shown below for your filing status?
  - Married filing jointly – \$110,000
  - Single, head of household, or qualifying widow(er) – \$75,000
  - Married filing separately – \$55,000

**No.** *Continue*   **Yes.**  You must use Pub. 972 to figure your credit.
3. Are you claiming any of the following credits?
  - Retirement savings contributions credit, Form 8880 (see the instructions for Form 1040, line 52, on page 42)
  - Adoption credit, Form 8839 (see the instructions for Form 1040, line 53, on page 42)

**No.** Use the worksheet on page 38 to figure your child tax credit.  **Yes.** You must use Pub. 972 to figure your child tax credit. You will also need the form(s) listed above for any credit(s) you are claiming.

# WAGE EARNER COMPREHENSIVE

## PROBLEMS

## ANSWERS TO PROBLEMS

Problem 3

Form 1040, Child Tax Credit Worksheet, line 51

### Child Tax Credit Worksheet—Line 51

Keep for Your Records



• To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2004 and meet the other requirements listed on page 40.

• **Do not** use this worksheet if you answered “Yes” to question 1, 2, or 3 on page 40. Instead, use Pub. 972.

1. Number of qualifying children: 1 × \$1,000. 1 1,000.00  
Enter the result.

2. Enter the amount from Form 1040, line 45. 2 1,234.00

3. Add the amounts from Form 1040:

Line 46 293.00

Line 47 + \_\_\_\_\_

Line 48 + \_\_\_\_\_

Line 49 + \_\_\_\_\_

Line 50 + \_\_\_\_\_ Enter the total. 3 293.00

4. Are the amounts on lines 2 and 3 the same?

Yes.

You cannot take this credit because there is no tax to reduce. However, you may be able to take the **additional child tax credit**. See the **TIP** below.

No. Subtract line 3 from line 2. 4 941.00

5. Is the amount on line 1 more than the amount on line 4?

Yes. Enter the amount from line 4. Also, you may be able to take the **additional child tax credit**. See the **TIP** below. **This is your child tax credit.**

No. Enter the amount from line 1.

5 941.00

Enter this amount on Form 1040, line 51.



You may be able to take the **additional child tax credit** on Form 1040, line 67, if you answered “Yes” on line 4 or line 5 above.

- First, complete your Form 1040 through line 66.
- Then, use Form 8812 to figure any additional child tax credit.



Problem 3

Form 1040, Earned Income Credit Worksheet, line 65, page 1

## Line 65 Earned Income Credit (EIC)

### What Is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

### To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you or let the IRS figure the credit for you.
- If you have a qualifying child, complete and attach Schedule EIC.



*If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. You may also have to pay penalties.*

### Step 1 All Filers

- If, in 2004:
  - 2 children lived with you, is the amount on Form 1040, line 37, less than \$34,458 (\$35,458 if married filing jointly)?
  - 1 child lived with you, is the amount on Form 1040, line 37, less than \$30,338 (\$31,338 if married filing jointly)?
  - No children lived with you, is the amount on Form 1040, line 37, less than \$11,490 (\$12,490 if married filing jointly)?

**Yes.** Continue →       **No.** You cannot take the credit.
- Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 47)?
 

**Yes.** Continue →       **No.** You cannot take the credit. Put "No" on the dotted line next to line 65.
- Is your filing status married filing separately?
 

**Yes.** You cannot take the credit.       **No.** Continue →
- Are you filing Form 2555 or 2555-EZ (relating to foreign earned income)?
 

**Yes.** You cannot take the credit.       **No.** Continue →
- Were you a nonresident alien for any part of 2004?
 

**Yes.** See *Nonresident aliens* on page 47.       **No.** Go to Step 2.

### Step 2 Investment Income

- Add the amounts from Form 1040:

Line 8a		_____	0.00
Line 8b	+	_____	
Line 9a	+	_____	
Line 13*	+	_____	

**Investment Income** = 0.00

\*Do not include if line 13 is a loss.

- Is your investment income more than \$2,650?
 

**Yes.** Continue →       **No.** Skip question 3; go to question 4.
- Are you filing Form 4797 (relating to sales of business property)?
 

**Yes.** See *Form 4797 filers* on page 46.       **No.** You cannot take the credit.
- Do any of the following apply for 2004?
  - You are filing Schedule E.
  - You are reporting income or a loss from the rental of personal property not used in a trade or business.
  - You are reporting income on Form 1040, line 21, from Form 8814 (relating to election to report child's interest and dividends).

**Yes.** You must use Worksheet 1 in Pub. 596 to see if you can take the credit. To get Pub. 596, see page 7.       **No.** Continue →
- Did a child live with you in 2004?
 

**Yes.** Go to Step 3 on page 45.       **No.** Go to Step 4 on page 45.

(Continued on page 45)

### Problem 3

Form 1040, Earned Income Credit Worksheet, line 65, page 2

#### Step 3 Qualifying Child

**A qualifying child is a child who is your...**

Son, daughter, adopted child, stepchild, or a descendant of any of them (for example, your grandchild)

or

Brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew), whom you cared for as you would your own child

or

Foster child (any child placed with you by an authorized placement agency whom you cared for as you would your own child)

**AND**

**was at the end of 2004...**

Under age 19

or

Under age 24 and a student (see page 47)

or

Any age and permanently and totally disabled (see page 47)

**AND**

**who...**

Lived with you in the United States for more than half of 2004.

If the child did not live with you for the required time, see *Exception to "time lived with you" condition* on page 46.



*If the child was married, see page 47.*

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?

**Yes.**

You cannot take the credit. Put "No" on the dotted line next to line 65.

**No.** *Continue* →

2. Do you have at least one child who meets the above conditions to be your qualifying child?

**Yes.** Go to question 3.

**No.** Skip the next two questions; go to Step 4, question 2.

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2004?

**Yes.** See *Qualifying child of more than one person* on page 47.

**No.** This child is your qualifying child. The child must have a valid social security number as defined on page 47 unless the child was born and died in 2004. Skip Step 4; go to Step 5 on page 46.

#### Step 4 Filers Without a Qualifying Child

1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2004?

**Yes.**

You cannot take the credit. Put "No" on the dotted line next to line 65.

**No.** *Continue* →

2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2004 tax return?

**Yes.**

You cannot take the credit.

**No.** *Continue* →

3. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2004?

**Yes.** *Continue* →

**No.**

You cannot take the credit.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2004? Members of the military stationed outside the United States, see page 47 before you answer.

**Yes.** Go to Step 5 on page 46.

**No.**

You cannot take the credit. Put "No" on the dotted line next to line 65.

*(Continued on page 46)*



### Problem 3

### Form 1040, Earned Income Credit Worksheet, line 65, page 3

#### Step 5 Earned Income

1. Are you filing Schedule SE because you were a member of the clergy or you had church employee income of \$108.28 or more?

**Yes.** See *Clergy or Church employees*, whichever applies, on this page.  **No.** Continue

2. Figure earned income:

Form 1040, line 7 24,952.00

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount paid to an inmate in a penal institution for work (put "PRI" and the amount subtracted on the dotted line next to Form 1040, line 7).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted on the dotted line next to Form 1040, line 7). This amount may be shown in Form W-2, box 11. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

**Earned Income** = 24,952.00

3. Were you self-employed, or are you filing Schedule SE because you were a member of the clergy or you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?

**Yes.** Skip question 4 and Step 6; go to Worksheet B on page 49.  **No.** Continue

4. If you have:

- 2 or more qualifying children, is your earned income less than \$34,458 (\$35,458 if married filing jointly)?
- 1 qualifying child, is your earned income less than \$30,338 (\$31,338 if married filing jointly)?
- No qualifying children, is your earned income less than \$11,490 (\$12,490 if married filing jointly)?

**Yes.** Go to Step 6.  **No.** STOP

You cannot take the credit.

#### Step 6 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

**Yes.** See *Credit figured by the IRS* on this page.  **No.** Go to Worksheet A on page 48.

#### Definitions and Special Rules

(listed in alphabetical order)

**Adopted child.** An adopted child is always treated as your own child. An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption is not final. An authorized placement agency includes any person or court authorized by state law to place children for legal adoption.

**Church employees.** Determine how much of the amount on Form 1040, line 7, was also reported on Schedule SE, line 5a. Subtract that amount from the amount on Form 1040, line 7, and enter the result in the first space of Step 5, line 2. Be sure to answer "Yes" on Step 5, line 3.

**Clergy.** The following instructions apply to ministers, members of religious orders who have not taken a vow of poverty, and Christian Science practitioners. If you are filing Schedule SE and the amount on line 2 of that schedule includes an amount that was also reported on Form 1040, line 7:

1. Put "Clergy" on the dotted line next to Form 1040, line 65.
2. Determine how much of the amount on Form 1040, line 7, was also reported on Schedule SE, line 2.
3. Subtract that amount from the amount on Form 1040, line 7. Enter the result in the first space of Step 5, line 2.
4. Be sure to answer "Yes" to question 3 in Step 5.

**Credit figured by the IRS.** To have the IRS figure the credit for you:

- Put "EIC" on the dotted line next to Form 1040, line 65.
- If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see *Form 8862, Who must file below*.

**Exception to "time lived with you" condition.** A child is considered to have lived with you for all of 2004 if the child was born or died in 2004 and your home was this child's home for the entire time he or she was alive in 2004. Temporary absences, such as for school, vacation, medical care, or detention in a juvenile facility, count as time lived at home. If your child is presumed to have been kidnapped by someone who is not a family member, see Pub. 596 to find out if that child is a qualifying child for the EIC. To get Pub. 596, see page 7. If you were in the military stationed outside the United States, see *Members of the military* on page 47.

**Form 4797 filers.** If the amount on Form 1040, line 13, includes an amount from Form 4797, you must use Worksheet 1 in Pub. 596 to see if you can take the EIC. To get Pub. 596, see page 7. Otherwise, stop; you cannot take the EIC.

**Form 8862, Who must file.** You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But do not file Form 8862 if either of the following applies.

1. After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed, and (b) your EIC has not been

### Problem 3

Form 1040, Earned Income Credit Worksheet, line 65, page 4

reduced or disallowed again for any reason other than a math or clerical error.

2. You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit for 2 years if it was determined that your error was due to reckless or intentional disregard of the EIC rules (10 years if due to fraud).

**Married child.** A child who was married at the end of 2004 is a qualifying child only if (a) you can claim him or her as your dependent on Form 1040, line 6c, or (b) this child's other parent claims him or her as a dependent under the rules in Pub. 501 for children of divorced or separated parents.

**Members of the military.** If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.

**Nonresident aliens.** If your filing status is married filing jointly, go to Step 2 on page 44. Otherwise, stop; you cannot take the EIC.

**Permanently and totally disabled child.** A child who cannot engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition:

- Has lasted or can be expected to last continuously for at least a year, or
- Can lead to death.

**Qualifying child of more than one person.** If the child meets the conditions to be a qualifying child of more than one person, only one person can take the EIC based on that child. The other person(s) cannot take the EIC for people without a qualifying child, but may take the EIC based on a different qualifying child. If you and the other person(s) cannot agree who will take the EIC, then the following rules apply.

- If only one of the persons is the child's parent, the child will be treated as the qualifying child of the parent.
- If both persons are the child's parents, the child will be treated as the qualifying child of the parent with whom the child lived for the longer period of time during 2004. If the child lived with each parent for the same amount of time, the child will be treated as the qualifying child of the parent who had the higher adjusted gross income (AGI) for 2004.

- If none of the persons is the child's parent, the child will be treated as the qualifying child of the person who had the highest AGI for 2004.

The child must have a valid social security number as defined on this page unless the child was born and died in 2004. If you do not have a qualifying child, stop; you cannot take the EIC. Put "No" on the dotted line next to line 65. If you have a qualifying child, skip Step 4; go to Step 5 on page 46.

**Example.** You and your 5-year-old daughter moved in with your mother in April 2004. You are not a qualifying child of your mother. Your daughter meets the conditions to be a qualifying child for both you and your mother. If you and your mother cannot agree on who will treat your daughter as a qualifying child, the rules above apply. Under these rules, you are entitled to treat your daughter as a qualifying child because you are the child's parent. Your mother would not be entitled to claim any EIC unless she has a different qualifying child.

**Social security number (SSN).** For purposes of taking the EIC, a valid SSN is a number issued by the Social Security Administration unless "Not Valid for Employment" is printed on the social security card and the number was issued solely to apply for or receive a federally funded benefit.

To find out how to get an SSN, see page 15. If you will not have an SSN by April 15, 2005, see *What if You Cannot File on Time?* on page 12.

**Student.** A child who during any 5 months of 2004:

- Was enrolled as a full-time student at a school, or
- Took a full-time, on-farm training course given by a school or a state, county, or local government agency.

A school includes technical, trade, and mechanical schools. It does not include on-the-job training courses, correspondence schools, or night schools.

**Welfare benefits, effect of credit on.** Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs or how much you can receive from them. But if the refund you receive because of the EIC is not spent within a certain period of time, it may count as an asset (or resource) and affect your eligibility.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

Problem 3

Form 1040, Earned Income Credit Worksheet, line 65, page 5

## Worksheet A—Earned Income Credit (EIC)—Line 65

Keep for Your Records

**Before you begin:** ✓ Be sure you are using the correct worksheet. Do not use this worksheet if you were self-employed, or you are filing Schedule SE because you were a member of the clergy or you had church employee income, or you are filing Schedule C or C-EZ as a statutory employee. Instead, use Worksheet B that begins on page 49.



### Part 1


#### All Filers Using Worksheet A

1. Enter your earned income from Step 5 on page 46.

1	24,952.00
---	-----------

2. Look up the amount on line 1 above in the EIC Table on pages 51–55 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

2	857.00
---	--------

If line 2 is zero,  You cannot take the credit. Put “No” on the dotted line next to line 65.

3. Enter the amount from Form 1040, line 37.

3	24,952.00
---	-----------

4. Are the amounts on lines 3 and 1 the same?

 **Yes.** Skip line 5; enter the amount from line 2 on line 6. **No.** Go to line 5.

### Part 2

#### Filers Who Answered “No” on Line 4

5. If you have:

- No qualifying children, is the amount on line 3 less than \$6,400 (\$7,400 if married filing jointly)?

- 1 or more qualifying children, is the amount on line 3 less than \$14,050 (\$15,050 if married filing jointly)?

 **Yes.** Leave line 5 blank; enter the amount from line 2 on line 6. **No.** Look up the amount on line 3 in the EIC Table on pages 51–55 to find the credit. Be sure you use the correct column for your filing status and the number of children you have. Enter the credit here.

5	
---	--

Look at the amounts on lines 5 and 2. Then, enter the **smaller** amount on line 6.

### Part 3

#### Your Earned Income Credit

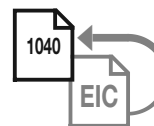
6. This is your earned income credit.

6	857.00
---	--------

Enter this amount on Form 1040, line 65.

#### Reminder—

✓ If you have a qualifying child, complete and attach Schedule EIC.



If your EIC for a year after 1996 was reduced or disallowed, see page 46 to find out if you must file Form 8862 to take the credit for 2004.

# WAGE EARNER COMPREHENSIVE

## PROBLEMS

## ANSWERS TO PROBLEMS

Problem 3

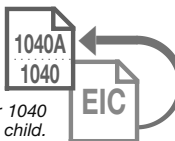
Schedule EIC

**SCHEDULE EIC**  
(Form 1040A or 1040)

Department of the Treasury  
Internal Revenue Service

### Earned Income Credit Qualifying Child Information

Complete and attach to Form 1040A or 1040  
only if you have a qualifying child.



OMB No. 1545-0074

**2004**

Attachment  
Sequence No. **43**

Name(s) shown on return

**Marvin Simmons**

Your social security number

**xxx ; xx ; xxxxx**

**Before you begin:** See the instructions for Form 1040A, line 41, or Form 1040, line 65, to make sure that  
(a) you can take the EIC and (b) you have a qualifying child.



- If you take the EIC even though you are not eligible, you may not be allowed to take the credit for up to 10 years. See back of schedule for details.
- It will take us longer to process your return and issue your refund if you do not fill in all lines that apply for each qualifying child.
- Be sure the child's name on line 1 and social security number (SSN) on line 2 agree with the child's social security card. Otherwise, at the time we process your return, we may reduce or disallow your EIC. If the name or SSN on the child's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

### Qualifying Child Information

**Child 1**

**Child 2**

	First name	Last name	First name	Last name
<b>1 Child's name</b> If you have more than two qualifying children, you only have to list two to get the maximum credit.	<b>Eric</b>	<b>Simmons</b>		
<b>2 Child's SSN</b> The child must have an SSN as defined on page 43 of the Form 1040A instructions or page 47 of the Form 1040 instructions unless the child was born and died in 2004. If your child was born and died in 2004 and did not have an SSN, enter "Died" on this line and attach a copy of the child's birth certificate.	<b>xxx</b>	<b>xx</b>	<b>xxxx</b>	
<b>3 Child's year of birth</b>	Year <b>1 9 9 3</b>		Year _____	
	<i>If born after 1985, skip lines 4a and 4b; go to line 5.</i>		<i>If born after 1985, skip lines 4a and 4b; go to line 5.</i>	
<b>4 If the child was born before 1986—</b>				
<b>a</b> Was the child under age 24 at the end of 2004 and a student?	<input type="checkbox"/> <b>Yes.</b> <i>Go to line 5.</i>	<input type="checkbox"/> <b>No.</b> <i>Continue</i>	<input type="checkbox"/> <b>Yes.</b> <i>Go to line 5.</i>	<input type="checkbox"/> <b>No.</b> <i>Continue</i>
<b>b</b> Was the child permanently and totally disabled during any part of 2004?	<input type="checkbox"/> <b>Yes.</b> <i>Continue</i>	<input type="checkbox"/> <b>No.</b> The child is not a qualifying child.	<input type="checkbox"/> <b>Yes.</b> <i>Continue</i>	<input type="checkbox"/> <b>No.</b> The child is not a qualifying child.
<b>5 Child's relationship to you</b> (for example, son, daughter, grandchild, niece, nephew, foster child, etc.)	<b>Grandchild</b>			
<b>6 Number of months child lived with you in the United States during 2004</b> • If the child lived with you for more than half of 2004 but less than 7 months, enter "7". • If the child was born or died in 2004 and your home was the child's home for the entire time he or she was alive during 2004, enter "12".	<b>12</b> months <i>Do not enter more than 12 months.</i>		_____ months <i>Do not enter more than 12 months.</i>	



You may also be able to take the additional child tax credit if your child (a) was under age 17 at the end of 2004, (b) is claimed as your dependent on line 6c of Form 1040A or Form 1040, and (c) is a U.S. citizen or resident alien. For more details, see the instructions for line 42 of Form 1040A or line 67 of Form 1040.

For Paperwork Reduction Act Notice, see Form 1040A or 1040 instructions.

Cat. No. 13339M

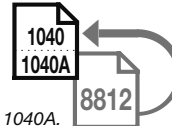
Schedule EIC (Form 1040A or 1040) 2004

Problem 3

Form 8812

Form **8812**

## Additional Child Tax Credit



OMB No. 1545-1620

**2004**

Attachment Sequence No. **47**

Department of the Treasury  
Internal Revenue Service (99)

Complete and attach to Form 1040 or Form 1040A.

Name(s) shown on return

**Marvin Simmons**

Your social security number

xxx xx xxxx

### Part I All Filers

1	Enter the amount from line 1 of your Child Tax Credit Worksheet on page 41 of the Form 1040 instructions or page 38 of the Form 1040A instructions. If you used Pub. 972, enter the amount from line 8 of the worksheet on page 4 of the publication . . . . .	1	1,000
2	Enter the amount from Form 1040, line 51, or Form 1040A, line 32 . . . . .	2	941
3	Subtract line 2 from line 1. If zero, <b>stop</b> ; you cannot take this credit . . . . .	3	59
4	Enter your total taxable earned income. See the instructions on back . . . . .	4	24,952
5	Is the amount on line 4 more than \$10,750? <input type="checkbox"/> <b>No.</b> Leave line 5 blank and enter -0- on line 6. <input checked="" type="checkbox"/> <b>Yes.</b> Subtract \$10,750 from the amount on line 4. Enter the result . . . . .	5	14,202
6	Multiply the amount on line 5 by 10% (.10) and enter the result . . . . . <b>Next.</b> Do you have three or more qualifying children? <input checked="" type="checkbox"/> <b>No.</b> If line 6 is zero, <b>stop</b> ; you cannot take this credit. Otherwise, skip Part II and enter the <b>smaller</b> of line 3 or line 6 on line 13. <input type="checkbox"/> <b>Yes.</b> If line 6 is equal to or more than line 3, skip Part II and enter the amount from line 3 on line 13. Otherwise, go to line 7.	6	1,420

### Part II Certain Filers Who Have Three or More Qualifying Children

7	Enter the total of the withheld social security and Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If you worked for a railroad, see the instructions on back . . . . .	7	
8	<b>1040 filers:</b> Enter the total of the amounts from Form 1040, lines 30 and 58, plus any uncollected social security and Medicare or tier 1 RRTA taxes included on line 62. <b>1040A filers:</b> Enter -0-.	8	
9	Add lines 7 and 8 . . . . .	9	
10	<b>1040 filers:</b> Enter the total of the amounts from Form 1040, lines 65 and 66. <b>1040A filers:</b> Enter the total of the amount from Form 1040A, line 41, plus any excess social security and tier 1 RRTA taxes withheld that you entered to the left of line 43 (see the instructions on back).	10	
11	Subtract line 10 from line 9. If zero or less, enter -0- . . . . .	11	
12	Enter the <b>larger</b> of line 6 or line 11 here . . . . . <b>Next,</b> enter the <b>smaller</b> of line 3 or line 12 on line 13.	12	

### Part III Your Additional Child Tax Credit

13	This is your additional child tax credit . . . . .	13	59
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Enter this amount on Form 1040, line 67, or Form 1040A, line 42.

For Paperwork Reduction Act Notice, see back of form.

Cat. No. 10644E

Form **8812** (2004)

## Problem 3

Form 8812 (2004)

Page **2**

### Instructions

#### Purpose of Form

Use Form 8812 to figure your additional child tax credit.



*The additional child tax credit may give you a refund even if you do not owe any tax.*

#### Who Should Use Form 8812

First, complete the Child Tax Credit Worksheet that applies to you. See the instructions for Form 1040, line 51, or Form 1040A, line 32. If you meet the condition given in the *TIP* at the end of your Child Tax Credit Worksheet, use Form 8812 to see if you can take the additional child tax credit.

#### Effect of Credit on Welfare Benefits

Any refund you receive as a result of taking the additional child tax credit will not be used to determine if you are eligible for the following programs, or how much you can receive from them.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.

#### Taxable Earned Income

1. Did you, or your spouse if filing a joint return, have net earnings from self-employment and use either optional method to figure those net earnings?

- No.** Go to question 2.
- Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

2. Are you claiming the earned income credit (EIC) on Form 1040, line 65, or Form 1040A, line 41?

- Yes.** Use the following chart to find the amount to enter on Form 8812, line 4.

IF you are filing Form . . .	AND you completed . . .	THEN enter on Form 8812, line 4, the amount from . . .
1040	Worksheet B on page 49 of your 1040 instructions	Worksheet B, line 4b.*
	Step 5 on page 46 of your 1040 instructions (but not Worksheet B)	Step 5, Earned Income
1040A	Step 5 on page 42 of your 1040A instructions	Step 5, Earned Income

\* If you were a member of the clergy, subtract the following from the amount on line 4b: (a) the rental value of a home or the nontaxable portion of an allowance for a home furnished to you (including payments for utilities) and (b) the value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.

- No. 1040 filers:** Go to question 3.  
**1040A filers:** Skip question 3 and go to question 4.

3. Were you, or your spouse if filing a joint return, self-employed, or are you filing Schedule SE because you were a member of the clergy or you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?

- No.** Go to question 4.
- Yes.** Use Pub. 972 to figure the amount to enter on Form 8812, line 4.

4. Does the amount on line 7 of Form 1040 or Form 1040A include any of the following amounts?

- Taxable scholarship or fellowship grants not reported on a Form W-2.
  - Amounts paid to an inmate in a penal institution for work (enter "PRI" and the amount paid in the space next to line 7 of Form 1040 or 1040A).
  - Amounts received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (enter "DFC" and the amount received in the space next to line 7 of Form 1040 or 1040A). This amount may be reported in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.
  - Amounts from Form 2555, line 41, or Form 2555-EZ, line 18.
- No.** Enter the amount from line 7 of Form 1040 or Form 1040A on Form 8812, line 4.
- Yes.** Subtract the total of those amounts from the amount on line 7 of Form 1040 or Form 1040A. (If an amount is included in more than one of the above categories, include it only once in figuring the total amount to subtract.) Enter the result on Form 8812, line 4.

#### Railroad Employees

If you worked for a railroad, include the following taxes in the total on Form 8812, line 7.

- Tier 1 tax withheld from your pay. This tax should be shown in box 14 of your Form(s) W-2 and identified as "Tier 1 tax."
- If you were an employee representative, 50% of the total tier 1 tax and tier 1 Medicare tax you paid for 2004.

#### 1040A Filers

If you, or your spouse if filing a joint return, had more than one employer for 2004 and total wages of over \$87,900, figure any excess social security and tier 1 railroad retirement (RRTA) taxes withheld. See the instructions for Form 1040A, line 43. Include any excess on Form 8812, line 10.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 6 min.; **Learning about the law or the form**, 5 min.; **Preparing the form**, 28 min.; **Copying, assembling, and sending the form to the IRS**, 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040 or Form 1040A.

### OVERVIEW AND OBJECTIVES

This lesson will cover how to:

- Determine capital gain and loss on the sale of corporate stock,
- Report capital gain distributions on Schedule D, when required,
- Figure tax on Schedule D, and
- Compute capital loss carryover.

Tax terms in the student text are presented in bold-faced type. Emphasize these as they are introduced:

- capital asset
- capital gain distributions
- adjusted basis
- holding period
- gross sale proceeds
- net sale proceeds (gross proceeds less commissions)
- capital gain
- capital loss

See Appendix B for suggested class schedules and approximate teaching times.

### MATERIALS

This lesson will refer to the following IRS publications and forms. If you would like to provide your students with the most current revision of the material, you can download the files from [www.irs.gov](http://www.irs.gov).

- Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions*
- Form 1099-DIV, *Dividends and Distributions*
- Schedule D (Form 1040), *Capital Gains and Losses*
- Schedule D-1 (Form 1040), *Continuation Sheet for Schedule D (Form 1040)*
- Form 1040
- *Capital Loss Carryover Worksheet*

## GROUP ACTIVITY

(5–7 min.)

Ask the entire class to turn to Exhibit 1, which shows a blank Form 1099-B. Explain that IRS uses Form 1099-B as a check against taxpayer-reported information. Walk students through the parts of this form and explain how they will use each part to help taxpayers.

- Remind students to check the taxpayer-identification information against the taxpayer's Form 1040.
- Point out that box 1a contains the sale date to use in computing the holding period.
- Refer students to box 2 and make sure they see where the broker indicates whether gross or net proceeds (gross proceeds less commissions) were reported.

## TEACHING TIPS

Volunteers who study advanced topics often have extensive tax knowledge. Acknowledge their expertise; but explain that, throughout these lessons, situations are identified in which volunteers should refer taxpayers to paid professional tax preparers. Explain also that the reason is not because IRS doubts the volunteer's competence, but because these are complex and sometimes risky areas that are beyond the scope of the VITA/TCE program. IRS wants neither to put the program or the volunteer at risk, nor to misinform taxpayers.

Point out to students that if the shares acquired first by the taxpayer are considered sold first, this method used to figure the cost basis is called "first-in first-out" (FIFO).

Make sure that volunteers understand that the dates used to determine holding period do not include the purchase date, but do include the sale date (from box 1a, Form 1099-B).

### Exercise 1

Go over these questions with the students. The discussion will tell you how well they are following the course material.

- A. Students should be able to figure the basis (cost) without being distracted by the commission on the sale.
- B. The change means that the holding period goes from long to short-term. Ask students whether they can tell yet how this change in basis will affect the profitability of the sale. (They are not expected to know, because they haven't yet studied how to determine gain or loss. That topic is discussed next. The long-term capital gain on the sale of stock acquired in May 2000 is \$705 (\$3,255 – \$2,550). However, Morris has a capital loss of \$295 (\$3,255 – \$3,550) on the sale of stock bought in October 2001.





- C. Students should be able to figure the basis after the tax-free stock split.

Remind students that a stockbroker can report either the gross proceeds or the net proceeds as the sales price.

1. Have the students look at Parts I through III of Schedule D so they understand the purpose of each part.
2. Show them a Schedule D-1, the continuation sheet for Schedule D. They will not use it often, if at all, but they should know what it looks like.

## Examples 6 and 7

Examples 6 and 7 compare and contrast features about completing Parts I and II of Schedule D.

### Similarities:

In both Parts I and II the taxpayer:

- Adds sales price in column (d) and reports the total.
- Reports net proceeds if the broker reported net proceeds on Form 1099-B, or adds selling expenses (such as broker's fees and commissions) to basis (cost) if the broker reported gross sales price (gross proceeds).

### Contrasts:

Example 6 shows:

- A short-term transaction (Part I) and
- A net loss.

Example 7 shows:

- A long-term transaction (Part II) and
- A net gain.

## Example 7

Tell the students to trace what happened to each stock, one by one. They should start by looking at the holding period, so they will know whether to report the sale in Part I or Part II of Schedule D. Next, they should figure adjusted basis; and then capital gain or loss on the sale.

Let the students know they must follow this procedure with the pieces of information taxpayers show them. There are no shortcuts.



## Exercise 2

Go over these questions with the students. Students should be able to:

- Compute capital gain or loss and
- Distinguish between long-term and short-term gain or loss on sale of stock.

Remind the students that they already read a brief description of capital gain distributions in Income Lesson, under “Dividend Income and Other Corporate Distributions.”

## Exercise 3

In exercise 3 students need to:

- Combine gains and losses from different transactions;
- Remember not to overlook making entries on lines 3 and 10;
- Take capital gain distributions into consideration (line 13); and
- Avoid letting the bar across the page at line 10 distract them from including the line 8 and 9 amounts when they compute the entries for lines 15 and 16.

## Part III

Point out to the students that when they complete Part III, it is time to transfer the first entry to Form 1040. The entry, either a gain or a loss, goes on line 13 of Form 1040.

Emphasize how important it is to stop and make the entry on Form 1040 at this point. If they wait, they may overlook making it at all.

## 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 deductible on the final income tax return filed for the decedent, but the capital loss limits still apply.

See Publication 559, *Survivors, Executors, and Administrators*.

Make sure the students notice how:

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.

## Exercises 5 and 6

Exercises 5 and 6 summarize what the students have learned in Lesson 9. In both exercises they complete Schedule D, once for a net capital loss, and once for a net capital gain. The information they use to complete Schedule D is presented to them in a format reasonably close to the way taxpayers will present it. In both exercises the students transfer their results to Form 1040.



Exercise 5 requires that students use Parts I, II, and III of Schedule D.

Exercise 6 requires that students use Parts I through III of Schedule D. Students also get more practice at computing adjusted basis.

It is advisable to divide Exercise 5 in parts and have the class go over each part together before moving on to the next one. Doing that will give students a better chance to keep up. A good division would be:

1. Report the stocks in Parts I and II according to whether they are long-term or short-term.
2. Figure their basis.
3. Finish Parts I and II.
4. Complete Part III and Form 1040, line 13.

Exercise 6 is complicated enough that teaching it in parts is probably wise. A good way to divide it would be:

1. Report the stocks in Parts I and II according to whether they are long-term or short-term.
2. Figure their basis.
3. Finish Parts I and II.
4. Complete Part III and Form 1040, line 13.



**STUDENT NOTES**

Lined area for student notes, consisting of approximately 25 horizontal lines and a vertical margin line on the left side.



### OBJECTIVES

After completing this lesson you should be able to:

- Identify the items that affect the basis of a stock.
- Determine if a stock's holding period is long term or short term.
- Determine when and how to report commissions from sale of stock on Schedule D.
- Calculate the taxable gain or deductible loss using Schedule D.
- Calculate the tax liability using the Schedule D Tax Worksheet.

### What You Will Need

In order to complete Schedule D, the taxpayer will need to show you his or her records, including information returns.

- Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions*, which the broker gives the taxpayer to report the sale price of stock.
- The taxpayer's records of basis in the stock sold. Basis is explained in this lesson.
- The taxpayer's records of the date the stock was originally acquired.
- Form 1099-DIV, *Dividends and Distributions*, if the taxpayer received capital gain distributions (for example, from a mutual fund).
- The taxpayer's *Capital Loss Carryover Worksheet* from last year's Schedule D instructions if the taxpayer is carrying over a loss to 2004.

The Internal Revenue Service (IRS) receives copies of Form 1099-B from the broker and copies of Form 1099-DIV from the payer. The taxpayer should not file these items with their return, but keep them with his or her records.

## Capital Asset

A **capital asset** is any asset held either for personal use or for investment. Thus, all your items of personal property, such as your home and car, are capital assets. Property held for investment includes stocks and bonds. Property used in a trade or business, such as inventory or machinery, is not a capital asset.

In this lesson, corporate stock is the only capital asset discussed.

**Capital gain distributions** are also discussed. They are recognized when the entity (such as a mutual fund) that owned a capital asset disposes of it and passes gain through to its shareholders.

The discussion of capital gain distributions in this lesson supplements what you previously learned in Lesson 3.

## Capital Gains Distribution (Only)

The Schedule D generally is not needed for taxpayers who received capital gain distributions from mutual funds but did not sell any shares of stock and do not have any Forms 1099-B as explained in Lesson 3, Income. Instead, report the total capital gain distribution on Form 1040, line 13, or on Form 1040A, line 10. If the taxpayer must file Form 1040, remember to check the box next to line 13 of Form 1040 to indicate that Schedule D is not required. If the taxpayer sold stocks, he or she must file Form 1040 and cannot report capital gain distributions on Form 1040A.

## Basis

The **basis** of property is usually its cost. Certain additional costs relating to its purchase are included in the basis of a capital asset. An example of an expense to include in the basis of stock is the commission or fee paid to a broker when stock is purchased.

If the taxpayer is not able to provide his or her basis in the property, the IRS will deem it to be zero. The taxpayer should make every effort to determine the basis. Refer taxpayers to their stockbroker or financial planner for assistance in determining basis.

Once the taxpayer has the basis, volunteers may assist in preparing the tax return.

## Adjusted Basis

Events after purchase can require adjustments to the basis of stock. The term **adjusted basis** refers to the basis after changes are made. For example, when a stock dividend or stock split is declared, the stockholder receives additional shares of stock. Some of the basis from the original stock is then allocated to the new stock. This change reduces the basis per share of the original shares.

### Example 1

Fran paid \$1,100 for 100 shares of ABC, Inc. stock (including the broker's commission of \$25). Fran received 10 additional shares of ABC stock as a tax-free stock dividend. Her \$1,100 basis must be spread over 110 shares (100 original shares plus the 10-share stock dividend). Her basis per share decreases from \$11 to \$10 per share.

## Holding Period

**Long-term or short-term.** Capital gains and losses are classified as either "long-term" or "short-term," depending on how long the taxpayer owned the stock. Stock held for more than one year (12 months) has a long-term holding period. Stock held for one year or less has a short-term holding period.

### Example 2

Loretta bought stock on January 11, 2003 (trade date). Her holding period began the next day, January 12. If she sells that stock on January 11, 2004, she will not have owned them for more than a year. The holding period will be short-term. However, if she sells the stock on January 12, 2004, or later, the holding period will be long-term.

**Blocks.** Frequently, a taxpayer owns shares of stock that were bought on different dates or for different prices. That is, the individual owns more than one block of stock. Each block may differ from the others in its holding period (long-term or short-term), its basis (amount paid for the stock), or both.

In directing a broker to sell stock, the taxpayer may specify which block, or part of a block, to sell. Specification can make a difference in determining the holding period or basis of the stock sold, giving the taxpayer an element of control and versatility in handling an investment. To be valid, any such specification must be made before or at the time of sale. It cannot be made after the sale. If the taxpayer does not identify the specific block at the time of sale, shares sold are treated as coming from the earliest block purchased.

### TAX TIPS

★★★★★★  
To find out how long the taxpayer has held the stocks, begin counting on the day *after the day* he or she bought the shares of stock and include the day the shares were sold. This sale trade date is part of the holding period.

### POTENTIAL PITFALLS

Stock splits and stock dividends do not occur often. However, do not assume that they never happen. Ask taxpayers if they received any additional shares from a stock split or stock dividend.

### Example 3

In 1996, Tina bought 100 shares of Acme Corporation stock for \$2,000. In 1997 she bought another 100 shares of Acme for \$2,300. In 2004, Tina sold 100 shares of Acme for \$3,000.

The adjusted basis of the shares sold is \$2,000. However, if Tina had told her broker to sell the 100 shares bought in 1997, the adjusted basis of the shares sold would have been \$2,300, reducing her profit (and any taxable amount) on the sale.

**Tax-free stock dividends and stock splits.** Stock acquired in a tax-free stock dividend or stock split has the same holding period as the original stock owned. Thus, if the original stock has a long-term holding period, stock received in a tax-free stock dividend also has a long-term holding period. Similarly, if the original stock has a holding period of three months, the new stock immediately has a three-month holding period.

### Example 4

On February 18, 1999, Wallace bought 500 shares of XYZ Corporation stock for \$1,500, including his broker's commission. XYZ distributed a two-percent stock dividend on April 6, 2004. On April 9, 2004, Wallace sold all his XYZ stock for \$2,030. He has a long-term capital gain of \$530 on the sale of his stock. Although he owned the 10 shares he received as a tax-free stock dividend for only three days, all the stock has a long-term holding period.

**Taxable dividends.** There are several types of taxable dividends, as discussed in Lesson 3. A taxpayer who participates in a dividend reinvestment plan (one type of taxable dividend) will use the dividends to purchase more shares of the stock. The stocks acquired (including fractional shares) through the dividend reinvestment plan are added to the taxpayer's basis at fair market value on the date of distribution. Thus, the new shares of stock do not always have the same holding period as the original stock. If the taxpayer does not know their basis refer them to their stockbroker or financial planner.

### Demutualization

Some taxpayers have been informed by their insurance company that the company has been demutualized. When this happens the policy holder receives either a block of stock or the cash equivalent of company stock. The holding period for such stock is the length of time the policy has been in effect, usually many years. The basis for this stock is zero. The taxpayer must report all of the proceeds as a capital gain, usually long term, when the stock is sold.



## Wash Sales

Generally, a **wash sale** occurs when stock is sold and, within 30 days before or after the sale, substantially identical stock is bought. A loss on a wash sale is not deductible, and special rules relate to the basis of the replacement stock. However, a gain on a wash sale must be reported. Any taxpayer with a wash sale should be referred to a paid professional tax preparer.

## Sales Price, Form 1099-B, and Adjusted Basis

The stockbroker reports **sales price** to the Internal Revenue Service in box 2 of Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions* (see Exhibit 1). Some brokers do not subtract commissions and fees; they report the **gross proceeds** as the sales price. Other brokers do subtract commissions and fees, reporting the **gross proceeds less commissions** (referred to as **net proceeds** in this lesson) as the sales price. The broker checks the appropriate square at the right of box 2 to indicate whether the gross or net proceeds were reported to IRS.

If Form 1099-B reports gross proceeds, add the sales broker's commissions and fees to the basis. If Form 1099-B reports net proceeds, the broker already subtracted the commissions and fees the seller paid. Do not adjust the basis further.

### Exhibit 1

Form 1099-B

7979		<input type="checkbox"/> VOID		<input type="checkbox"/> CORRECTED		OMB No. 1545-0715		Proceeds From Broker and Barter Exchange Transactions
PAYER'S name, street address, city, state, ZIP code, and telephone no.		1a Date of sale or exchange		2004		Form 1099-B		
		1b CUSIP no.						
PAYER'S Federal identification number		RECIPIENT'S identification number		3 Bartering		4 Federal income tax withheld		<b>Copy A For Internal Revenue Service Center</b>  <b>File with Form 1096.</b>  For Privacy Act and Paperwork Reduction Act Notice, see the <b>2004 General Instructions for Forms 1099, 1098, 5498, and W-2G.</b>
				\$		\$		
RECIPIENT'S name		5 No. of shares exchanged		6 Classes of stock exchanged				
Street address (including apt. no.)		7 Description						
City, state, and ZIP code		8 Profit or (loss) realized in 2004		9 Unrealized profit or (loss) on open contracts—12/31/2003				
		\$		\$				
CORPORATION'S name, street address, city, state, and ZIP code		10 Unrealized profit or (loss) on open contracts—12/31/2004		11 Aggregate profit or (loss)				
		\$		\$				
Account number (optional)		2nd TIN not.		12 Check the box if recipient cannot take a loss on their tax return based on the amount in box 2 . . . . . <input type="checkbox"/>				
		<input type="checkbox"/>						

Form **1099-B** Cat. No. 14411V Department of the Treasury - Internal Revenue Service

**Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page**

## Example 5

George sold stock for \$2,300. He paid his broker a commission of \$35 on the sale and received net proceeds of \$2,265. If his broker reported the gross proceeds, box 2 of Form 1099-B would show \$2,300, and the box next to gross proceeds would be checked. If his broker reported the net proceeds, box 2 of Form 1099-B would show \$2,265, and the box next to gross proceeds less commissions would be checked.

As a general rule, you will need the following information from Form 1099-B:

<b>Information You Will Need From Form 1099-B</b>	
<b>IF Form 1099-B shows information in:</b>	<b>THEN report it on:</b>
<b>Box 1a</b> , Date of sale	Schedule D, column (c), of either Part I, line 1, or Part II, line 8
<b>Box 2</b> , Sales price reported to Internal Revenue Service whether gross or net proceeds were reported	Schedule D, column (d), of either Part I, line 1, or Part II, line 8
<b>Box 4</b> , Federal income tax withheld	Form 1040, line 63
<b>Box 7</b> , Description of the property sold	Schedule D, column (a) in either Part I, line 1, or Part II, line 8

If there are entries in box 3 or in boxes 8 through 12 of Form 1099-B, refer the taxpayer to a paid professional tax preparer.

Form 1099-B does **not** include the date the taxpayer bought the stock or what he or she paid for it. The taxpayer will need to provide you with this information.

Some brokers do not issue standard Forms 1099-B. Instead they issue a statement, sometimes titled “A 1099 Consolidated Statement,” which shows stock sales and other types of distributions such as dividends and interest. Exhibit 2 is an example of such a statement

**Exhibit 2**

**A 1099 Consolidated Statement**

<b>Payer</b>	King Investments 555 Center Street New York, NY 10022		<b>Account Number</b>	7764366		<b>SS#</b>	000-00-7026	
<b>1099-INT Interest Income 2004</b>	Interest Income not included in Box 3	Early Withdrawal penalty	US Savings Bonds & other US Treasury Interest	<b>Federal Income Tax Withheld</b>	Foreign Tax Paid	Foreign Country or US Possession		
Box 1	\$378.00	Box 2	Box 3	\$100.00	Box 4	Box 5	Box 6	
<b>1099-DIV Dividends &amp; Distributions 2004</b>	Ordinary Dividends	Capital Gain Distributions	28% Rate Gain	Unrecaptured Sec 1250 Gain	Section 1202 Gain	Nontaxable Distributions		<b>Federal Income Tax Withheld</b>
Box 1	\$559.00	Box 2a	\$179.00	Box 2b	Box 2c	Box 2d	Box 3	Box 4
Investment Expenses	Foreign Tax Paid	Foreign Country or US Possession	Liquid Distrib. Cash	Liquid Distrib. Non-cash				
Box 5	Box 6	\$25.00	Box 7	Box 8	Box 9			
<b>1099-B Proceeds from Broker or Barter Exchange Transactions 2004</b>								
Reference Number	Trade Date	CUSIP Number	Quantity Description	Price	Gross Proceeds Less Commissions	<b>Federal Income Tax Withheld</b>		
	Box 1a	Box 1b	Box 5		Box 2	Box 4		
145367	7/17/04	765298	200 Shs ABC Corp	\$16.75	\$3,299.90			
239863	10/23/04	927651	300 Shs XYZ Markets Inc	\$83.65	\$25,000.20			
<b>TOTALS</b>					<b>\$28,300.10</b>			
<b>1099-R Distributions from IRAs 2004</b>								
Gross Distribution	Taxable Amount	Taxable Amount Not Determined	Total Distribution	<b>Federal Income Tax Withheld</b>	Distribution Code	<b>IRA/SEP SIMPLE</b>		
Box 1	Box 2a		Box 2b	Box 4	Box 7			
\$2,000.00	\$2,000.00				7 - Normal	Yes		

## Exercise 1

For the following situations, determine the adjusted basis of the stock sold, whether the holding period is long-term or short-term, and how the sales price is reported.

**A.** On May 11, 2001, Morris bought 1,000 shares of ZZZ Corporation stock for \$5,000, plus a \$100 commission. On February 14, 2004, he sold 500 shares for \$3,300 and paid a \$45 commission. The broker reported net proceeds on the sale.

1. What is the adjusted basis of the stock sold? \_\_\_\_\_

\_\_\_\_\_

2. Is the holding period long term or short term? \_\_\_\_\_

\_\_\_\_\_

3. What amount is reported to the Internal Revenue Service in box 2 of Form 1099-B? \_\_\_\_\_

\_\_\_\_\_

**B.** In the case of Morris, above, assume that he bought 500 more shares of ZZZ stock on October 6, 2003, for \$3,500, plus a \$50 commission. At the time of the 2004 sale, he told the broker to sell the stock he had bought in 2003.

1. What is the adjusted basis of the stock sold? \_\_\_\_\_

2. Is the holding period long term or short term? \_\_\_\_\_

\_\_\_\_\_

**C.** On November 30, 2001, Janice bought 100 shares of ABC Corporation stock for \$9,965, plus a \$35 commission. On January 5, 2004, the stock split two-for-one, and she then held a total of 200 shares. On March 6, 2004, she sold 100 shares for \$6,470 and paid a \$30 commission. Her broker reported net proceeds.

1. What is the adjusted basis of the stock sold? \_\_\_\_\_

2. Is the holding period long term or short term? \_\_\_\_\_

\_\_\_\_\_

3. What amount is reported to the Internal Revenue Service in box 2 of Form 1099-B? \_\_\_\_\_

\_\_\_\_\_

## REPORTING GAIN OR LOSS ON SCHEDULE D

Use Schedule D (Form 1040), *Capital Gains and Losses*, to report gain or loss on the sale of stock. Figure gain or loss by subtracting the adjusted basis of stock sold from its sales price. If the sales price is greater, the taxpayer has gain on the sale. By contrast, if the adjusted basis is greater than the sales price, the taxpayer has a loss on the sale. To denote a loss, place the number in parentheses. The taxpayer should receive Form 1099-B, reporting each sale of stock.

Also use Schedule D to report capital gain distributions that the taxpayer has in addition to any sales of stock. Enter the capital gain distributions on Schedule D, Part II, line 13. They are reported to the taxpayer on Form 1099-DIV, *Dividends and Distributions*, box 2a.

If the taxpayer had capital gain distributions, but did not sell stock, he or she may not have to use Schedule D. Instead, report the capital gain distributions as explained in Lesson 3, Income.

Schedule D is divided into three parts with a tax calculation worksheet.

- Part I, *Short-Term Capital Gains and Losses*. For assets held one year or less.
- Part II, *Long-Term Capital Gains and Losses*. For assets held more than one year. Part II shows all long-term gains and losses and identifies the part subject to the 28% tax rate. The 28% rate applies to section 1202 gain from the sale or exchange of qualified small business stock and to collectibles.
- Part III, *Taxable Gain or Deductible Loss*.
- Qualified Dividends and Capital Gain Tax Worksheet or Schedule D Tax Worksheet, as required.

## Parts I and II: Short-Term and Long-Term Capital Gains and Losses

Report transactions in Parts I and II as follows:

<b>To Report Capital Gain or Loss in Part I or II, Schedule D</b>		
	<b>Short-Term</b>	<b>Long-Term</b>
Show the first four sales on:	Part I, Line 1, Schedule D	Part II, line 8, Schedule D
For additional sales, use:	Part I, line 1, Schedule D-1	Part II, line 8, Schedule D-1
And transfer the total sales amount:	<b>From</b> Part I, line 2, Schedule D-1 <b>Onto</b> Part I, line 2, Schedule D	<b>From</b> Part II, line 9, Schedule D-1 <b>Onto</b> Part II, line 9, Schedule D

Add the sales price amounts in column (d), lines 1 and 2 of Part I. Enter the result on line 3. Then add the amounts in column (d), lines 8 and 9 of Part II. Enter the result on line 10. The total of line 3 plus line 10 must equal the total from box 2 of all the taxpayer's Forms 1099-B. If they do not agree, the taxpayer should attach a statement to the return to explain the difference.

The Internal Revenue Service will compare the amounts reported on all of a taxpayer's Forms 1099-B with the sum of the amounts reported on lines 3 and 10 of Schedule D. If the numbers do not agree and the taxpayer did not explain the difference, IRS will contact the taxpayer.

### Example 6

On November 13, 2003, Mary Lou bought 500 shares of XEN, Inc. stock for \$20 a share (\$10,000 total), plus a \$50 commission. On February 26, 2004, she sold the stock for \$8,090 and paid selling expenses of \$40. The Form 1099-B from her broker reported a sales price of \$8,090 (gross proceeds). Part I of Mary Lou's completed Schedule D appears in Exhibit 3.

Mary Lou has a short-term capital loss. Notice that Mary Lou shows the loss in column (f) of line 1. She completes Part I by entering the net short-term loss on line 7. This example shows that:

- Her broker reported gross proceeds on Form 1099-B. The amount shown in column (d) is \$8,090 (because selling expenses have not been subtracted), and
- She works those expenses into the computation as an adjustment to basis, column (e)—and the result in column (f) reflects her true gain or loss.

Exhibit 3

Mary Lou's Schedule D, Part I

<b>Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less</b>						
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)	
1 500 sh. XEN	11/13/03	2/26/04	8,090 00	10,090 00	(2,000 00)	
2 Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .						
3 <b>Total short-term sales price amounts.</b> Add lines 1 and 2 in column (d) . . . . .			8,090 00			
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					4	
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					5	
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .					6	( )
7 <b>Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (f) . . . . .					7	(2000 00)

## Example 7

Exhibit 4 shows the three long-term transactions that Tess is reporting on Schedule D, Part II, for 2004. On August 21, 1999, she bought 200 shares of XYZ Company for \$1,500. On October 1, 2000, she bought 500 shares of TUV, Inc., for \$8,000, and on November 18, 2000, she bought 2,000 shares of QRS, Inc., for \$5,000. Each amount includes the commission.

On January 10, 2004, Tess sold the stock in XYZ and TUV. The Form 1099-B from her broker reported gross proceeds of \$1,875 for the XYZ stock, and \$6,000 for TUV. Tess paid commissions of \$35 for selling the XYZ shares, and \$40 for selling TUV. On May 27, 2004, Tess sold the QRS stock for \$10,000. She paid a \$50 commission. Her broker reported net proceeds of \$9,950 on Form 1099-B.

This example shows how to:

- Report basis when Form 1099-B shows gross proceeds (XYZ and TUV—basis includes commissions on the sale, as well as prior adjusted basis), in contrast to when it shows net proceeds (QRS—basis does not include commissions on the sale, but only the prior adjusted basis).
- Net gains and losses in column (f).

**Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
8 200 sh. XYZ	8/21/99	1/10/04	1,875.00	1,535.00	340.00
500 sh. TUV	10/1/00	1/10/04	6,000.00	8,040.00	(2,040.00)
2,000 sh. QRS	11/18/00	5/27/04	9,950.00	5,000.00	4,950.00
9 Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .	9				
10 <b>Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d) . . . . .	10		17,825.00		
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .	11				
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .	12				
13 Capital gain distributions. See page D-2 of the instructions . . . . .	13				
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .	14				( )
15 <b>Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .	15				3,250.00

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Cat. No. 11338H

Schedule D (Form 1040) 2004

**Exercise 2**

For each of the following situations, figure the gain or loss on the sale of stock and indicate whether the gain or loss will be long term or short term.

**A.** On March 15, 2003, Bill bought 1,000 shares of stock for \$15,000, including commission. On March 15, 2004, he sold 600 shares of the stock for \$7,800, net proceeds on Form 1099-B.

1. Will Bill report a gain or a loss? \_\_\_\_\_
2. How much is the gain or loss? \_\_\_\_\_
3. Is the holding period long term or short term? \_\_\_\_\_

**B.** On January 7, 2001, Margo bought stock for \$1,500, plus a \$25 commission. On July 15, 2004, she sold the stock for \$2,000 and paid a \$25 commission. Her Form 1099-B shows the gross proceeds of \$2,000 as the sales price.

1. Will Margo report a gain or a loss? \_\_\_\_\_
2. How much is the gain or loss? \_\_\_\_\_
3. Is the holding period long term or short term? \_\_\_\_\_



## Reporting Capital Gain Distributions From Form 1099-DIV on Schedule D

If the taxpayer received Form 1099-DIV, *Dividends and Distributions*, see whether an amount is shown in box 2a.

- If capital gain distributions from Form 1099-DIV are the only capital gains or losses the taxpayer had for the year, the taxpayer may be able to report them directly on Form 1040A or Form 1040, as explained in Lesson 3, *Income*.
- If the taxpayer also sold stock reported on Form 1099-B, report the total capital gain distributions from Form 1099-DIV on line 13, column (f), of Schedule D.

### Example 8

Alec received a Form 1099-DIV. Box 2a which shows he received a total capital gain distribution of \$170. Alec also received a Form 1099-B that shows a net sales price of \$1,200 on the sale of 600 shares of ABC Group, Inc. He bought the stock on February 19, 2000, and sold it on August 25, 2004. His basis in ABC, including commission, is \$1,455. Alec's Form 1099-DIV, and Part II of his Schedule D, are shown in Exhibits 6. In this example, the capital gain distribution must be shown on Schedule D because Alec also sold stock in 2004 that must be reported on Schedule D.

Exhibit 5

Alec's Form 1099-DIV

9191 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0110		<b>2004</b>	<b>Dividends and Distributions</b>
PAYER'S name, street address, city, state, ZIP code, and telephone no. MIG INC. 4321 Main Street Anytown, VA 00012		1a Total ordinary dividends \$	1b Qualified dividends \$		
PAYER'S Federal identification number 00-0000123		RECIPIENT'S identification number 000-00-0128		2a Total capital gain distr. \$ 170.00	2b Unrecap. Sec. 1250 gain \$
RECIPIENT'S name Alec Green		2c Section 1202 gain \$	2d Collectibles (28%) gain \$	<b>Copy A</b> For Internal Revenue Service Center File with Form 1096.  For Privacy Act and Paperwork Reduction Act Notice, see the 2004 General Instructions for Forms 1099, 1098, 5498, and W-2G.	
Street address (including apt. no.) 1234 A Street		3 Nontaxable distributions \$	4 Federal income tax withheld \$		
City, state, and ZIP code Anytown, VA 00013		5 Investment expenses \$	6 Foreign tax paid \$		
Account number (optional)	2nd TIN not. <input type="checkbox"/>	7 Foreign country or U.S. possession \$	8 Cash liquidation distributions \$		
9 Noncash liquidation distributions \$					
Form 1099-DIV		Cat. No. 14415N		Department of the Treasury - Internal Revenue Service	
<b>Do Not Cut or Separate Forms on This Page</b>			<b>Do Not Cut or Separate Forms on This Page</b>		

<b>Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year</b>						
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)	
8 600 sh. ABC	2/19/00	8/25/04	1,200 00	1,455 00	(255 00)	
9 Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .	9					
10 <b>Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d) . . . . .	10		1,200 00			
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .	11					
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .	12					
13 Capital gain distributions. See page D-2 of the instructions . . . . .	13				170 00	
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .	14				( 85 00 )	
15 <b>Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .	15					

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11338H Schedule D (Form 1040) 2004

### After Completing Parts I and II of Schedule D

Double-check your entries on Schedule D up to this point.

- Check that the sales price amount from each Form 1099-B agrees with the amount entered in column (d) of either line 1 or line 8.
- Check that all entries in column (d), lines 1 and 2, add up to the amount on line 3.
- Check that all entries in column (d), lines 8 and 9, add up to the amount on line 10.
- Check that line 3, added to line 10, agrees with the total sales price reported on all of the taxpayer's Forms 1099-B.
- Check that the amount on line 13, column (f), is the same as the total from all the taxpayer's Forms 1099-DIV, box 2a.

### Exercise 3

This exercise will give you practice with Schedule D. Use the following information to complete Parts I and II of Jane's Schedule D.

Jane sold five stocks during 2004. Her broker reported net proceeds as sales price.

Stock	Purchase Date	Date Sold	Net Sales Price	Adjusted Basis
500 sh LSR	1/21/03	1/4/04	\$ 4,000	\$ 9,000
250 sh BGI	3/11/03	2/12/04	10,000	2,500
75 sh ABC	1/22/01	1/29/04	2,000	7,500
400 sh XYZ	12/3/99	3/6/04	15,000	10,000
100 sh DEF	4/2/99	10/16/04	1,200	2,000

Jane also owns shares in a mutual fund that sent her a Form 1099-DIV. It reported \$1,200 paid to her in total capital gain distributions for the year.

**Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
1					
2 Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .					
3 <b>Total short-term sales price amounts.</b> Add lines 1 and 2 in column (d) . . . . .					
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824					4
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					5
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .					6 ( )
7 <b>Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (f) . . . . .					7

**Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
8					
9 Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .					
10 <b>Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d) . . . . .					
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					11
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					12
13 Capital gain distributions. See page D-2 of the instructions . . . . .					13
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .					14 ( )
15 <b>Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .					15

### Part III: Summary of Parts I and II

Combine the amounts from line 7 (net short-term capital gain or loss) and line 15 (net long-term capital gain or loss). Enter the result on line 16 in Part III. This combined number may be a gain or a loss.

- If the line 16 amount is a gain, also enter it on line 13 of Form 1040.
- If the line 16 amount is a loss, skip to line 21 of Schedule D. Line 21 ensures that no more than the maximum allowable capital loss is deducted on Form 1040. The line 21 amount is limited to the smaller of:
  - The loss from line 16 or
  - \$3,000 (\$1,500 for a married taxpayer filing separately).

Also enter this amount on line 13 of Form 1040. Because it is a loss, be sure to put parentheses around the number when you enter it on Form 1040.

### Tax Computation using either Qualified Dividends and Capital Gain Tax Worksheet or the Schedule D Tax Worksheet

The law limits tax rates on net long-term capital gains. To obtain the lowest rate, taxpayers with long-term capital gains must go to Schedule D Tax Worksheet to figure their tax. To determine whether you need a worksheet, complete Form 1040 through line 42, Taxable Income. Then go to the appropriate worksheet when:

- Both lines 15 and 16 of Schedule D are gains, and
- Form 1040, line 42, is more than zero.

#### Example 9

Edmund's tax return shows:

Filing status:	Form 1040, line 1 box checked, single.
Amount from:	Form 1040, line 42: \$65,001
	Schedule D, line 7: (5,000)
	Schedule D, line 15: 16,000
	Schedule D, line 16: 11,000
	(Transferred to Form 1040, line 13.)

There is capital gain on Schedule D, line 15, and Form 1040, line 42, is more than zero.

Exhibits 8 and 9 show Edmund's Schedule D Part III, his Qualified Dividends and Capital Gain Tax Worksheet, and his Form 1040, lines 13 and 42. His tax is \$11,894. Without Schedule D, his tax from the Tax Table would be \$12,994. Using Schedule D saved Edmund \$1,100.

**Part III Summary**

<p><b>16</b> Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13 . . . . .</p>	<b>16</b>		
<p><b>17</b> Are lines 15 and 16 <b>both</b> gains?  <input type="checkbox"/> <b>Yes.</b> Go to line 18.  <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.</p>			
<p><b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> on page D-7 of the instructions . . . . . ▶</p>	<b>18</b>		
<p><b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page D-8 of the instructions . . . . . ▶</p>	<b>19</b>		
<p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below.  <input type="checkbox"/> <b>No.</b> Complete the <b>Schedule D Tax Worksheet</b> on page D-10 of the instructions. <b>Do not</b> complete lines 21 and 22 below.</p>			
<p><b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of:</p> <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) }</li> </ul> <p><b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.</p>	<b>21</b>	(            )	
<p><b>22</b> Do you have qualified dividends on Form 1040, line 9b?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040.  <input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040.</p>			

Proof as of  
Nov 18, 2004  
(subject to change)

**Qualified Dividends and Capital Gain Tax Worksheet—Line 43**

*Keep for Your Records*

**Before you begin:** ✓ See the instructions for line 43 on page 36 to see if you can use this worksheet to figure your tax.  
 ✓ If you do not have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Form 1040.



1. Enter the amount from Form 1040, line 42	1.	65,001.00
2. Enter the amount from Form 1040, line 9b	2.	
3. Are you filing Schedule D?		
<input checked="" type="checkbox"/> <b>Yes.</b> Enter the <b>smaller</b> of line 15 or 16 of Schedule D, but do not enter less than -0-	}	3,11,000.00
<input type="checkbox"/> <b>No.</b> Enter the amount from Form 1040, line 13		
4. Add lines 2 and 3	4.	11,000.00
5. If you are claiming investment interest expense on Form 4952, enter the amount from line 4g of that form. Otherwise, enter -0-	5.	
6. Subtract line 5 from line 4. If zero or less, enter -0-	6.	11,000.00
7. Subtract line 6 from line 1. If zero or less, enter -0-	7.	54,001.00
8. Enter the <b>smaller</b> of:		
• The amount on line 1 or	}	8,29,050.00
• \$29,050 if single or married filing separately,		
\$58,100 if married filing jointly or qualifying widow(er), or \$38,900 if head of household.		
9. Is the amount on line 7 equal to or more than the amount on line 8?		
<input checked="" type="checkbox"/> <b>Yes.</b> Skip lines 9 through 11; go to line 12 and check the "No" box.		
<input type="checkbox"/> <b>No.</b> Enter the amount from line 7	9.	
10. Subtract line 9 from line 8	10.	
11. Multiply line 10 by 5% (.05)	11.	
12. Are the amounts on lines 6 and 10 the same?		
<input type="checkbox"/> <b>Yes.</b> Skip lines 12 through 15; go to line 16.		
<input checked="" type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 6	12.	11,000.00
13. Enter the amount from line 10 (if line 10 is blank, enter -0-)	13.	
14. Subtract line 13 from line 12	14.	11,000.00
15. Multiply line 14 by 15% (.15)	15.	1,650.00
16. Figure the tax on the amount on line 7. Use the Tax Table or Tax Computation Worksheet, whichever applies	16.	10,244.00
17. Add lines 11, 15, and 16	17.	11,894.00
18. Figure the tax on the amount on line 1. Use the Tax Table or Tax Computation Worksheet, whichever applies	18.	12,994.00
19. <b>Tax on all taxable income.</b> Enter the <b>smaller</b> of line 17 or line 18. Also include this amount on Form 1040, line 43	19.	11,894.00

Need more information or forms? See page 7.

12	Business income or (loss). Attach Schedule C or C-EZ	12		
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13	11,000	00
42	<b>Taxable income.</b> Subtract line 41 from line 40. If line 41 is more than line 40, enter -0-	42	65,001	00
43	<b>Tax</b> (see page 36). Check if any tax is from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972	43	11,894	00

**Exercise 4**

Melvin sold the following stocks during 2004. His broker reported net sales proceeds on Form 1099-B.

Stock	Purchase Date	Date Sold	Net Sales Price	Adjusted Basis
50 sh ABC	9/15/03	7/26/04	\$ 4,000	\$5,000
200 sh MLG	9/10/03	6/7/04	1,200	1,000
150 sh XYZ	4/17/02	3/8/04	5,500	6,000
300 sh MLS	1/13/98	6/19/04	6,000	3,000

Melvin also had shares in a mutual fund. The fund sent him a Form 1099-DIV that showed he received \$1,500 in total capital gain distributions. His taxable income (line 42, Form 1040) was \$67,001. His filing status is single.

Use the information given to complete Melvin's Schedule D. What amounts would be shown on his:

- (A) 1. Form 1040, line 13? \_\_\_\_\_
- 2. Form 1040, line 42? \_\_\_\_\_



**SCHEDULE D  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Capital Gains and Losses**

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).  
▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074

**2004**

Attachment  
Sequence No. **12**

Name(s) shown on Form 1040

Your social security number

**Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
<b>1</b>					
<b>2</b> Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .		<b>2</b>			
<b>3 Total short-term sales price amounts.</b> Add lines 1 and 2 in column (d) . . . . .		<b>3</b>			
<b>4</b> Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					<b>4</b>
<b>5</b> Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					<b>5</b>
<b>6</b> Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .					<b>6</b> ( )
<b>7 Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (f) . . . . .					<b>7</b>

**Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
<b>8</b>					
<b>9</b> Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .		<b>9</b>			
<b>10 Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d) . . . . .		<b>10</b>			
<b>11</b> Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					<b>11</b>
<b>12</b> Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					<b>12</b>
<b>13</b> Capital gain distributions. See page D-2 of the instructions . . . . .					<b>13</b>
<b>14</b> Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .					<b>14</b> ( )
<b>15 Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .					<b>15</b>

**Exhibit 12**

(C) Complete this form.

Schedule D (Form 1040) 2004 Page **2**

**Part III Summary**

<p><b>16</b> Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13 . . . . .</p>	<b>16</b>	
<p><b>17</b> Are lines 15 and 16 <b>both</b> gains?  <input type="checkbox"/> <b>Yes.</b> Go to line 18.  <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.</p>		
<p><b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> on page D-7 of the instructions . . . . . ▶</p>	<b>18</b>	
<p><b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page D-8 of the instructions . . . . . ▶</p>	<b>19</b>	
<p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below.  <input type="checkbox"/> <b>No.</b> Complete the <b>Schedule D Tax Worksheet</b> on page D-10 of the instructions. <b>Do not</b> complete lines 21 and 22 below.</p>		
<p><b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of:</p> <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) } . . . . .</li> </ul> <p><b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.</p>	<b>21</b> (      )	
<p><b>22</b> Do you have qualified dividends on Form 1040, line 9b?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040.  <input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040.</p>		

Printed on recycled paper Schedule D (Form 1040) 2004

**Exhibit 13**

**Qualified Dividends and Capital Gain Tax Worksheet—Line 43**

*Keep for Your Records*

**Before you begin:** ✓ See the instructions for line 43 on page 36 to see if you can use this worksheet to figure your tax.

✓ If you do not have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Form 1040.

<p><b>1.</b> Enter the amount from Form 1040, line 42 . . . . .</p>	<b>1.</b>	
<p><b>2.</b> Enter the amount from Form 1040, line 9b . . . . .</p>	<b>2.</b>	
<p><b>3.</b> Are you filing Schedule D?  <input type="checkbox"/> <b>Yes.</b> Enter the <b>smaller</b> of line 15 or 16 of Schedule D, but do not enter less than -0-  <input type="checkbox"/> <b>No.</b> Enter the amount from Form 1040, line 13</p>	<b>3.</b>	
<p><b>4.</b> Add lines 2 and 3 . . . . .</p>	<b>4.</b>	
<p><b>5.</b> If you are claiming investment interest expense on Form 4952, enter the amount from line 4g of that form. Otherwise, enter -0- . . . . .</p>	<b>5.</b>	
<p><b>6.</b> Subtract line 5 from line 4. If zero or less, enter -0- . . . . .</p>	<b>6.</b>	
<p><b>7.</b> Subtract line 6 from line 1. If zero or less, enter -0- . . . . .</p>	<b>7.</b>	
<p><b>8.</b> Enter the <b>smaller</b> of:  <ul style="list-style-type: none"> <li>• The amount on line 1 or</li> <li>• \$29,050 if single or married filing separately,                      \$58,100 if married filing jointly or qualifying widow(er), or                      \$38,900 if head of household.</li> </ul> </p>	<b>8.</b>	
<p><b>9.</b> Is the amount on line 7 equal to or more than the amount on line 8?  <input type="checkbox"/> <b>Yes.</b> Skip lines 9 through 11; go to line 12 and check the "No" box.  <input type="checkbox"/> <b>No.</b> Enter the amount from line 7 . . . . .</p>	<b>9.</b>	
<p><b>10.</b> Subtract line 9 from line 8 . . . . .</p>	<b>10.</b>	
<p><b>11.</b> Multiply line 10 by 5% (.05) . . . . .</p>	<b>11.</b>	
<p><b>12.</b> Are the amounts on lines 6 and 10 the same?  <input type="checkbox"/> <b>Yes.</b> Skip lines 12 through 15; go to line 16.  <input type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 6 . . . . .</p>	<b>12.</b>	
<p><b>13.</b> Enter the amount from line 10 (if line 10 is blank, enter -0-) . . . . .</p>	<b>13.</b>	
<p><b>14.</b> Subtract line 13 from line 12 . . . . .</p>	<b>14.</b>	
<p><b>15.</b> Multiply line 14 by 15% (.15) . . . . .</p>	<b>15.</b>	
<p><b>16.</b> Figure the tax on the amount on line 7. Use the Tax Table or Tax Computation Worksheet, whichever applies . . . . .</p>	<b>16.</b>	
<p><b>17.</b> Add lines 11, 15, and 16 . . . . .</p>	<b>17.</b>	
<p><b>18.</b> Figure the tax on the amount on line 1. Use the Tax Table or Tax Computation Worksheet, whichever applies . . . . .</p>	<b>18.</b>	
<p><b>19. Tax on all taxable income.</b> Enter the <b>smaller</b> of line 17 or line 18. Also include this amount on Form 1040, line 43 . . . . .</p>	<b>19.</b>	

## Capital Loss Carryovers

Use the *Capital Loss Carryover Worksheet* in the Schedule D instructions to figure how much capital loss the taxpayer can carry from 2004 to 2005. As you learned earlier, a taxpayer cannot take net losses of more than \$3,000 (\$1,500 for married taxpayers filing separately) in figuring taxable income. The allowable loss for the year is also referred to as the deduction limit.

Unused losses are not gone forever. Rather, they are carried over to the next year. The carryover losses are combined with the gains and losses that actually occur in that next year. Unused losses are recycled this way, year after year, until they are all deducted. There is no limit on how many times a loss can be carried over during the taxpayer's life.

Unused losses keep their short-term or long-term classification when they are carried over. If the taxpayer has a short-term capital loss carryover from 2003, enter it on line 6, Part I, Schedule D. Enter it on line 14, Part II, if it is long-term.

**NOTE:** If a capital loss is limited and the remainder must be carried forward to 2005, remind the taxpayer to bring a copy of the 2004 return for 2005 return preparation.

### Example 10

Andrew sold two stocks in 2004, as summarized here.

Stock	Purchase Date	Date Sold	Net Sales Price	Adjusted Basis
200 sh FFF	5/8/03	1/6/04	\$ 4,000	\$ 3,025
50 sh WWW	11/6/00	3/12/04	8,700	11,000

Andrew's 2003 return showed the following capital loss carryovers to 2004: a \$4,200 short-term loss (line 8 of the 2002 *Capital Loss Carryover Worksheet*) and a \$240 long-term loss (line 13 of the 2003 worksheet). His 2004 Form 1040, line 42, shows \$55,825.

Andrew's Schedule D, Parts I through III, his 2004 Form 1040, line 13, and his 2003 *Capital Loss Carryover Worksheet* appear below as Exhibits 12 through 15. This example shows how to:

- Report a capital loss carryover from 2003 and work it into the computation on Schedule D as if it had resulted from a 2004 sale. This example shows both a short-term loss (reported on Schedule D, Part I, line 6) and a long-term loss (reported on Schedule D, Part II, line 14).

## TAX TIPS

★★★★★★

It is easy to double check the carryover from 2004 to 2005. Take as much as possible of the \$3,000 (or \$1,500) deduction from short-term capital losses first. Then take any remaining amount of the \$3,000 (or \$1,500) from long-term capital losses. What is left is the carryover to 2005.

- Combine a short-term capital loss and a long-term capital loss and apply the deduction limit (\$3,000 for Andrew). Andrew reports the combined long-term and short-term loss on Schedule D, Part III, line 16. Line 21 applies Andrew's deduction limit, his allowable loss for the year.
- Show the allowable loss for the year (\$3,000 for Andrew) in the Income section of Form 1040.
- The *Capital Loss Carryover Worksheet* was being revised and not available for this publication. See the Schedule D instructions for additional detail on Carryover Losses from 2004 to 2005.

**SCHEDULE D  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

Name(s) shown on Form 1040

**Capital Gains and Losses**

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).  
▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.

OMB No. 1545-0074

**2004**

Attachment  
Sequence No. **12**

Your social security number

**Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
1 200 sh. FFF	5/8/03	1/6/04	4,000.00	3,025.00	975.00
2 Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .	2				
3 <b>Total short-term sales price amounts.</b> Add lines 1 and 2 in column (d) . . . . .	3		4,000.00		
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824	4				
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .	5				
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .	6				( 4,200.00)
7 <b>Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (f) . . . . .	7				(3,225.00)

**Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
8 50 sh. WWW	11/6/00	3/12/04	8,700.00	11,000.00	(2,300.00)
9 Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .	9				
10 <b>Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d) . . . . .	10		8,700.00		
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .	11				
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .	12				
13 Capital gain distributions. See page D-2 of the instructions . . . . .	13				
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .	14				( 240.00 )
15 <b>Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .	15				(2,540.00)

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11338H

Schedule D (Form 1040) 2004

**Part III Summary**

<b>16</b>	Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13 . . . . .	<b>16</b>			
			(5,765	00)	
<b>17</b>	Are lines 15 and 16 <b>both</b> gains? <input type="checkbox"/> <b>Yes.</b> Go to line 18. <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.				
<b>18</b>	Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> on page D-7 of the instructions . . . . . ▶	<b>18</b>			
<b>19</b>	Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page D-8 of the instructions . . . . . ▶	<b>19</b>			
<b>20</b>	Are lines 18 and 19 <b>both</b> zero or blank? <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below. <input type="checkbox"/> <b>No.</b> Complete the <b>Schedule D Tax Worksheet</b> on page D-10 of the instructions. <b>Do not</b> complete lines 21 and 22 below.				
<b>21</b>	If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of: <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> </ul>	<b>21</b>	(3,000	00)	

Exhibit 16

Andrew's Form 1040, line 13

<b>13</b>	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>	<b>13</b>			
			(3,000	00)	

Exhibit 17

Andrew's Capital Loss Carryover Worksheet

**Capital Loss Carryover Worksheet—Line 18**

Keep for Your Records

Use this worksheet to figure your capital loss carryovers from 2003 to 2004 if Schedule D, line 18, is a loss and (a) that loss is a smaller loss than the loss on Schedule D, line 17, or (b) Form 1040, line 39, is less than zero. Otherwise, you do not have any carryovers.



1.	Enter the amount from Form 1040, line 39. If a loss, enclose the amount in parentheses . . . . .				
		<b>1.</b>	55,825.00		
2.	Enter the loss from Schedule D, line 18, as a positive amount . . . . .	<b>2.</b>	3,000.00		
3.	Combine lines 1 and 2. If zero or less, enter -0- . . . . .	<b>3.</b>	58,825.00		
4.	Enter the <b>smaller</b> of line 2 or line 3 . . . . .	<b>4.</b>	3,000.00		
	<b>If line 7 of Schedule D is a loss, go to line 5; otherwise, enter -0- on line 5 and go to line 9.</b>				
5.	Enter the loss from Schedule D, line 7, as a positive amount . . . . .	<b>5.</b>	3,225.00		
6.	Enter any gain from Schedule D, line 16 . . . . .	<b>6.</b>	_____		
7.	Add lines 4 and 6 . . . . .	<b>7.</b>	3,000.00		
8.	<b>Short-term capital loss carryover to 2004.</b> Subtract line 7 from line 5. If zero or less, enter -0- . . . . .	<b>8.</b>	225.00		
	<b>If line 16 of Schedule D is a loss, go to line 9; otherwise, skip lines 9 through 13.</b>				
9.	Enter the loss from Schedule D, line 16, as a positive amount . . . . .	<b>9.</b>	2,540.00		
10.	Enter any gain from Schedule D, line 7 . . . . .	<b>10.</b>	_____		
11.	Subtract line 5 from line 4. If zero or less, enter -0- . . . . .	<b>11.</b>	_____		
12.	Add lines 10 and 11 . . . . .	<b>12.</b>	_____		
13.	<b>Long-term capital loss carryover to 2004.</b> Subtract line 12 from line 9. If zero or less, enter -0- . . . . .	<b>13.</b>	2,540.00		

## Exercise 5

This exercise and the next one review the concepts covered in this lesson. They will measure your ability to apply what you have learned.

Matthew has a Form 1099-B from Broker One, who reported gross proceeds:

Stock	Date Sold	Sales Price
100 sh MNO	2/8/04	\$5,050
500 sh ZYX	8/7/04	\$5,250

Broker One reported sales commissions to Matthew separately. They were:

MNO: \$50                      ZYX: \$200

Matthew also has a Form 1099-B from Broker Two, who reported net proceeds:

Stock	Date Sold	Sales Price
200 sh BCA	8/7/04	\$4,000
300 sh JKL	8/7/04	\$5,910

Matthew gave you the following information about the stocks he sold:

- He paid \$6,940, plus a \$60 commission, to buy the MNO stock on February 9, 2003.
- He bought the ZYX on March 11, 2001, for \$5,200, plus a \$100 commission.
- He paid \$3,900, plus a \$50 commission, to buy the BCA stock on January 29, 2004.
- He bought the JKL on June 26, 2002, for \$6,300, plus a \$30 commission.

Matthew's filing status is head of household. His Form 1040, line 42, shows \$55,282. When you look at Matthew's Form 1040 and Capital Loss Carryover Worksheet from 2003, you see that he has a \$450 short-term loss and a \$325 long-term loss that he can carry over to his 2004 return.

Use this information to complete Matthew's Schedule D, Parts I, II, and III, and his Form 1040, line 13, for 2004.

**Exhibit 18**

(A) Complete this form.

**Schedule D, Parts I and II**

<p><b>SCHEDULE D</b> <b>(Form 1040)</b></p> <p>Department of the Treasury Internal Revenue Service (99)</p> <p>Name(s) shown on Form 1040</p>	<p><b>Capital Gains and Losses</b></p> <p>▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).</p> <p>▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.</p>	<p>OMB No. 1545-0074</p> <p style="font-size: 2em; font-weight: bold;">2004</p> <p>Attachment Sequence No. 12</p> <p>Your social security number</p>			
<p><b>Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less</b></p>					
<p>(a) Description of property (Example: 100 sh. XYZ Co.)</p>	<p>(b) Date acquired (Mo., day, yr.)</p>	<p>(c) Date sold (Mo., day, yr.)</p>	<p>(d) Sales price (see page D-6 of the instructions)</p>	<p>(e) Cost or other basis (see page D-6 of the instructions)</p>	<p>(f) Gain or (loss) Subtract (e) from (d)</p>
1					
<p><b>2</b> Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .</p>			<b>2</b>		
<p><b>3 Total short-term sales price amounts.</b> Add lines 1 and 2 in column (d) . . . . .</p>			<b>3</b>		
<p><b>4</b> Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824</p>				<b>4</b>	
<p><b>5</b> Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .</p>				<b>5</b>	
<p><b>6</b> Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .</p>				<b>6</b>	( )
<p><b>7 Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (f) . . . . .</p>				<b>7</b>	
<p><b>Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year</b></p>					
<p>(a) Description of property (Example: 100 sh. XYZ Co.)</p>	<p>(b) Date acquired (Mo., day, yr.)</p>	<p>(c) Date sold (Mo., day, yr.)</p>	<p>(d) Sales price (see page D-6 of the instructions)</p>	<p>(e) Cost or other basis (see page D-6 of the instructions)</p>	<p>(f) Gain or (loss) Subtract (e) from (d)</p>
8					
<p><b>9</b> Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .</p>			<b>9</b>		
<p><b>10 Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d) . . . . .</p>			<b>10</b>		
<p><b>11</b> Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .</p>				<b>11</b>	
<p><b>12</b> Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .</p>				<b>12</b>	
<p><b>13</b> Capital gain distributions. See page D-2 of the instructions . . . . .</p>				<b>13</b>	
<p><b>14</b> Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .</p>				<b>14</b>	( )
<p><b>15 Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .</p>				<b>15</b>	
<p>For Paperwork Reduction Act Notice, see Form 1040 instructions. <span style="float: right;">Cat. No. 11338H <b>Schedule D (Form 1040) 2004</b></span></p>					



**Exhibit 19**

(B) Complete this form.

**Schedule D, Part III**

Schedule D (Form 1040) 2004	Page <b>2</b>
<b>Part III Summary</b>	
<p><b>16</b> Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13 . . . . .</p>	<b>16</b>
<p><b>17</b> Are lines 15 and 16 <b>both</b> gains?  <input type="checkbox"/> <b>Yes.</b> Go to line 18.  <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.</p>	
<p><b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> on page D-7 of the instructions . . . . . ▶</p>	<b>18</b>
<p><b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page D-8 of the instructions . . . . . ▶</p>	<b>19</b>
<p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below.  <input type="checkbox"/> <b>No.</b> Complete the <b>Schedule D Tax Worksheet</b> on page D-10 of the instructions. <b>Do not</b> complete lines 21 and 22 below.</p>	
<p><b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of:  <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> </ul> </p>	<b>21</b> (                      )

**Exhibit 20**

(C) Complete this line on Matthew's Form 1040.

**Form 1040, line 13**

<b>13</b> Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>	<b>13</b>	
---	-----------	--

## Exercise 6

Katherine has two Forms 1099-B. They show:

From Broker No. 1 (gross proceeds reported):

Stock	Date Sold	Sales Price
100 sh LMN	4/20/04	\$3,000
50 sh PQR	4/17/04	2,600
500 OLE	6/17/04	7,800

Expenses for selling the stock through Broker No. 1 (reported to Katherine separately from Form 1099-B) were:

On the sale of: LMN stock: \$175 PQR stock: \$105 OLE: \$590

From Broker No. 2 (net proceeds reported):

Stock	Date Sold	Sales Price
75 sh ABC	1/24/04	\$2,500
125 sh XYZ	3/22/04	6,000

Katherine gave you the following information about these stocks:

- She bought 100 shares of LMN stock on March 6, 2000, for \$12.50 a share (\$1,250), plus a 10% broker's commission (\$125).
- She bought 200 shares of PQR stock on January 8, 2004, for \$14 a share (\$2,800), plus a 10% broker's commission (\$280).
- Katherine bought OLE stock on two dates. On November 27, 2000, she bought 800 shares for \$10 a share (\$8,000), plus 10% broker's commission (\$800). On March 6, 2003, she bought 600 more shares for \$18 a share (\$10,800), plus a 10% broker's commission (\$1,080). When Katherine sold 500 shares of OLE in 2003, she did not specify which block they came from.
- Katherine bought 100 shares of ABC on October 15, 1999, for \$72 a share (\$7,200), plus a 5% broker's commission (\$360). On May 8, 2000, the stock split two-for-one, so Katherine owned 200 shares after the split.
- She bought 125 shares of XYZ stock on October 26, 2003, for \$74 a share (\$9,250), plus a broker's commission of \$250.

Katherine also gave you a Form 1099-DIV from the Acme Mutual Fund. It showed \$1,050 in total capital gain distributions. From Katherine's tax return and worksheets for last year (2003), you found she has a \$150 long-term capital loss carryover from 2003 to 2004.

Complete Katherine's Schedule D, Parts I through III, and her Form 1040, lines 13 and 43. She is single, and her taxable income shown on line 42 of her Form 1040 is \$61,221.

**Exhibit 21**

(A) Complete this form.

**Schedule D, Parts I and II**

<p><b>SCHEDULE D</b> <b>(Form 1040)</b></p> <p>Department of the Treasury Internal Revenue Service (99)</p>	<p><b>Capital Gains and Losses</b></p> <p>▶ <b>Attach to Form 1040.</b>    ▶ <b>See Instructions for Schedule D (Form 1040).</b></p> <p>▶ <b>Use Schedule D-1 to list additional transactions for lines 1 and 8.</b></p>	<p>OMB No. 1545-0074</p> <p style="font-size: 2em;"><b>2004</b></p> <p>Attachment Sequence No. <b>12</b></p>			
Name(s) shown on Form 1040		Your social security number			
<b>Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less</b>					
<b>(a)</b> Description of property (Example: 100 sh. XYZ Co.)	<b>(b)</b> Date acquired (Mo., day, yr.)	<b>(c)</b> Date sold (Mo., day, yr.)	<b>(d)</b> Sales price (see page D-6 of the instructions)	<b>(e)</b> Cost or other basis (see page D-6 of the instructions)	<b>(f) Gain or (loss)</b> Subtract (e) from (d)
<b>1</b>					
<b>2</b> Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .					
<b>3 Total short-term sales price amounts.</b> Add lines 1 and 2 in column (d) . . . . .					
<b>4</b> Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824					<b>4</b>
<b>5</b> Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					<b>5</b>
<b>6</b> Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .					<b>6</b> (                    )
<b>7 Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (f) . . . . .					<b>7</b>
<b>Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year</b>					
<b>(a)</b> Description of property (Example: 100 sh. XYZ Co.)	<b>(b)</b> Date acquired (Mo., day, yr.)	<b>(c)</b> Date sold (Mo., day, yr.)	<b>(d)</b> Sales price (see page D-6 of the instructions)	<b>(e)</b> Cost or other basis (see page D-6 of the instructions)	<b>(f) Gain or (loss)</b> Subtract (e) from (d)
<b>8</b>					
<b>9</b> Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .					
<b>10 Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d) . . . . .					
<b>11</b> Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					<b>11</b>
<b>12</b> Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					<b>12</b>
<b>13</b> Capital gain distributions. See page D-2 of the instructions . . . . .					<b>13</b>
<b>14</b> Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .					<b>14</b> (                    )
<b>15 Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .					<b>15</b>
For Paperwork Reduction Act Notice, see Form 1040 instructions.		Cat. No. 11338H		Schedule D (Form 1040) 2004	

**Exhibit 22**

(B) Complete this form.

**Part III Summary**

<p><b>16</b> Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13 . . . . .</p>	<b>16</b>		
<p><b>17</b> Are lines 15 and 16 <b>both</b> gains?  <input type="checkbox"/> <b>Yes.</b> Go to line 18.  <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.</p>			
<p><b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> on page D-7 of the instructions . . . . . ▶</p>	<b>18</b>		
<p><b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page D-8 of the instructions . . . . . ▶</p>	<b>19</b>		
<p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below.  <input type="checkbox"/> <b>No.</b> Complete the <b>Schedule D Tax Worksheet</b> on page D-10 of the instructions. <b>Do not</b> complete lines 21 and 22 below.</p>			
<p><b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of:</p> <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) } . . . . .</li> </ul> <p><b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.</p>	<b>21</b> (                      )		
<p><b>22</b> Do you have qualified dividends on Form 1040, line 9b?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040.  <input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040.</p>			

Proof as of  
 1/18/2004  
 (subject to change)

Form 1040—Line 43

**Qualified Dividends and Capital Gain Tax Worksheet—Line 43**

*Keep for Your Records*

**Before you begin:** ✓ See the instructions for line 43 on page 36 to see if you can use this worksheet to figure your tax.  
 ✓ If you do not have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Form 1040.



1. Enter the amount from Form 1040, line 42 . . . . .	1.	
2. Enter the amount from Form 1040, line 9b . . . . .	2.	
3. Are you filing Schedule D? <input type="checkbox"/> <b>Yes.</b> Enter the <b>smaller</b> of line 15 or 16 of Schedule D, but do not enter less than -0- <input type="checkbox"/> <b>No.</b> Enter the amount from Form 1040, line 13	3.	
4. Add lines 2 and 3 . . . . .	4.	
5. If you are claiming investment interest expense on Form 4952, enter the amount from line 4g of that form. Otherwise, enter -0- . . . . .	5.	
6. Subtract line 5 from line 4. If zero or less, enter -0- . . . . .	6.	
7. Subtract line 6 from line 1. If zero or less, enter -0- . . . . .	7.	
8. Enter the <b>smaller</b> of: <ul style="list-style-type: none"> <li>• The amount on line 1 or</li> <li>• \$29,050 if single or married filing separately,                      \$58,100 if married filing jointly or qualifying widow(er), or                      \$38,900 if head of household.</li> </ul>	8.	
9. Is the amount on line 7 equal to or more than the amount on line 8? <input type="checkbox"/> <b>Yes.</b> Skip lines 9 through 11; go to line 12 and check the "No" box. <input type="checkbox"/> <b>No.</b> Enter the amount from line 7 . . . . .	9.	
10. Subtract line 9 from line 8 . . . . .	10.	
11. Multiply line 10 by 5% (.05) . . . . .	11.	
12. Are the amounts on lines 6 and 10 the same? <input type="checkbox"/> <b>Yes.</b> Skip lines 12 through 15; go to line 16. <input type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 6 . . . . .	12.	
13. Enter the amount from line 10 (if line 10 is blank, enter -0-) . . . . .	13.	
14. Subtract line 13 from line 12 . . . . .	14.	
15. Multiply line 14 by 15% (.15) . . . . .	15.	
16. Figure the tax on the amount on line 7. Use the Tax Table or Tax Computation Worksheet, whichever applies . . . . .	16.	
17. Add lines 11, 15, and 16 . . . . .	17.	
18. Figure the tax on the amount on line 1. Use the Tax Table or Tax Computation Worksheet, whichever applies . . . . .	18.	
19. <b>Tax on all taxable income.</b> Enter the <b>smaller</b> of line 17 or line 18. Also include this amount on Form 1040, line 43 . . . . .	19.	

**Exhibit 24**

(C) Complete these lines from Katherine’s Form 1040.

**Form 1040, lines 13 and 42**

<b>13</b>	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	<b>13</b>		
<b>42</b>	<b>Taxable income.</b> Subtract line 41 from line 40. If line 41 is more than line 40, enter -0-	<b>42</b>		
<b>43</b>	<b>Tax</b> (see page 36). Check if any tax is from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972	<b>43</b>		

**▶▶ Summing Up This Lesson ◀◀**

To figure and properly report a taxpayer’s gain or loss on a sale of stock, you need to know:

1. Sales price (reported to the taxpayer and to the IRS on Form 1099-B),
2. Adjusted basis, and
3. Holding period.

To determine gain or loss, subtract adjusted basis from sales price. The holding period determines whether the gain or loss is long-term or short-term. Long-term capital gains are generally taxed at lower rates than short-term capital gains.

Use Schedule D, Parts I through IV, to figure capital gain or loss and the correct tax. Be sure the total sales price you report on line 3 plus line 10 of Schedule D is the same as the total sales price from all the taxpayer’s Forms 1099-B, box 2.

Include capital gain distributions (reported to the taxpayer and to IRS on Form 1099-DIV) in the computation of longterm capital gains. Show them on Schedule D, Part II, line 13. Report capital gains distributions directly on Form 1040, line 13 (or on Form 1040A, line 10), if a Schedule D is not required to be completed for the gain or loss on a sale of stock.

A taxpayer can deduct up to \$3,000 (\$1,500 for a married taxpayer filing separately) in net capital loss for the year. The taxpayer can carry over any remaining loss to the next year. If the taxpayer has a carryover loss from 2003, include it on Schedule D, Part I, line 6, or Part II, line 14. The *Capital Loss Carryover Worksheet*, in the Schedule D instructions, can help you figure the carryover amount for 2005.

Report capital gain or loss on Form 1040, line 13.

**Exercise 1**

- A. 1. \$2,550.  $[(\$5,000 + \$100) \div 1,000] \times 500 = \$2,550$   
2. Long-term.  
3. \$3,255.  $\$3,300 - \$45 = \$3,255$
- B. 1. \$3,550.  $\$3,500 + \$50 = \$3,550$   
2. Short-term.
- C. 1. \$5,000.  $[(\$9,965 + \$35) \div 200] \times 100 = \$5,000$   
2. Long-term.  
3. \$6,440.  $\$6,470 - \$30 = \$6,440$

**Exercise 2**

- A. 1. Loss.  
2. \$1,200.  $\$7,800 - [(\$15,000 \div 1,000) \times 600] = (\$1,200)$   
3. Short-term.
- B. 1. Gain.  
2. \$450.  $\$2,000 - (\$1,500 + \$25 + \$25) = \$450$   
3. Long-term.

## Exercise 3

Jane's Schedule D, Parts I and II

<b>SCHEDULE D</b> <b>(Form 1040)</b>  <small>Department of the Treasury Internal Revenue Service (99)</small>	<b>Capital Gains and Losses</b>  ▶ Attach to Form 1040.    ▶ See Instructions for Schedule D (Form 1040).  ▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.	OMB No. 1545-0074  <b>2004</b> Attachment Sequence No. <b>12</b>				
Name(s) shown on Form 1040		Your social security number				
<b>Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less</b>						
<b>(a)</b> Description of property <small>(Example: 100 sh. XYZ Co.)</small>	<b>(b)</b> Date acquired <small>(Mo., day, yr.)</small>	<b>(c)</b> Date sold <small>(Mo., day, yr.)</small>	<b>(d)</b> Sales price <small>(see page D-6 of the instructions)</small>	<b>(e)</b> Cost or other basis <small>(see page D-6 of the instructions)</small>	<b>(f)</b> Gain or (loss) <small>Subtract (e) from (d)</small>	
1	500 sh. LSR	1/12/03	1/4/04	4,000:00	9,000:00	(5,000:00)
	250 sh. BGI	3/11/03	2/12/04	10,000:00	2,500:00	7,500:00
2 Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .		2				
3 <b>Total short-term sales price amounts.</b> Add lines 1 and 2 in column (d) . . . . .		3	14,000:00			
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .		4				
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .		5				
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .		6			( )	
7 <b>Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (f) . . . . .		7				2,500:00
<b>Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year</b>						
<b>(a)</b> Description of property <small>(Example: 100 sh. XYZ Co.)</small>	<b>(b)</b> Date acquired <small>(Mo., day, yr.)</small>	<b>(c)</b> Date sold <small>(Mo., day, yr.)</small>	<b>(d)</b> Sales price <small>(see page D-6 of the instructions)</small>	<b>(e)</b> Cost or other basis <small>(see page D-6 of the instructions)</small>	<b>(f)</b> Gain or (loss) <small>Subtract (e) from (d)</small>	
8	75 sh. ABC	1/22/01	1/29/04	2,000:00	7,500:00	(5,500:00)
	400 sh. XYZ	12/3/99	3/6/04	15,000:00	10,000:00	5,000:00
	100 sh. DEF	4/2/99	1/16/04	1,200:00	2,000:00	(800:00)
9 Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .		9				
10 <b>Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d) . . . . .		10	18,200:00			
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .		11				
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .		12				
13 Capital gain distributions. See page D-2 of the instructions . . . . .		13				1,200:00
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .		14			( )	
15 <b>Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .		15				(100:00)
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### Exercise 4

- (A) 1. Form 1040, line 13: \$3,200
- 2. Form 1040, line 43: \$12,766
- (B) Melvin's Schedule D, Page 1

<b>Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less</b>						
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)	
1	50 sh. ABC	9/15/03	7/26/04	4,000.00	5,000.00	(1,000.00)
	200 sh. MLG	9/10/03	6/7/04	1,200.00	1,000.00	200.00
2 Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .			<b>2</b>			
3 <b>Total short-term sales price amounts.</b> Add lines 1 and 2 in column (d) . . . . .			<b>3</b>	5,200.00		
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					<b>4</b>	
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					<b>5</b>	
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .					<b>6</b>	( )
7 <b>Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (f) . . . . .					<b>7</b>	(800.00)
<b>Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year</b>						
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)	
8	150 sh. XYZ	4/17/02	3/8/04	5,500.00	6,000.00	(500.00)
	300 sh. MLS	1/13/98	6/19/04	6,000.00	3,000.00	3,000.00
9 Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .			<b>9</b>			
10 <b>Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d) . . . . .			<b>10</b>	11,500.00		
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					<b>11</b>	
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					<b>12</b>	
13 Capital gain distributions. See page D-2 of the instructions . . . . .					<b>13</b>	1,500.00
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .					<b>14</b>	( )
15 <b>Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .					<b>15</b>	4,000.00

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Cat. No. 11338H

Schedule D (Form 1040) 2004

### (C) Melvin's Schedule D, Page 2

Schedule D (Form 1040) 2004		Page <b>2</b>
<b>Part III Summary</b>		
<p><b>16</b> Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13 . . . . .</p>	<b>16</b>	3,200 00
<p><b>17</b> Are lines 15 and 16 <b>both</b> gains?  <input type="checkbox"/> <b>Yes</b>. Go to line 18.  <input type="checkbox"/> <b>No</b>. Skip lines 18 through 21, and go to line 22.</p>		
<p><b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> on page D-7 of the instructions . . . . . ▶</p>	<b>18</b>	
<p><b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page D-8 of the instructions . . . . . ▶</p>	<b>19</b>	
<p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?  <input type="checkbox"/> <b>Yes</b>. Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below.  <input type="checkbox"/> <b>No</b>. Complete the <b>Schedule D Tax Worksheet</b> on page D-10 of the instructions. <b>Do not</b> complete lines 21 and 22 below.</p>		
<p><b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of:</p> <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) } . . . . .</li> </ul> <p><b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.</p>	<b>21</b> (	)
<p><b>22</b> Do you have qualified dividends on Form 1040, line 9b?  <input type="checkbox"/> <b>Yes</b>. Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040.  <input type="checkbox"/> <b>No</b>. Complete the rest of Form 1040.</p>		
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### Qualified Dividends & Capital Gain Tax Worksheet for Melvin

Form 1040—Line 43

#### Qualified Dividends and Capital Gain Tax Worksheet—Line 43

Keep for Your Records

- Before you begin:**
- ✓ See the instructions for line 43 on page 36 to see if you can use this worksheet to figure your tax.
  - ✓ If you do not have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Form 1040.



1. Enter the amount from Form 1040, line 42 . . . . .	1.	67,001.00
2. Enter the amount from Form 1040, line 9b . . . . .	2.	0.00
3. Are you filing Schedule D?		
<input checked="" type="checkbox"/> <b>Yes.</b> Enter the <b>smaller</b> of line 15 or 16 of Schedule D, but do not enter less than -0-	}	
<input type="checkbox"/> <b>No.</b> Enter the amount from Form 1040, line 13		3,200.00
4. Add lines 2 and 3 . . . . .	4.	3,200.00
5. If you are claiming investment interest expense on Form 4952, enter the amount from line 4g of that form. Otherwise, enter -0- . . . . .	5.	0.00
6. Subtract line 5 from line 4. If zero or less, enter -0- . . . . .	6.	3,200.00
7. Subtract line 6 from line 1. If zero or less, enter -0- . . . . .	7.	63,801.00
8. Enter the <b>smaller</b> of:		
• The amount on line 1 or	}	
• \$29,050 if single or married filing separately, \$58,100 if married filing jointly or qualifying widow(er), or \$38,900 if head of household.		29,050.00
9. Is the amount on line 7 equal to or more than the amount on line 8?		
<input checked="" type="checkbox"/> <b>Yes.</b> Skip lines 9 through 11; go to line 12 and check the "No" box.	}	
<input type="checkbox"/> <b>No.</b> Enter the amount from line 7 . . . . .		9.
10. Subtract line 9 from line 8 . . . . .	10.	
11. Multiply line 10 by 5% (.05) . . . . .	11.	3,200.00
12. Are the amounts on lines 6 and 10 the same?		
<input type="checkbox"/> <b>Yes.</b> Skip lines 12 through 15; go to line 16.	}	
<input checked="" type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 6 . . . . .		12.
13. Enter the amount from line 10 (if line 10 is blank, enter -0-) . . . . .	13.	3,200.00
14. Subtract line 13 from line 12 . . . . .	14.	
15. Multiply line 14 by 15% (.15) . . . . .	15.	480.00
16. Figure the tax on the amount on line 7. Use the Tax Table or Tax Computation Worksheet, whichever applies . . . . .	16.	12,694.00
17. Add lines 11, 15, and 16 . . . . .	17.	13,174.00
18. Figure the tax on the amount on line 1. Use the Tax Table or Tax Computation Worksheet, whichever applies . . . . .	18.	13,494.00
19. <b>Tax on all taxable income.</b> Enter the <b>smaller</b> of line 17 or line 18. Also include this amount on Form 1040, line 43 . . . . .	19.	13,174.00

## Exercise 5

### (A) Matthew's Schedule D, Parts I and II

<b>Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less</b>						
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)	
1	100 sh. MNO	2/9/03	2/8/04	5,050 00	7,050 00	(2,000 00)
	200 sh. BCA	1/29/04	8/7/04	4,000 00	3,950 00	50 00
2	Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .		2			
3	<b>Total short-term sales price amounts.</b> Add lines 1 and 2 in column (d) . . . . .		3	9,050 00		
4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .		4			
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .		5			
6	Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .		6		( 450 00)	
7	<b>Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (f) . . . . .		7		(2,400 00)	
<b>Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year</b>						
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)	
8	500 sh. ZYX	3/11/01	8/7/04	5,250 00	5,500 00	(250 00)
	300 sh. JKL	6/26/01	8/7/04	5,910 00	6,330 00	(420 00)
9	Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .		9			
10	<b>Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d) . . . . .		10	11,160 00		
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .		11			
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .		12			
13	Capital gain distributions. See page D-2 of the instructions . . . . .		13			
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .		14		( 325 00)	
15	<b>Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .		15		(995 00)	

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11338H

Schedule D (Form 1040) 2004

### (B) Matthew's Schedule D, Part III

Schedule D (Form 1040) 2004		Page <b>2</b>
<b>Part III Summary</b>		
<b>16</b>	Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13 . . . . .	(3,395.00)
<b>17</b>	Are lines 15 and 16 <b>both</b> gains? <input type="checkbox"/> <b>Yes.</b> Go to line 18. <input checked="" type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.	
<b>18</b>	Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> on page D-7 of the instructions . . . . . ▶	
<b>19</b>	Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page D-8 of the instructions . . . . . ▶	
<b>20</b>	Are lines 18 and 19 <b>both</b> zero or blank? <input checked="" type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below. <input type="checkbox"/> <b>No.</b> Complete the <b>Schedule D Tax Worksheet</b> on page D-10 of the instructions. <b>Do not</b> complete lines 21 and 22 below.	
<b>21</b>	If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of: <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) } . . . . .</li> </ul> <b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.	(3,000.00)

### (C) Matthew's Form 1040, Line 13

<b>13</b> Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>	<b>13</b>	(3,000.00)
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**Exercise 6*****Basis Computations:***LMN:

100 shares bought at \$12.50	=	\$1,250
Commission on purchase	=	125
Commission on sale	=	<u>+ 175</u>
Adjusted basis, LMN sold	=	<u>\$1,550</u>

---

PQR:

200 shares bought at \$14	=	\$2,800
Commission on purchase	=	<u>+ 280</u>
Total paid for purchase	=	3,080
Divided by number of shares bought		<u>÷ 200</u>
Per share basis after purchase	=	15.40
Times number of shares sold		x 50
	=	770
Commission on sale	=	<u>+ 105</u>
Adjusted basis, PQR sold		<u>\$ 875</u>

---

OLE: Katherine did not specify which block of stock to sell; the stocks sold are assumed to be from the block purchased first.

800 shares bought at \$10	=	\$8,000
Commission on purchase	=	<u>+ 800</u>
Total paid for purchase	=	8,800
Divided by number of shares bought		<u>÷ 800</u>
Per share basis after purchase	=	11
Times number of shares sold		<u>x 500</u>
	=	5,500
Commission on sale	=	<u>+ 590</u>
Adjusted basis, OLE sold		<u>\$6,090</u>

### ABC:

100 shares bought at \$72	=	\$7,200
Commission on purchase	=	<u>+ 360</u>
Total paid for purchase	=	7,560
Divided by number of shares Katherine held after the two-for-one split		<u>÷ 200</u>
Per share basis after the split	=	37.80
Times number of shares sold	=	<u>x 75</u>
Adjusted basis, ABC sold	=	<u><u>\$2,835</u></u>

---

### XYZ:

125 shares bought at \$74	=	\$9,250
Commission on purchase	=	<u>+ 250</u>
Adjusted basis, XYZ sold	=	<u><u>\$9,500</u></u>

## Exercise 6

(A) Katherine's Schedule D, Parts I and II

SCHEDULE D (Form 1040)		Capital Gains and Losses				OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040.    ▶ See Instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.				2004
Name(s) shown on Form 1040					Your social security number	
<b>Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less</b>						
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)	
1	50 sh. PQR	1/8/04	4/17/04	2,600.00	875.00	1,725.00
	125 sh. XYZ	10/26/03	3/22/04	6,000.00	9,500.00	(3,500.00)
2 Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .			2			
3 Total short-term sales price amounts. Add lines 1 and 2 in column (d) . . . . .			3	8,600.00		
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					4	
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					5	
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet on page D-5 of the Instructions . . . . .					6	( )
7 Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f) . . . . .					7	(1,775.00)
<b>Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year</b>						
(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-6 of the instructions)	(e) Cost or other basis (see page D-6 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)	
8	100 sh. LMN	3/6/00	4/20/04	3,000.00	1,550.00	1,450.00
	500 sh. OLE	11/27/00	6/17/04	7,800.00	6,090.00	1,710.00
	75 sh. ABC	10/15/99	1/24/04	2,500.00	2,835.00	(335.00)
9 Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .			9			
10 Total long-term sales price amounts. Add lines 8 and 9 in column (d) . . . . .			10	13,300.00		
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .					11	
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .					12	
13 Capital gain distributions. See page D-2 of the instructions . . . . .					13	1,050.00
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet on page D-5 of the Instructions . . . . .					14	( 150.00)
15 Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .					15	3,725.00



## (B) Katherine's Schedule D, Part III

Schedule D (Form 1040) 2004		Page <b>2</b>
<b>Part III Summary</b>		
<b>16</b> Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13 . . . . .	<b>16</b>	1,950.00
<b>17</b> Are lines 15 and 16 <b>both</b> gains? <input checked="" type="checkbox"/> <b>Yes.</b> Go to line 18. <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.		
<b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> on page D-7 of the instructions . . . . .	<b>18</b>	
<b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page D-8 of the instructions . . . . .	<b>19</b>	
<b>20</b> Are lines 18 and 19 <b>both</b> zero or blank? <input checked="" type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below. <input type="checkbox"/> <b>No.</b> Complete the <b>Schedule D Tax Worksheet</b> on page D-10 of the instructions. <b>Do not</b> complete lines 21 and 22 below.		
<b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of:  <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) }</li> </ul>	<b>21</b> ( )	
<b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.		
<b>22</b> Do you have qualified dividends on Form 1040, line 9b? <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040. <input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040.		

Printed on recycled paper Schedule D (Form 1040) 2004

### Qualified Dividends and Capital Gain Tax Worksheet—Line 43

Keep for Your Records

**Before you begin:**

- ✓ See the instructions for line 43 on page 36 to see if you can use this worksheet to figure your tax.
- ✓ If you do not have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Form 1040.

<b>1.</b> Enter the amount from Form 1040, line 42 . . . . .	<b>1.</b> 61,221.00
<b>2.</b> Enter the amount from Form 1040, line 9b . . . . .	<b>2.</b> _____
<b>3.</b> Are you filing Schedule D? <input checked="" type="checkbox"/> <b>Yes.</b> Enter the <b>smaller</b> of line 15 or 16 of Schedule D, but do not enter less than -0- <input type="checkbox"/> <b>No.</b> Enter the amount from Form 1040, line 13	<b>3.</b> 1,950.00
<b>4.</b> Add lines 2 and 3 . . . . .	<b>4.</b> 1,950.00
<b>5.</b> If you are claiming investment interest expense on Form 4952, enter the amount from line 4g of that form. Otherwise, enter -0- . . . . .	<b>5.</b> _____
<b>6.</b> Subtract line 5 from line 4. If zero or less, enter -0- . . . . .	<b>6.</b> 1,950.00
<b>7.</b> Subtract line 6 from line 1. If zero or less, enter -0- . . . . .	<b>7.</b> 59,271.00
<b>8.</b> Enter the <b>smaller</b> of: <ul style="list-style-type: none"> <li>• The amount on line 1 or</li> <li>• \$29,050 if single or married filing separately,</li> <li>   \$58,100 if married filing jointly or qualifying widow(er), or</li> <li>   \$38,900 if head of household.</li> </ul>	<b>8.</b> 29,050.00
<b>9.</b> Is the amount on line 7 equal to or more than the amount on line 8? <input checked="" type="checkbox"/> <b>Yes.</b> Skip lines 9 through 11; go to line 12 and check the "No" box. <input type="checkbox"/> <b>No.</b> Enter the amount from line 7 . . . . .	<b>9.</b> _____
<b>10.</b> Subtract line 9 from line 8 . . . . .	<b>10.</b> _____
<b>11.</b> Multiply line 10 by 5% (.05) . . . . .	<b>11.</b> _____
<b>12.</b> Are the amounts on lines 6 and 10 the same? <input type="checkbox"/> <b>Yes.</b> Skip lines 12 through 15; go to line 16. <input checked="" type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 6 . . . . .	<b>12.</b> 1,950.00
<b>13.</b> Enter the amount from line 10 (if line 10 is blank, enter -0-) . . . . .	<b>13.</b> _____
<b>14.</b> Subtract line 13 from line 12 . . . . .	<b>14.</b> 1,950.00
<b>15.</b> Multiply line 14 by 15% (.15) . . . . .	<b>15.</b> 293.00
<b>16.</b> Figure the tax on the amount on line 7. Use the Tax Table or Tax Computation Worksheet, whichever applies . . . . .	<b>16.</b> 11,556.00
<b>17.</b> Add lines 11, 15, and 16 . . . . .	<b>17.</b> 11,849.00
<b>18.</b> Figure the tax on the amount on line 1. Use the Tax Table or Tax Computation Worksheet, whichever applies . . . . .	<b>18.</b> 12,044.00
<b>19. Tax on all taxable income.</b> Enter the <b>smaller</b> of line 17 or line 18. Also include this amount on Form 1040, line 43 . . . . .	<b>19.</b> 11,849.00

(C) Katherine's Form 1040, lines 13 and 43

13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13	1,950.00
43	Tax (see page 36). Check if any tax is from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 . . . .	43	11,849.00

#### LESSON OVERVIEW AND OBJECTIVES

This lesson covers the rules that apply to sales of a main home in 2004. Approximately  $\frac{3}{4}$  to 1 hour should be devoted to covering the objectives of this lesson.

- At the end of this lesson students will be able to identify the amount of gain a taxpayer may exclude if a primary residence is sold.

#### TRAINING MATERIALS AND ON-SITE RESOURCE GUIDE

This lesson will refer to the following IRS forms and publications. If you would like to provide the students with the most current revision of the forms and publications, you can download the files from [www.irs.gov](http://www.irs.gov).

- Publication 523, Selling Your Home
- Form 1099-S, Proceeds from Real Estate Transactions
- For military returns: Publication 3, Armed Forces' Tax Guide
- Publication 4012, Volunteer Resource Guide, is included in each student training kit. The publication is designed for both classroom and actual site usage.

#### TEACHING TIPS

1. Explain to students that this lesson covers the sale of another capital asset, a personal (main) home. A taxable gain on such a sale must be reported on Schedule D, Capital Gains and Losses.
2. Remind students that it is important to ask the taxpayer all relevant questions to ensure the sale of the home qualifies for the exclusion.
3. Stress to students that the person responsible for closing the transaction is generally required to file and furnish Form 1099-S for all sale transactions, unless the seller provides a signed written assurance (certification) that includes the necessary information to support the conclusion that the full gain on the sale is excludable from the seller's gross income. A list of transactions that are not reportable are covered in the *Instructions for Form 1099-S*.
4. Some taxpayers may be reluctant to provide the information that a volunteer needs to determine whether a home is a main home. The volunteer should explain to the taxpayer that he or she needs this information to make sure the taxpayer does not pay unnecessary tax on capital gains from the sale of his or her home. Remind volunteers to get to know the taxpayers first, before asking questions of a personal nature.

5. Explain to students that if a taxpayer sold a main home in 2004 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 in this situation should seek the assistance of a paid professional tax preparer.
6. Caution students that many different situations may occur when taxpayers sell their main home. They must listen carefully to the taxpayer as well as ask probing questions to get all the relevant information regarding the sale.
7. Remind volunteers how important it is to avoid overly complicated tax returns. If a volunteer does not feel qualified to deal with a particular sale of home situation, or if the taxpayer is only eligible for partial gain exclusion, the volunteer should suggest that the taxpayer see a paid professional tax preparer.



## INTRODUCTION AND OBJECTIVES

### Introduction

This lesson discusses the tax rules that apply when a taxpayer sells his or her **main home** in 2004. The taxpayer's **main home** is the one in which he or she lives most of the time.

A taxpayer does not need to report the sale of his or her main home on his or her tax return if the gain on the sale is less than or equal to an **exclusion amount** (discussed later). Generally, a taxpayer who meets the ownership and use tests, discussed later, can generally exclude from income a gain of up to \$250,000 (\$500,000 if married filing jointly) on a sale of a main home.

This lesson does not cover the sale of a main home used as rental property or partially for business.

### Objective

- At the end of this lesson you will be able to determine the amount of gain a taxpayer may exclude if a primary residence is sold.

## MAIN HOME

Only the gain from the sale of the taxpayer's main home is eligible for the rules discussed in this lesson. If a home that is not the taxpayer's main home is sold during the year, the gain generally will have to be reported as income. Any gain that must be reported as income is reported on Schedule D (Form 1040), *Capital Gains and Losses*. A clear understanding of what is an individual's main home is very important.

A **main home** is where the taxpayer lives most of the time. The home does not necessarily have to be a house. A houseboat, a mobile home, a cooperative apartment, or a condominium (house or apartment) may also qualify as a main home. A taxpayer's main home is not necessarily a home that is owned by the taxpayer. A rented home or apartment may be a main home. Taxpayers cannot choose which home to designate as their main home. Facts and circumstances determine which home is the main home.

If a taxpayer has more than one home, it is necessary to determine which home he or she lives in most of the time. In many cases the taxpayer owns a single home in which he or she lives all the time.

You must be sure that the owner of a single home also meets the requirement of living in the home most of the time. If not, it cannot be considered the main home.

Never assume that the house sold during the year was the taxpayer's main home, even if the house was the only one owned by the taxpayer. Be sure to check that the house was, in fact, the individual's main home.

### Example 1

Lucille owns a home in a Colorado ski area (the ski home). She stays at the ski home most weekends and spends the entire months of December, January, and February there. When she is not at the ski home, she lives in a four-room apartment that she rents in Denver. For over half the year, she lives in Denver. Lucille's main home is her rental apartment in Denver, because she lives there most of the time. This is so even though she does not own the apartment in Denver.

## GAIN ON SALE OF MAIN HOME

To figure the gain (or loss) on the sale of the taxpayer's main home, you must know the **selling price**, the **amount realized**, and the **adjusted basis**.

### Selling price

The selling price is the total amount the taxpayer (seller) received for his or her main home. It includes money, all notes, mortgages, or other debts taken over by the buyer as part of the sale, and the fair market value of any other property or services that the seller received.

### Form 1099-S

If the taxpayer received Form 1099-S, *Proceeds From Real Estate Transactions*, box 1 shows the date of sale (closing) and box 2 shows the **gross proceeds** received from the sale of his or her main home. If the taxpayer can exclude the entire gain from a sale in 2004, the person responsible for closing the sale (for example, a real estate broker or settlement agent) generally will not have to report it on Form 1099-S.

### Example 1

Joe and Sarah Blackhawk sold their main home on July 7, 2004. They will not be able to exclude the entire gain from income (they had paid \$200,000 for the home; their gain exceeds \$500,000). The Lincoln Title Company provided them with a Form 1099-S (Exhibit 1).

## Exhibit 1 - Blackhawk 1099-S

CORRECTED (if checked)

FILER'S name, street address, city, state, ZIP code, and telephone no.  <b>LINCOLN TITLE COMPANY</b> <b>123 LINCOLN AVE</b> <b>YOUR CITY, STATE ZIP</b>		1 Date of closing <b>7-7-04</b>	OMB No. 1545-0997  <b>2004</b> Form <b>1099-S</b>	<b>Proceeds From Real Estate Transactions</b>
FILER'S Federal identification number <b>XX-XXXXXXX</b>		2 Gross proceeds <b>\$ 789,000.00</b>		
TRANSFEROR'S name <b>JOE AND SARAH BLACKHAWK</b>  Street address (including apt. no.) <b>91 YALE DR</b> City, state, and ZIP code <b>YOUR CITY, STATE ZIP</b>		3 Address or legal description <b>84 NORTHEAST ST</b> <b>YOUR CITY, STATE ZIP</b>		<b>Copy B For Transferor</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this item is required to be reported and the IRS determines that it has not been reported.
Account or escrow number (optional)		4 Transferor received or will receive property or services as part of the consideration (if checked). . . . ▶ <input type="checkbox"/>		
		5 Buyer's part of real estate tax <b>\$</b>		

Form **1099-S**

(keep for your records)

Department of the Treasury - Internal Revenue Service

### Amount realized

The amount realized is the selling price minus **selling expenses**.

### Selling expenses

Selling expenses include commissions, advertising fees, legal fees, and loan charges paid by the seller, such as points.

### Adjusted basis

While the taxpayer owned his or her main home, he or she may have made adjustments (increases or decreases) to the **basis**. This adjusted basis is used to figure gain or loss on the sale of the taxpayer's main home.

### Amount of gain (or loss)

When you know the amount realized and the home's adjusted basis, you can figure the taxpayer's **gain or loss**. If the amount realized is more than the adjusted basis, the difference is a gain and the taxpayer may be able to exclude all or part of it. If the amount realized is less than the adjusted basis, the difference is a loss. ***A loss on the sale of the taxpayer's main home cannot be deducted.***

## POTENTIAL PITFALLS



A taxpayer who used his or her main home for business should seek the assistance of a paid professional preparer.

## AMOUNT OF EXCLUSION

A single homeowner can generally exclude up to \$250,000 of gain from the sale of a main home. A married couple can exclude up to \$500,000 if they meet all of the following conditions.

1. They filed a joint return.
2. Either spouse or both meet the ownership test.
3. Both individuals meet the use test.
4. Neither individual excluded gain in the 2 years before the current sale of the home (not counting any sales before May 7, 1997).

For married individuals filing jointly if either spouse does not satisfy all these requirements, the maximum exclusion that can be claimed by the couple is the total of the maximum exclusion that each spouse would qualify for if not married and the amounts were figured separately. For this purpose, each spouse is treated as owning the property during the period that either spouse owned the property.

## POTENTIAL PITFALLS

There are exceptions to the ownership and use tests. Sales due to a change in employment location, health issues, or unforeseen circumstances may qualify for an exception. These taxpayers should seek the assistance of a paid preparer.

## OWNERSHIP AND USE TESTS

The **exclusion** is allowed each time a taxpayer sells or exchanges his or her main home, but generally no more than once every 2 years. To be eligible, the property must have been:

1. Owned by the taxpayer for a combined period of at least 2 years out of a 5-year period ending on the date of sale (the ownership test).
2. Lived in as the taxpayer's main home for at least 2 years of that 5-year period (the use test).

### Period of ownership and use

The required 2 years of ownership and use do not have to be continuous. The taxpayer meets the tests if the taxpayer can show that he or she owned and lived in the property as his or her main home for either 24 full months or 730 days during the 5-year period. Short temporary absences, even if the property is rented during those absences, are counted as periods of use.

Ownership and use tests can be met during different 2-year periods. However, a taxpayer must meet both tests during the 5-year period ending on the date of the sale.



## Example 2

In 1996, Helen Jones lived in a rented apartment. The apartment building was later changed to a condominium, and she bought her apartment on December 1, 2001. In 2002, Helen became ill and on April 14 of that year she moved in to her daughter's home. On July 10, 2004, while still living in her daughter's home, she sold her apartment.

Helen can exclude all the gain on the sale of her apartment because she met the ownership and use tests. Her 5-year period is from July 11, 1999, to July 10, 2004, the date she sold the apartment. She owned her apartment from December 1, 2001, to July 10, 2004 (over 2 years). She lived in the apartment from July 11, 1999 (the beginning of the 5-year period), to April 14, 2002 (over 2 years).

## Reduced Exclusion

If the property was owned and used as a main home for less than 2 years, a taxpayer may be able to claim a reduced exclusion. If this situation applies to a taxpayer, he or she should consult a paid preparer.

### Exercise 1

John is single and sold his home in July 2004, for \$300,000. The amount he realized from the sale was \$297,500. His adjusted basis in the home was \$255,500. Assuming he meets the ownership and use tests,

- a. What is the amount of the gain?
- b. What is his exclusion amount?

### Exercise 2

Tim owns two homes. One residence is located in St. Louis where he works and the other is located in a resort area approximately 100 miles away. Tim lives in his St. Louis home during the week (Monday through Friday) and travels to his weekend home for Saturday and Sunday. His office allows him to work from home so approximately 2 months of the year he works from his weekend home. Which home is his main home?

### **TAXWISE HINTS**

If a gain on the sale of a main home must be reported on the taxpayer's Form 1040. Link to a Schedule D, enter the description of property, and complete the remaining entries annotated in red. The software will calculate the gain and carry the calculation to the Form 1040.

### ▶▶ **SUMMING UP THIS LESSON** ◀◀

In this lesson you have learned about the rules that apply to homeowners who sell or exchange their principal residence.

- Exercise 1a. \$42,000 (\$297,500 minus \$255,500)  
1b. \$42,000
- Exercise 2. His main home is the St. Louis residence.

**STUDENT NOTES**

Lined writing area for student notes.

### LESSON OVERVIEW AND OBJECTIVES

This lesson will explain the concept of taxable and nontaxable retirement income. The lesson covers three types of retirement income: pensions, annuities and social security. This lesson can be completed in 2 to 3 hours. See the Suggested Class Schedules in Appendix B for additional information.

After completing this lesson, each student should be able to:

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

### TRAINING AND SITE RESOURCE GUIDE

This lesson will refer to forms that are used to report pension and annuity income. If you would like to provide your students with the most current revision of the Forms, you can download the files from [www.irs.gov](http://www.irs.gov). (Forms RRB-1099, RRB-1099-R, CSA 1099 and SSA-1099 are not available at this site.)

You may also find the following publications helpful as you prepare your lesson. You can download a copy of the following publications from [www.irs.gov](http://www.irs.gov).

- Publication 575, Pension and Annuity Income
- Publication 590, Individual Retirement Arrangements
- Publication 721, Tax Guide to U.S. Civil Service Retirement Benefits
- Publication 915, Social Security and Equivalent Railroad Retirement Benefits

Publication 4012, VITA/TCE Quick reference Guide, is included in each student training kit. The publication is designed for both classroom and actual site usage. Make sure the student is aware of the content and how to use the publication.

Remind volunteers how important it is to avoid overly complicated tax returns. If a volunteer does not feel qualified to deal with a particular pension situation, or if the taxpayer needs to compute the General Rule, the volunteer should suggest that the taxpayer see a paid professional tax preparer.

For additional information about this topic see the applicable chapters of the Publication 17, Your Federal Income Tax (For Individuals).

## **TEACHING TIPS AND GUIDED QUESTIONS**

To help you teach this lesson, we are providing you with the following teaching tips. The tips are divided into sections that correspond with the student text.

Guided questions can be a tool for you to get information about how well your students understand the tax rules that you have covered. The guided questions are associated with the related teaching tips. It is always best to avoid asking a specific student to answer the question unless you have arranged this in advance. You could have the students answer the questions on index cards and then anonymously hand in their cards. You could use the answers on the cards to continue your discussion of the tax rules.

### **Teaching Tips – Introduction and Objectives**

- Start your lesson on time. If you have a short story to tell about pension and annuity income, you can share it as an opener. Be careful to not offend anyone with your comments.
- Suggest that the students have their Publications 678 available during this lesson.
- Inform students that this lesson will not cover all of the possible retirement income scenarios. Remind volunteers how important it is to avoid overly complicated tax returns. If a volunteer does not feel qualified to deal with a particular pension situation, the volunteer should seek assistance from the site coordinator. If the taxpayer's situation is beyond the volunteer program scope, suggest that the taxpayer see a paid tax preparer.
- Review the objectives with the students.

### **Teaching Tips – Asking the Right Questions**

- 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 chalkboard or overhead projector. Or, you can ask someone to be the scribe and write down the responses. Provide a copy of the suggestions to all of the students.



## Teaching Tips – Pensions and Annuities

- Review the section with the students and reassure them that the types of income will be covered more thoroughly as they go through the lesson.
- Alert students that taxpayers sometimes bring several years of 1099s with them. The volunteer should always sort out the current year forms from the prior year forms.

## Teaching Tips – Pensions and Annuities – Fully or Partially Taxable

- Review the section with the students and point out:
  - A fully taxable pension is reported on line 16b, Form 1040 or line 12b Form 1040A.
  - Military pensions are usually fully taxable. Note the exception for contributions to a Thrift Savings Plan while in a combat zone.

## Teaching Tips – Determining Taxable Retirement Income

- If you need additional resources to prepare to teach this segment of the lesson, you can consult Publication 575, Pension and Annuity Income.
- 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.

## Teaching Tips – Reporting Retirement Income

Students may wonder why it is important to get the retirement income on the correct line of the tax return. The IRS receives copies of the 1099s that are issued to the taxpayers. If the 1099-R reports that the taxpayer had an IRA distribution but the preparer mistakenly puts the amount on the pension income line, the IRS may send a letter to the taxpayer asking why they didn't report the IRA distribution.

Retired Civil Service employees may come to the site with a Form CSA 1099-R or a Form CSF 1099-R. These forms are used to report retirement benefits and withholding. For additional information on these forms, see Publication 721, Tax Guide to U.S. Civil Service Retirement Benefits.

## Guided Questions – 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.



## Teaching Tips – Disability Pension Income

- Review Example 3 with the students.

## Teaching Tips – Lump-sum Distributions

- Stress that if the plan participant was born after January 2, 1936, the special elections mentioned in this section do not apply.

## Guided Questions – 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.

## Teaching Tips – Minimum Distributions

- Review the “required beginning date” section with the students.
- Remind students that some employer-sponsored pension plans may require the taxpayer to start taking distributions earlier than the “required beginning date” mentioned in this section.

## Guided Questions – 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 ½ years old. Generally, for all other retirement plans discussed in this lesson, a taxpayer who is still working at age 70½ can postpone receiving distributions until April 1 of the year after he or she retires.

## Teaching Tips – Railroad Retirement Benefits

- If your site serves a significant number of railroad retirees, you may want to review the discussion of railroad retirement benefits in Publications 575 and 915 before you teach this section.

## Teaching Tips – Social Security and Tier 1 Railroad Retirement Benefits

- Remind the students that taxpayers whose total income is less than the base amount will not have taxable benefits.
- Lump-sum benefits may require the assistance of a paid preparer.





## **Guided Questions – Social Security and Tier 1 Railroad Retirement**

### **Are social security benefits always nontaxable?**

No; some taxpayers have to include part of their social security benefits in taxable income.

### **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.

### **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.

### **Which amounts from the Social Security Benefits Worksheet are transferred to Form 1040 or 1040A?**

The amounts on lines 1 and 18

### **What two options can be used to compute the taxable portion of lump-sum benefit payments, which could be for both the current and prior tax years?**

The first option used to compute the taxable portion of lump-sum benefit payments is to report the whole payment in 2004, the year it was received, and complete the Social Security Benefits Worksheet in the usual manner by including the lump-sum payment on line 1. The second option spreads payments back to the earlier year(s) and figures taxable benefits based on income from the earlier year(s) by using a special procedure. Any part that is taxable is then added to any taxable benefits for 2004.

### **How is a lump-sum death benefit taxed?**

Lump-sum death benefits are not subject to tax.

## **Teaching Tips –IRAs**

- Remind students that it is important to report the IRA distribution on the correct line on the tax return.
- Traditional IRAs require a minimum distribution by age 70½.
- Qualified Roth IRA distributions are not taxable.
- Roth IRAs do not require a minimum distribution.



## Guided Questions – 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.

### On what form are IRA distributions reported?

Form 1099-R Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

## Teaching Tips – Pension Withholding and Estimated Tax

- Pension plan administrators may require the taxpayer to use a Form W-4P that is specific to their plan. This is especially true with government-related plans.

## Guided Questions – Pension Withholding and Estimated Tax

### 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.

## ***REVIEW THE FOLLOWING SUMMARY POINTS WITH YOUR CLASS:***

- Pensions or annuities may have a tax-free portion if the taxpayer made after-tax contributions to the plan.
- Pension money received for disability is treated as wages until the taxpayer reaches the minimum retirement age.
- Federal income tax on pension, annuity, and social security income can be withheld by the payer, or the taxpayer may choose to pay estimated tax.



### INTRODUCTION AND OBJECTIVES

In this lesson, you will learn about pensions and annuities including taxable and nontaxable retirement income. Pensions and annuities provide cash payments, usually after a person has retired. These payments may be for life or for a fixed period of time. They may begin at retirement or at a specific age. This lesson covers pensions, annuities, social security benefits, railroad retirement benefits and individual retirement arrangements.

This lesson will refer to forms that are used to report pension and annuity income. The most current version of the forms is available at [www.irs.gov](http://www.irs.gov) (Note: Railroad Retirement and Social Security forms are not available on this site.)

After completing this lesson, you should be able to:

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

### Asking the Right Questions

Many of you will use software to complete the tax returns for your customers. While the software will do an excellent job of calculating the return, you are the key to calculating the correct tax treatment of your customer's pension or annuity income. As you work through this lesson, note what questions you may need to ask your customer. A thorough interview can help eliminate common errors.

### PENSIONS AND ANNUITIES

Pensions and annuities provide cash payments, usually after a person has retired. The payments may be for life or a fixed period of time. They may begin at retirement or at a specific age.

- A **pension** is generally a series of definitely determinable payments made to an employee or survivor (the beneficiary of a deceased employee's pension) after the employee retires from work. Payments are made regularly and are for past services with an employer.
- An **annuity** is a series of payments under a contract from an insurance company, a trust company, or an individual. Annuity payments are made at regular intervals over a period of more than one full year.
- A **qualified employee plan** is an employer's stock bonus, pension or profit-sharing plan that is for the exclusive benefit of employees. The plan must meet Internal Revenue Code requirements. Most plans that you will be working with will be qualified plans.
- A **401(k) plan** is an arrangement that permits an employee to elect to have the employer contribute part of the employee's cash wages to a retirement plan on a pre-tax basis. These deferred wages are not subject to income tax withholding at the time of deferral. The deferred wages are not reflected on Form 1040 since they were not included in taxable wages of box 1, Form W-2. (However, they are included as wages subject to social security, Medicare, and federal unemployment taxes.)

The most common form used to report pension and annuity distributions is **Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts etc.** This lesson will help you understand how to treat the amounts listed on the Form 1099-R.

## POTENTIAL PITFALLS



Retirement distributions for civil service retirees may appear on Form CSA-1099. Retirement distributions for railroad retirees are reported on RRB-1099 forms (covered later in this lesson).

### ***PENSIONS AND ANNUITIES – FULLY OR PARTIALLY TAXABLE***

A pension is fully or partially taxable depending on whether the employee contributed to the pension plan. Employee contributions are “after-tax” amounts that the employee paid into the pension fund. The employer usually deducts the contributions from wages and deposits them into the pension fund on behalf of the employee. Each year, the employee pays tax on the amount that he or she contributed that year. The employee's contributions are included in his or her Form W-2. Employee contributions are often referred to as the **cost** of the pension or as the **investment** in the annuity contract. For pensions discussed here, the employer will also have contributed to the pension fund.

#### ■ **Fully Taxable Pensions**

If a taxpayer receives periodic payments of retirement benefits in the form of pension or annuity payments from a qualified employer retirement plan, the amounts received may be fully taxable or partially taxable. (IRAs, social security, and equivalent railroad retirement benefits are discussed later in this lesson.) Periodic payments are amounts paid at regular intervals for a period of time greater than one year.

Generally, if the taxpayer did not contribute to the cost of the pension plan, the pension benefits received are fully taxable. Military pensions are noncontributory and, therefore, fully taxable.

(Note: If the taxpayer participates in the uniformed services Thrift Savings Plan, their account may include contributions from combat zone pay. This pay is tax-exempt and contributions attributable to that pay are tax-exempt when they are distributed.)

Fully taxable pension payments are reported on line 16b, Form 1040, or line 12b, Form 1040A. You should make no entry on 16a, Form 1040, or line 12a, Form 1040A.

### ■ Partially Taxable Pensions and Annuities

If a taxpayer contributed to a pension plan with after-tax dollars while employed, part of the pension received is a return of the income taxed in earlier years and, therefore, is nontaxable. If the taxpayer has paid tax on the pension contribution (it was included in wages), the amount contributed is not taxed again when the pension is received.

For periodic payments that began after 1992, the payer is required to enter the taxpayer's contributions to a profit-sharing or retirement plan, or insurance premiums that the taxpayer may recover tax-free this year in box 5, Form 1099-R.

**Example 1** Rudy retired from The Mart in 2002. He started receiving pension payments in October, 2002. His 2004 Form 1099-R shows an amount of \$2,043 in box 5. This is the amount of his 2004 payments that are considered a recovery of his cost. He will not include this portion of the payment in his income.

If the payer is unable to reasonably obtain the data necessary to compute the taxpayer's cost, box 5 can be left blank.

#### **Exercise 1**

Wanda retired from the flour company in 2003. She receives a monthly pension of \$1,000 from her former employer's pension plan. She shows you her 2004 Form 1099-R. The amount in box 5 is \$892. How much of Wanda's 2004 distribution is considered a recovery of her cost in the plan? \_\_\_\_\_

In the next section, you will learn how to determine the taxable portion of a partially taxable pension or annuity when the payer has not determined the taxable portion of the payment.

## **DETERMINING TAXABLE RETIREMENT INCOME**

If the taxpayer has a cost to recover from the pension or annuity plan, he or she can exclude part of each annuity payment from income as a recovery of cost, until all of the cost has been recovered. The tax-free part of the payment is figured when the annuity starts and remains the same each year, even if the amount of the payment changes.

### **The General Rule for Annuity Payments**

Most taxpayers who are covered by a qualified retirement plan will no longer be eligible to use the General Rule for annuity payments received from the plan. However, if a taxpayer is 75 or over and his or her annuity starting date is after November 18, 1996, use the General Rule if the payments are guaranteed for at least 5 years.

Initial calculation of the tax-free portion of a pension under the General Rule is beyond the scope of the volunteer program. However, volunteers can assist taxpayers who already know the amount they can exclude under the General Rule.

### **The Simplified Method for Figuring Taxable Retirement Income**

If the taxpayer's annuity starting date is after November 18, 1996, generally the Simplified Method must be used to figure the taxable portion of the pension if the taxpayer participated in a qualified plan.

If the payer does not calculate the taxable portion of the distribution, you will need to complete a **Simplified Method Worksheet** if this is the first year of the distribution. The tax-free amount remains the same each month, even if the amount of the payment changes.

The **Simplified Method Worksheet** requires that you figure the tax-free part of each annuity payment by dividing the taxpayer's cost (or investment) by the total number of anticipated monthly payments. The number of anticipated monthly payments is based on the annuitant's age when the payments start and is determined from a table that is included in the worksheet.


#### **Example 2**

Peter, age 65, receives retirement benefits under a joint and survivor annuity, to be paid over the joint lives of Peter and his wife, Mary, age 62. Peter's annuity starting date is January 1, 2004. He contributed \$31,000 to a qualified plan and did not receive any distributions before the annuity starting date. Peter receives monthly payments of \$1,200 and his tax-free monthly amount is \$100. Mary will receive monthly survivor benefits of \$600 upon her husband's death. See Exhibit 1 for a completed Simplified Method Worksheet for Peter.

Use the Simplified Method for Peter because his annuity starting date is after November 18, 1996, and the payments are from a qualified plan. In addition, because his annuity is payable over the lives of more than one annuitant, you must combine his age with his wife's age in completing line 3 of the worksheet.

**Exhibit 1 – Peter's Simplified Method Worksheet**

*Keep for Your Records*

**Before you begin:** ✓ If you are the beneficiary of a deceased employee or former employee who died **before** August 21, 1996, see Pub. 939 to find out if you are entitled to a death benefit exclusion of up to \$5,000. If you are, include the exclusion in the amount entered on line 2 below. 

**Note.** If you had more than one partially taxable pension or annuity, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040A, line 12b. Enter the total pension or annuity payments received in 2004 on Form 1040A, line 12a.

1. Enter the total pension or annuity payments received in 2004. Also, enter this amount on Form 1040A, line 12a . . .	1.	<b>14,400.00</b>
2. Enter your cost in the plan at the annuity starting date . . . . .	2.	<b>31,000.00</b>
3. Enter the appropriate number from <b>Table 1</b> below. <b>But</b> if your annuity starting date was <b>after</b> 1997 <b>and</b> the payments are for your life and that of your beneficiary, enter the appropriate number from <b>Table 2</b> below . . . . .	3.	<b>310</b>
4. Divide line 2 by the number on line 3 . . . . .	4.	<b>100.00</b>
5. Multiply line 4 by the number of months for which this year's payments were made. If your annuity starting date was <b>before</b> 1987, skip lines 6 and 7 and enter this amount on line 8. Otherwise, go to line 6 . . . . .	5.	<b>1,200.00</b>
6. Enter the amount, if any, recovered tax free in years after 1986 . . . . .	6.	<b>0.00</b>
7. Subtract line 6 from line 2 . . . . .	7.	<b>31,000.00</b>
8. Enter the <b>smaller</b> of line 5 or line 7 . . . . .	8.	<b>1,200.00</b>
9. <b>Taxable amount.</b> Subtract line 8 from line 1. Enter the result, but not less than zero. Also, enter this amount on Form 1040A, line 12b. If your Form 1099-R shows a larger amount, use the amount on this line instead of the amount from Form 1099-R . . . . .	9.	<b>13,200.00</b>

**Table 1 for Line 3 Above**

IF the age at annuity starting date (see page 24) was . . .	AND your annuity starting date was—	
	before November 19, 1996, enter on line 3 . . .	after November 18, 1996, enter on line 3 . . .
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

**Table 2 for Line 3 Above**

IF the combined ages at annuity starting date (see page 24) were . . .	THEN enter on line 3 . . .
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

After Peter excludes \$31,000 from taxable income the rest of his retirement benefits will be fully taxable. Because this is a joint and survivor annuity, if Peter dies before recovering all of the pension cost, his wife will also exclude \$100 from her \$600 monthly payment until the pension cost is fully recovered. If she dies before recovering all of the pension cost, the remaining unrecovered cost will be deducted on her final income tax return as a miscellaneous itemized deduction on Schedule A (Form 1040) (not subject to the 2-percent of adjusted-gross-income limitation).

Note: The Simplified Method Worksheet is part of the 1099R input screen in the Taxwise® software. Scroll to the bottom of the input screen to see the worksheet.

## Exercise 2

George, age 65, began receiving pension income under a joint and survivor annuity. George's annuity starting date is January 1, 2004. George had contributed \$26,000 to a qualified plan and had received no distribution before 2004. George is to receive a monthly retirement benefit of \$1,000 and his wife, age 68, is to receive a monthly survivor benefit of \$500 upon George's death. Using the 2004 Form 1099-R (Exhibit 2) for George, complete the Simplified Method Worksheet (Exhibit 3).

**Exhibit 2 – George's Form 1099-R**

PAYER'S name, street address, city, state, and ZIP code <b>THE COMPANY</b> <b>#1 MAPLE SQUARE</b> <b>YOUR CITY, STATE, ZIP</b>		1 Gross distribution \$ <b>12,000.00</b>		OMB No. 1545-0119 <b>2004</b> Form <b>1099-R</b>	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
PAYER'S Federal identification number <b>XX-XXXXXXX</b>		2a Taxable amount \$			
RECIPIENT'S name <b>GEORGE LINCOLN</b>		3 Capital gain (included in box 2a) \$		4 Federal income tax withheld \$	
Street address (including apt. no.) <b>123 CALHOUN AVE</b>		5 Employee contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$	
City, state, and ZIP code <b>YOUR CITY, STATE, ZIP</b>		7 Distribution code(s) <b>7</b>		8 Other \$ %	
Account number (optional)		9a Your percentage of total distribution %		9b Total employee contributions <b>\$26,000</b>	
10 State tax withheld \$		11 State/Payer's state no.		12 State distribution \$	
13 Local tax withheld \$		14 Name of locality		15 Local distribution \$	

Form **1099-R** Department of the Treasury - Internal Revenue Service



**Before you begin:** ✓ If you are the beneficiary of a deceased employee or former employee who died **before** August 21, 1996, see Pub. 939 to find out if you are entitled to a death benefit exclusion of up to \$5,000. If you are, include the exclusion in the amount entered on line 2 below.



**Note.** If you had more than one partially taxable pension or annuity, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040A, line 12b. Enter the total pension or annuity payments received in 2004 on Form 1040A, line 12a.

1. Enter the total pension or annuity payments received in 2004. Also, enter this amount on Form 1040A, line 12a . . .	1.	
2. Enter your cost in the plan at the annuity starting date . . . . .	2.	
3. Enter the appropriate number from <b>Table 1</b> below. <b>But</b> if your annuity starting date was <b>after</b> 1997 <b>and</b> the payments are for your life and that of your beneficiary, enter the appropriate number from <b>Table 2</b> below . . . . .	3.	
4. Divide line 2 by the number on line 3 . . . . .	4.	
5. Multiply line 4 by the number of months for which this year’s payments were made. If your annuity starting date was <b>before</b> 1987, skip lines 6 and 7 and enter this amount on line 8. Otherwise, go to line 6 . . . . .	5.	
6. Enter the amount, if any, recovered tax free in years after 1986 . . . . .	6.	
7. Subtract line 6 from line 2 . . . . .	7.	
8. Enter the <b>smaller</b> of line 5 or line 7 . . . . .	8.	
9. <b>Taxable amount.</b> Subtract line 8 from line 1. Enter the result, but not less than zero. Also, enter this amount on Form 1040A, line 12b. If your Form 1099-R shows a larger amount, use the amount on this line instead of the amount from Form 1099-R . . . . .	9.	

**Table 1 for Line 3 Above**

IF the age at annuity starting date (see page 24) was . . .	AND your annuity starting date was—	
	before November 19, 1996, enter on line 3 . . .	after November 18, 1996, enter on line 3 . . .
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

**Table 2 for Line 3 Above**

IF the combined ages at annuity starting date (see page 24) were . . .	THEN enter on line 3 . . .
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

## Reporting Retirement Income

It is important that you enter the retirement income on the correct line of the tax return. Tax software will make the correct entries if you input the income information correctly.

Type of Retirement Income	Form 1040A Line(s)	Form 1040 Line(s)
Fully taxable IRA distribution	11b	15b
Nontaxable IRA Rollover	11a & 11b (zero)	15a & 15b (zero)
Fully taxable pension or annuity	12b	16b
Partially taxable pension or annuity	12a & 12b	16a & 16b
Social Security and RRBTier1 No portion subject to tax	14b (zero) if filing separate and did not live with spouse	20b (zero) if filing separate and did not live with spouse
Partially taxable Social Security and RRBTier 1	14a & 14b	20a & 20b

### Disability pension income

If the taxpayer retired on disability, he or she generally must include in income any disability pension received under a plan that is paid for by the employer. Taxable disability payments are treated as wages (and entered on line 7 of the Form 1040 or Form 1040A) until the taxpayer reaches minimum retirement age. The minimum retirement age generally is the age at which the taxpayer could first receive a pension or annuity, from that employer, if he or she was not disabled. (The payer may report the disability income on a Form W-2 or a Form 1099-R with code 3 in box 7.)

#### Example 3

Jason, age 41, retired on permanent and total disability in August due to multiple sclerosis. He received \$700 per month (starting in August) from a plan that his employer had paid for. Jason had received \$10,000 in wages from January 1 until his disability retirement. Jason will report the following income on line 7 of his tax return:

Wages	\$10,000
Disability (5 x \$700)	<u>3,500</u>
Total	\$ 13,500

When Jason reaches minimum retirement age, the monthly amount will no longer be treated as wages; it will be considered pension income.

### Lump-sum Distributions

If the taxpayer received a lump-sum distribution from a qualified retirement plan or a qualified retirement annuity and the plan participant was born before 1936, the taxpayer may be able to elect optional methods of figuring the tax on the distribution. These optional methods can be elected only once after 1986 for

any eligible plan participant. **If the plan participant was born after January 2, 1936, the elections for lump-sum distributions do not apply.**

A **lump-sum distribution** is the distribution or payment within one tax year of an employee's entire balance (less deductible voluntary employee contributions and certain amounts forfeited or subject to forfeiture) from all qualified pension, stock bonus, or profit-sharing plans that the employer maintains. Usually, lump-sum distributions are reported on Form 1099-R. Some lump-sum distributions qualify for special tax treatments. Code A in box 7 of the 1099-R indicates that it is a lump-sum distribution and it may qualify for special tax treatments. The application of the special tax treatment is beyond the scope of the volunteer program. Suggest that the taxpayer seek the assistance of a paid preparer.

## Minimum Distributions

To make sure that most retirement benefits are paid during the taxpayer's lifetime, rather than to the taxpayer's beneficiaries, payments from qualified retirement plans (other than Roth IRAs) must begin no later than the **required beginning date**.

Generally, the **required beginning date** is April 1 of the year following the later of:

- The calendar year in which the taxpayer reached age 70 ½, or
- The calendar year in which the taxpayer retired.

By the required beginning date, the taxpayer must either receive their entire interest in the plan or begin receiving periodic distributions based on life expectancy. The amount that must be taken out is known as the **minimum required distribution**.

A minimum distribution is:

- The entire amount in the pension plan, or
- Regular periodic distributions in an amount large enough to use up the entire amount in the pension plan over:
  1. The taxpayer's life expectancy,
  2. The joint life expectancies of the taxpayer and a designated surviving beneficiary, or
  3. A shorter period of time than these life expectancies.

**IMPORTANT!** If the taxpayer does not receive the minimum distribution, an excise tax may be imposed. The tax is 50 percent of the difference between the minimum distribution and the amount actually distributed for the tax year.

## Railroad Retirement Benefits and Reporting Forms RRB-1099

Benefits paid under the Railroad Retirement Act fall into **two categories**. These categories are treated differently for income tax purposes.

1. The **first category** is the amount of tier 1 railroad retirement benefits that equal the social security benefit that a railroad employee or beneficiary would have been entitled to receive under the social security system.

This part of the tier 1 benefit is called the “social security equivalent benefit” and is treated for tax purposes like social security benefits. It is shown on the blue part of the Form RRB-1099, *Payments by the Railroad Retirement Board*. Use the amount from box 5 of Form RRB-1099.

2. The **second category** contains the rest of the tier 1 benefits, called the “non-social security equivalent benefit,” any tier 2 benefits, vested dual benefits, and supplemental annuity benefits.

This category of benefits, shown on Form RRB-1099-R, *Annuities or Pensions by the Railroad Retirement Board*, is treated as an amount received from a qualified employer plan. Vested dual benefits and supplemental annuity benefits are fully taxable pensions.

### Example 4

David is retired from the Drake Railroad Line. He files Form 1040, jointly with his wife Elizabeth. He received a Form RRB-1099 (Exhibit 4) and a Form RRB-1099-R (Exhibit 5) for 2004. Elizabeth also received a Form RRB-1099-R (Exhibit 6). Elizabeth had wages of \$7,390 (line 7, Form 1040). They had \$3,598 of interest income (line 8a, Form 1040). They also had ordinary dividends of \$2,019 (line 9a, Form 1040) and \$480 (line 13, Form 1040) in capital gain distributions.

Since box 3 on the Forms RRB-1099-R is blank, the payments shown in box 4 are fully taxable. The amount in box 6 is also fully taxable. They will include the \$13,544 (\$3,054 + \$10,490) on line 16b of their Form 1040.

The Social Security (and Tier 1 Equivalent) Benefits worksheet (Exhibit 7) reveals that \$613 of the amount on Form RRB-1099 is taxable.

**Exhibit 4 – David’s Form RRB-1099**

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE <b>UNITED STATES RAILROAD RETIREMENT BOARD</b> 844 N RUSH ST CHICAGO IL 60611-2092		<b>2004</b>		PAYMENTS BY THE <b>RAILROAD RETIREMENT BOARD</b>	
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600		3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 2004		12,390.00	COPY C - FOR RECIPIENT'S RECORDS  THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.
1. Claim Number and Payee Code <b>X XXXXXX</b>		4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 2004		0.00	
2. Recipient's Identification Number <b>XXX-XX-XXXX</b>		5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 2004		12,390.00	
Recipient's Name, Street Address, City, State, and Zip Code  <b>DAVID YALE</b> <b>1900 S STATE ST</b> <b>YOUR CITY, STATE, ZIP</b>		6. Workers' Compensation Offset in 2004		0.00	
		7. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2003		25.00	
		8. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2002			
		9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 2000			
		10. Federal Income Tax Withheld	120.00	11. Medicare Premium Total	

FORM RRB-1099

DO NOT ATTACH TO YOUR INCOME TAX RETURN

**Exhibit 5 – David’s Form RRB-1099-R**

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE <b>UNITED STATES RAILROAD RETIREMENT BOARD</b> 844 N RUSH ST CHICAGO IL 60611-2092		<b>2004</b>		ANNUITIES OR PENSIONS BY THE <b>RAILROAD RETIREMENT BOARD</b>	
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600		3. Employee Contributions		COPY B -  <b>REPORT THIS INCOME ON YOUR FEDERAL TAX RETURN. IF THIS FORM SHOWS FEDERAL INCOME TAX WITHHELD IN BOX 9 ATTACH THIS COPY TO YOUR RETURN.</b>  THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.	
1. Claim Number and Payee Code <b>X XXXXXXX</b>		4. Contributory Amount Paid	9,906.00		
2. Recipient's Identification Number <b>XXX-XX-XXXX</b>		5. Vested Dual Benefit			
Recipient's Name, Street Address, City, State, and ZIP Code  <b>DAVID YALE</b> <b>1900 S STATE ST</b> <b>YOUR CITY, STATE, ZIP</b>		6. Supplemental Annuity	584.00		
		7. Total Gross Paid	10,490.00		
		8. Repayments			
		9. Federal Income Tax Withheld	0.00		
		10. Rate of Tax			

FORM RRB-1099-R

**Exhibit 6 – Elizabeth’s Form RRB-1099-R**

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE <b>UNITED STATES RAILROAD RETIREMENT BOARD</b> 844 N RUSH ST CHICAGO IL 60611-2092		<b>2004</b>		ANNUITIES OR PENSIONS BY THE <b>RAILROAD RETIREMENT BOARD</b>	
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600		3. Employee Contributions		COPY B -  <b>REPORT THIS INCOME ON YOUR FEDERAL TAX RETURN. IF THIS FORM SHOWS FEDERAL INCOME TAX WITHHELD IN BOX 9 ATTACH THIS COPY TO YOUR RETURN.</b>  THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.	
1. Claim Number and Payee Code <b>X XXXXXXX</b>		4. Contributory Amount Paid	2,470.00		
2. Recipient's Identification Number <b>XXX-XX-XXXX</b>		5. Vested Dual Benefit			
Recipient's Name, Street Address, City, State, and ZIP Code  <b>ELIZABETH YALE</b> <b>1900 S STATE ST</b> <b>YOUR CITY, STATE, ZIP</b>		6. Supplemental Annuity	584.00		
		7. Total Gross Paid	3,054.00		
		8. Repayments			
		9. Federal Income Tax Withheld	1,280.00		
		10. Rate of Tax			

FORM RRB-1099-R

**Before you begin:**

- ✓ Complete Form 1040, lines 21, 23 through 25, and 28 through 34a, if they apply to you.
- ✓ Figure any write-in adjustments to be entered on the dotted line next to line 35 (see page 33).
- ✓ If you are married filing separately and you lived apart from your spouse for all of 2004, enter “D” to the right of the word “benefits” on line 20a.
- ✓ Be sure you have read the **Exception** on page 27 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.



1. Enter the total amount from <b>box 5</b> of all your <b>Forms SSA-1099</b> and <b>Forms RRB-1099</b> .....	1.	12,390.00
2. Enter one-half of line 1 .....	2.	6,195.00
3. Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 14, 15b, 16b, 17 through 19, and 21 .....	3.	27,031.00
4. Enter the amount, if any, from Form 1040, line 8b .....	4.	0.00
5. Add lines 2, 3, and 4 .....	5.	33,226.00
6. Enter the total of the amounts from Form 1040, lines 23 through 25, and 28 through 34a, plus any write-in adjustments you entered on the dotted line next to line 35 .....	6.	0.00
7. Is the amount on line 6 less than the amount on line 5? <input type="checkbox"/> <b>No.</b> None of your social security benefits are taxable.		
<input checked="" type="checkbox"/> <b>Yes.</b> Subtract line 6 from line 5 .....	7.	33,226.00
8. If you are: • Married filing jointly, enter \$32,000 • Single, head of household, qualifying widow(er), or married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter \$25,000 • Married filing separately and you lived with your spouse at any time in 2004, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17	8.	32,000.00
9. Is the amount on line 8 less than the amount on line 7? <input type="checkbox"/> <b>No.</b> None of your social security benefits are taxable. You do not have to enter any amounts on line 20a or 20b of Form 1040. <b>But</b> if you are married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter -0- on line 20b. Be sure you entered “D” to the right of the word “benefits” on line 20a.		
<input checked="" type="checkbox"/> <b>Yes.</b> Subtract line 8 from line 7 .....	9.	1,226.00
10. Enter: \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you <b>lived apart</b> from your spouse for all of 2004 ..	10.	12,000.00
11. Subtract line 10 from line 9. If zero or less, enter -0- .....	11.	0.00
12. Enter the <b>smaller</b> of line 9 or line 10 .....	12.	1,226.00
13. Enter one-half of line 12 .....	13.	613.00
14. Enter the <b>smaller</b> of line 2 or line 13 .....	14.	613.00
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- .....	15.	0.00
16. Add lines 14 and 15 .....	16.	613.00
17. Multiply line 1 by 85% (.85) .....	17.	10,532.00
18. <b>Taxable social security benefits.</b> Enter the <b>smaller</b> of line 16 or line 17 .....	18.	613.00
• Enter the amount from line 1 above on Form 1040, line 20a. • Enter the amount from line 18 above on Form 1040, line 20b.		



*If part of your benefits are taxable for 2004 and they include benefits paid in 2004 that were for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.*

## Social Security and Tier 1 Railroad Retirement Benefits

This section explains the federal income tax rules for social security benefits and equivalent tier 1 railroad retirement benefits. Social security benefits (as they are used in this lesson) include monthly survivor and disability benefits. They do not include supplemental security benefits (SSI) which are not taxable.

The Social Security Administration issues Form SSA-1099 to social security benefit recipients. The net benefit for the year is listed in box five (5). The social security equivalent of the Railroad Retirement Benefits is shown in box five (5) of Form RRB-1099.

To determine whether any of the taxpayer's benefits may be taxable, you must select the **base amount** for the taxpayer. The base amounts are as follows:

- \$25,000 if the filing status is single, head of household, or qualifying widow(er),
- \$25,000 if the filing status is married filing separately and the taxpayer lived apart from the spouse for all of the year,
- \$32,000 if the filing status is married filing jointly, or
- \$-0- if the filing status is married filing separately and the taxpayer lived with the spouse at any time during the year

Next, compare the base amount with the total of:

- One-half of the social security benefits (and equivalent tier 1 railroad retirement benefits), plus
- All other income, including tax-exempt interest

If the total is more than the base amount for the filing status, a portion of the taxpayer's social security benefit may be subject to federal income tax.

If part of the benefits is taxable, how much is taxable depends on the total amount of the benefits and other income. Generally, the higher that total amount, the greater the taxable part of the benefits.

The person who has the legal right to receive the benefits is the one who must consider whether the benefits are taxable.

## Form SSA-1099

Social security benefits are reported to the taxpayer on Form SSA-1099, *Social Security Benefit Statement*. The amount in box 5, *Net benefits for 2004*, is entered on a worksheet to figure if any of the benefits are taxable. Make sure you enter the amount from box 5 of Form SSA-1099 on line 1 of the worksheet. Neither Form SSA-1099 nor the worksheet (explained below) is attached to the income tax return. They are kept with the taxpayer's other personal records.

A worksheet to figure the taxable portion of the social security benefits (and equivalent tier 1 railroad retirement benefits) is included in the instructions to the Form 1040 and the Form 1040A. If you are using software to prepare the return, you may not actually complete a worksheet. The software can make the determination of the taxable portion of the benefits based on the personal and financial information you enter for the taxpayer. Taxable portions of social security benefits (and equivalent tier 1 railroad retirement benefits) cannot be reported on Form 1040EZ.

### Example 5

Gilbert, age 72, is single and files Form 1040A. In addition to receiving social security payments, he received a fully taxable pension of \$18,600 (line 12b), wages from a part-time job of \$9,400 (line 7) and taxable interest income of \$990 (line 8a), for a total of \$28,990. He received a Form SSA-1099 that shows his net social security benefits of \$5,980 in box 5. His completed worksheet is shown in Exhibit 8. On line 14a of his Form 1040A, Gilbert will enter \$5,980. On line 14b he will enter the taxable benefit of \$2,990.



## Exhibit 8 – Gilbert’s Social Security Worksheet

### Social Security Benefits Worksheet—Lines 14a and 14b

Keep for Your Records

#### Before you begin:

- ✓ Complete Form 1040A, lines 16 and 17, if they apply to you.
- ✓ If you are married filing separately and you **lived apart** from your spouse for all of 2004, enter “D” to the right of the word “benefits” on line 14a.
- ✓ Be sure you have read the **Exception** on page 25 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.



1. Enter the total amount from <b>box 5</b> of <b>all</b> your <b>Forms SSA-1099</b> and <b>Forms RRB-1099</b> . . . . . 1.	5,980.00	
2. Enter one-half of line 1 . . . . . 2.		2,990.00
3. Enter the total of the amounts from Form 1040A, lines 7, 8a, 9a, 10, 11b, 12b, and 13 . . . . . 3.		28,990.00
4. Enter the amount, if any, from Form 1040A, line 8b . . . . . 4.		0.00
5. Add lines 2, 3, and 4 . . . . . 5.		31,980.00
6. Enter the total of the amounts from Form 1040A, lines 16 and 17 . . . . . 6.		0.00
7. Is the amount on line 6 less than the amount on line 5? <input type="checkbox"/> <b>No.</b> None of your social security benefits are taxable.		
<input checked="" type="checkbox"/> <b>Yes.</b> Subtract line 6 from line 5 . . . . . 7.		31,980.00
8. If you are: • Married filing jointly, enter \$32,000. • Single, head of household, qualifying widow(er), or married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter \$25,000. • Married filing separately and you lived with your spouse at any time in 2004, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.		25,000.00
9. Is the amount on line 8 less than the amount on line 7? <input type="checkbox"/> <b>No.</b> None of your social security benefits are taxable. You do not have to enter any amount on line 14a or 14b of Form 1040A. <b>But</b> if you are married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter -0- on line 14b. Be sure you entered “D” to the right of the word “benefits” on line 14a.		
<input checked="" type="checkbox"/> <b>Yes.</b> Subtract line 8 from line 7 . . . . . 9.		6,980.00
10. Enter: \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you <b>lived apart</b> from your spouse for all of 2004 . . . . . 10.		9,000.00
11. Subtract line 10 from line 9. If zero or less, enter -0- . . . . . 11.		0.00
12. Enter the <b>smaller</b> of line 9 or line 10 . . . . . 12.		6,980.00
13. Enter one-half of line 12 . . . . . 13.		3,490.00
14. Enter the <b>smaller</b> of line 2 or line 13 . . . . . 14.		2,990.00
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- . . . . . 15.		0.00
16. Add lines 14 and 15 . . . . . 16.		2,990.00
17. Multiply line 1 by 85% (.85) . . . . . 17.		5,083.00
18. <b>Taxable social security benefits.</b> Enter the <b>smaller</b> of line 16 or line 17 . . . . . 18. • Enter the amount from line 1 above on Form 1040A, line 14a. • Enter the amount from line 18 above on Form 1040A, line 14b.		2,990.00



If part of your benefits are taxable for 2004 **and** they include benefits paid in 2004 that were for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

## Lump-Sum Social Security Benefits Payments – Figuring the Taxable Portion

Some taxpayers may have received a **lump-sum benefit payment** in 2004. This payment could be for both the current tax year and prior tax year(s). The lump-sum payment will be included in box 3 of the Form SSA-1099 or Form RRB-1099 that the taxpayer receives. The form will also show the year, or years, of the payment.

This type of lump-sum benefit payment should not be confused with the lump-sum death benefits that both the Social Security Administration and the Railroad Retirement Board pay to many of their beneficiaries. No part of the lump-sum death benefit is subject to tax.

When figuring the taxable portion of social security benefits, (and RRB Tier1 equivalents), two options are available for lump-sum benefit payments.

1. The first option allows the taxpayer to report the whole payment in the year it was received. When the taxpayer chooses this option, complete the *Social Security Benefits Worksheet* as usual by including the entire lump-sum payment on line 1.
2. The taxpayer also has the option of treating the payment as received in the earlier year or years. This is done by figuring whether any part of these benefits is taxable, based on the earlier year's income. Any part that is taxable is then added to any taxable benefits for the current year (2004) and included on Form 1040, line 20b.

If the taxpayer chooses to spread the payments back to earlier years, only 2004 income will be adjusted. The taxpayer does not file amended returns for the earlier years. However, a special procedure **must** be used to figure the taxable portion of the benefits assigned to the earlier years. If the taxpayer wants to use this option, he or she should consult a paid preparer.

## Individual Retirement Arrangement (IRA) Distributions

As a volunteer, you can complete the return of a taxpayer who received either a fully taxable or a totally tax free distribution from an IRA. If only part of the distribution is taxable, the taxpayer should consult a paid preparer.

A **traditional IRA** is any IRA that is not a Roth IRA or a SIMPLE IRA. A traditional IRA is sometimes called an ordinary or regular IRA.

A **Roth IRA** is an individual retirement arrangement that is designated as a Roth when it is set up. Taxpayers cannot deduct contributions to a Roth IRA. However, if the taxpayer satisfies the requirements described later, qualified distributions are tax-free.

A **Savings Incentive Match Plan for Employees (SIMPLE)** is a tax-favored retirement plan that certain small employers (including self-employed individuals) can set up for the benefit of their employees. For SIMPLE plan purposes, the term employee includes a self-employed individual who received earned income.

## **IRAs – Traditional Taxation of Distributions**

### **General Rules**

In general, distributions from a traditional IRA are taxable in the year received. Taxable distributions from traditional IRAs are treated as ordinary income. The taxpayer cannot use the 10-year tax option or the capital gain treatment for a lump-sum distribution from an IRA.

### **Fully Taxable**

If only deductible contributions were made to a traditional IRA, the taxpayer has no basis (cost or investment) in the IRA. Because the taxpayer has no basis, any distribution from the IRA is fully taxable when received.

### **Partly Taxable**

If the taxpayer made nondeductible contributions to a traditional IRA, he or she has a cost basis (investment in the contract) equal to the amount of those contributions. The nondeductible contributions are not taxed when they are distributed because they represent a return of the investment in the IRA. The volunteer program does not cover distributions that are partly taxable.

If the taxpayer receives a distribution from a traditional IRA, he or she will receive Form 1099-R, or similar statement. IRA distributions are shown in boxes 1 and 2 of Form 1099-R. The IRA box to the right of box 7 should be checked.

### **Example 6**

Tyrone contributed \$500 a year to a traditional IRA. Each year he deducted his traditional IRA contribution from his income. This year he received his first distribution from the traditional IRA. It is fully taxable. Tyrone will pay income tax on the distributions he receives which represent the contributions he made and deducted as well as the money the contributions have earned over the years.

## **Traditional Required Minimum Distributions**

Taxpayers cannot keep funds in a traditional IRA indefinitely. Eventually, the funds must be distributed. The owner of a traditional IRA must start taking distributions when he or she reaches age 70 ½. The taxpayer must take the first distributions from the IRA by April 1 of the year following the year in which he or she reaches age 70 ½. The taxpayer will need to take two distributions in the same tax year if he or she postpones the first distribution until the year following the year he or she turns 70 ½.

If there are no distributions or the distributions are not large enough, the taxpayer may have to pay the additional 50% tax (described earlier in this lesson) on the amount not distributed.

## Roth Taxation of Distributions

In general, taxpayers do not include **qualified distributions** from Roth IRAs in gross income.

A qualified distribution is generally any payment or distribution made after the 5-taxable-year period beginning with the first year for which a contribution was made to a Roth IRA and that is made:

- On or after the taxpayer reaches age 59½, or
- Because the taxpayer is disabled, or
- To a beneficiary or an estate after the death of the taxpayer, or
- To buy, build or rebuild a first home

Part of any distribution that is not a qualified distribution may be taxable as ordinary income and subject to the additional 10% tax on early distributions. Distributions of conversion contributions within a 5-year period following a conversion may be subject to the 10% early distribution tax, even if the contributions have been included as income in an earlier year.

Taxpayers are not required to take distributions from a Roth IRA at any age. The minimum distribution rules that apply to traditional IRAs do not apply to Roth IRAs while the owner is alive. The amount withdrawn from a Roth IRA cannot be used to satisfy the minimum distribution requirements for the taxpayer's traditional IRA(s), if any.

## Pension Withholding and Estimated Tax Payments

Income tax is normally withheld from the taxable part of a pension or annuity. The taxpayer can adjust the withholding amount or stop the withholding completely by notifying the payer. The taxpayer usually communicates these changes by completing Form W-4P, *Withholding Certificate for Pension or Annuity Payments*, and providing it to the payer of the pension.

A taxpayer who chooses not to have tax withheld (or has too little tax withheld) may have to pay estimated tax. Taxpayers, who owe more than \$1,000 when they file their tax return, may be penalized for failure to estimate (and pay) the proper amount of tax.

## Health Coverage Tax Credit

The Health Coverage Tax Credit (HCTC) is a federal tax credit. It was established by the Trade Act of 2002 to assist the following groups of people:

1. Workers who lose their jobs due to the effects of international trade and
  - Are eligible for certain Trade Adjustment Assistance (TAA) benefits; or
  - Are eligible for benefits under the Alternative Trade Adjustment Assistance (ATAA) program.

2. People who receive benefits from the Pension Benefit Guaranty Corporation (PBGC) and are at least 55 years old.

The program is a partnership of the federal government, state governments and health plan administrators. The federal government administers the program. State agencies help identify people who are eligible and help promote the program. State agencies and health plan administrators work together to make qualified coverage options available for eligible individuals.

Taxpayers who are potentially eligible will be notified. If the taxpayer is receiving benefit payments from the PBGC and is at least 55 years of age, he or she will receive notification from the appropriate state agency. Shortly thereafter, the HCTC Customer Contact Center will send the taxpayer the HCTC Program Kit, a booklet describing the program and eligibility requirements. In addition to the Program Kit, the HCTC program sent two mailings (Publications 4258 and 4260) in early 2004 to all HCTC candidates reminding them to claim the credit if they are eligible.

For additional information visit [www.irs.gov](http://www.irs.gov) and search for HCTC. This credit is outside of the scope of the volunteer program. Taxpayers who need assistance with this credit may need to seek the assistance of a paid professional tax preparer.

### Summary Exercise

Using the concepts you learned in this lesson, complete the following summary exercise.

Bart, age 66, and Mildred, age 56, are filing a joint return for 2004. They want to file their return on a Form 1040 because that is what they have always done. They had the following income:

Mildred's wage	\$9,500
Interest (joint)	500
Dividends	2,000
Bart's pension	20,900
Bart's IRA distribution	3,400
Bart's Social Security	9,500

Bart never made any after-tax contributions to his pension plan. All of Bart's IRA contributions were tax-deductible when made.

- A) How much of the pension income is taxable? \_\_\_\_\_
- B) What line(s) will you list the pension income on? \_\_\_\_\_
- C) How much of the IRA distribution is taxable? \_\_\_\_\_
- D) What line(s) will you list the IRA distribution on? \_\_\_\_\_
- E) Will any portion of the social security benefits be taxable? \_\_\_\_\_

### ▶▶ SUMMING UP THIS LESSON ◀◀

In this lesson, you learned about the taxability of several types of retirement income.

- ▶ You now know that some retirement income, such as a qualified Roth IRA distribution, is not taxed.
- ▶ Some retirement income, such as a pension plan that had after-tax contributions, is partially taxable.
- ▶ Retirement income, such as a social security benefits, may be taxable if total income exceeds a specified amount.
- ▶ Retirement income, such as a distribution from a traditional IRA, can be fully taxable if the taxpayer does not have a basis in the plan.
- ▶ The Simplified Method Worksheet is used to compute the taxable portion of a partially taxable pension or annuity.
- ▶ A worksheet is also available to calculate the taxable portion, if any, of Social Security benefits.
- ▶ The scope of the volunteer program does not include IRA distributions that are partly taxable.
- ▶ Some taxpayers may need to make estimated tax payments.

**Exercise 1**

\$892.00

The amount in box 5 of Form 1099R is considered the amount of the current year's pension distribution that is considered a recovery of cost or investment.

**Exercise 2**

Please see Exhibit 9 on the following page for George's completed Simplified Method worksheet.

**Answer to Summary Exercise**

A. \$20,900

Since Bart did not make any after-tax contributions to the pension plan, the entire distribution is taxable.

B. 16b

The pension is fully taxable; no entry should be made on 16a.

C. \$3,400

Bart was able to deduct all of his contributions to the traditional IRA, the distribution is fully taxable.

D. 15b

The distribution is fully taxable. No entry should be made on 15a.


E. Yes.

The joint income (with  $\frac{1}{2}$  the social security benefits added) is \$41,050. This exceeds the base amount for a married filing joint taxpayer. A portion of the social security benefits will be subject to tax.

**Exhibit 9 – George’s Completed Simplified Method Worksheet**

**Simplified Method Worksheet—Lines 12a and 12b**

*Keep for Your Records*

**Before you begin:** ✓ If you are the beneficiary of a deceased employee or former employee who died **before** August 21, 1996, see Pub. 939 to find out if you are entitled to a death benefit exclusion of up to \$5,000. If you are, include the exclusion in the amount entered on line 2 below. 

**Note.** If you had more than one partially taxable pension or annuity, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040A, line 12b. Enter the total pension or annuity payments received in 2004 on Form 1040A, line 12a.

1. Enter the total pension or annuity payments received in 2004. Also, enter this amount on Form 1040A, line 12a . . .	1.	<b>12,000.00</b>
2. Enter your cost in the plan at the annuity starting date . . . . .	2.	<b>26,000.00</b>
3. Enter the appropriate number from <b>Table 1</b> below. <b>But</b> if your annuity starting date was <b>after</b> 1997 <b>and</b> the payments are for your life and that of your beneficiary, enter the appropriate number from <b>Table 2</b> below . . . . .	3.	<b>260</b>
4. Divide line 2 by the number on line 3 . . . . .	4.	<b>100.00</b>
5. Multiply line 4 by the number of months for which this year’s payments were made. If your annuity starting date was <b>before</b> 1987, skip lines 6 and 7 and enter this amount on line 8. Otherwise, go to line 6 . . . . .	5.	<b>1,200.00</b>
6. Enter the amount, if any, recovered tax free in years after 1986 . . . . .	6.	<b>0.00</b>
7. Subtract line 6 from line 2 . . . . .	7.	<b>26,000.00</b>
8. Enter the <b>smaller</b> of line 5 or line 7 . . . . .	8.	<b>1,200.00</b>
9. <b>Taxable amount.</b> Subtract line 8 from line 1. Enter the result, but not less than zero. Also, enter this amount on Form 1040A, line 12b. If your Form 1099-R shows a larger amount, use the amount on this line instead of the amount from Form 1099-R . . . . .	9.	<b>10,800.00</b>

**Table 1 for Line 3 Above**

IF the age at annuity starting date (see page 24) was . . .	AND your annuity starting date was—	
	before November 19, 1996, enter on line 3 . . .	after November 18, 1996, enter on line 3 . . .
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

**Table 2 for Line 3 Above**

IF the combined ages at annuity starting date (see page 24) were . . .	THEN enter on line 3 . . .
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210



# PENSION EARNER COMPREHENSIVE PROBLEMS

## INTRODUCTION

In this section, you will complete tax returns for several common pension-earner scenarios often encountered at volunteer assistance sites. This will be valuable practice as you prepare to help taxpayers. Although answers to each of the problems are shown at the end of this section, you should try to complete the blank forms for each problem before referring to its answers.

After completing this section, you will be able to:

- accurately complete a basic tax return with some advanced topics.

## PROBLEM 1

Stuart and Donna Morehouse are married and need your help with their 2004 federal income tax return. They provide you with the following information:

- Stuart was born July 2, 1936. Donna was born December 28, 1951.
- The address and social security numbers are correct on their income statements. Stuart's middle name is Liam and Donna's middle name is Rae. They show their social security cards and a photo ID to you.
- Neither one wishes to contribute to the Presidential Election Campaign.
- They want to file a joint return.
- Neither Stuart nor Donna can be claimed as someone else's dependent.
- They do not have any dependents.
- Stuart is retired. Donna is a secretary at the local bank.
- Donna has W-2 (**Exhibit 1**) for her wages.
- Stuart has interest income from a savings account (**Exhibit 4**).
- They did not have any dividend or capital gain income. They do not have any capital loss carryovers.
- They did not take any money out of an IRA nor did they have any unemployment income.


# PENSION EARNER COMPREHENSIVE PROBLEMS

- Stuart received a distribution from a qualified pension (**Exhibit 3**) and Social Security (**Exhibit 2**) income.
- Donna made a \$900 contribution to her 2004 IRA on January 15, 2005. (She has never taken any money out of the IRA.) She always gets to deduct the contribution on her tax return (because their joint income does not exceed the amount allowable for their filing status). They have no other adjustments to income.
- They want to use the standard deduction. Neither one of them is blind.
- They did not make any estimated tax payments.
- If they are entitled to a refund, they want the check mailed to their house.
- They do not want to designate a third-party representative.
- Your site identification number is Sxxxxxxxxx.

Complete their Form 1040A (**Exhibit 5**) including the Social Security Benefits worksheet (**Exhibit 6**) and Form 8880 (**Exhibit 7**), if needed.

See **Exhibits 16–18** for the answer.

Exhibit 1—Donna's W-2

a Control number <b>8162834</b>		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .	
b Employer identification number <b>XX-XXXXXXX</b>		1 Wages, tips, other compensation <b>18526.00</b>		2 Federal income tax withheld <b>2423.00</b>			
c Employer's name, address, and ZIP code  <b>FIRST BANK OF MARTIN CITY</b>  <b>1000 TAFT STREET</b>  <b>YOUR CITY, STATE, ZIP</b>		3 Social security wages <b>18525.00</b>		4 Social security tax withheld <b>1149.00</b>			
		5 Medicare wages and tips <b>18526.00</b>		6 Medicare tax withheld <b>269.00</b>			
		7 Social security tips		8 Allocated tips			
d Employee's social security number <b>XXX-XX-XXXX</b>		9 Advance EIC payment		10 Dependent care benefits			
e Employee's first name and initial Last name <b>DONNA MOREHOUSE</b>  <b>10923 FRANKLIN ST</b>  <b>YOUR CITY, STATE, ZIP</b>		11 Nonqualified plans		12a See instructions for box 12 C o o l u m n			
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b C o o l u m n			
		14 Other		12c C o o l u m n			
f Employee's address and ZIP code				12d C o o l u m n			
15 State	Employer's state ID number <b>XX-XXXXXXX</b>	16 State wages, tips, etc. <b>18526.00</b>	17 State income tax <b>984.00</b>	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2** Wage and Tax Statement

**2004**

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.

# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 2—Stuart's Form SSA-1099

FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT		
<b>2004</b> • PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. • SEE THE REVERSE FOR MORE INFORMATION.		
Box 1. Name <b>STUART MOREHOUSE</b>	Box 2. Beneficiary's Social Security Number <b>XXX-XX-XXXX</b>	
Box 3. Benefits Paid in 2004 <b>10,998.00</b>	Box 4. Benefits Repaid to SSA in 2004 <b>0.00</b>	Box 5. Net Benefits for 2003 (Box 3 minus Box 4) <b>10,998.00</b>
<b>DESCRIPTION OF AMOUNT IN BOX 3</b>		<b>DESCRIPTION OF AMOUNT IN BOX 4</b>
PAID BY DIRECT		
DEPOSIT                    10,199.00		
MEDICARE		
PREMIUMS                    799.00		
-----		
BENEFITS PAID IN		
2004                            10,998.00		
		Box 6. Voluntary Federal Income Tax Withholding
		Box 7. Address  <b>10923 FRANKLIN YOUR CITY, STATE, ZIP</b>
		Box 8. Claim Number (Use this number if you need to contact SSA.)

Form SSA-1099-SM (1-2005)

**DO NOT RETURN THIS FORM TO SSA OR IRS**

# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 3—Stuart's Form 1099R

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code <b>APPLE INDUSTRIES</b>  <b>123 PEACH STREET</b>  <b>YOUR CITY, STATE, ZIP</b>		<b>1</b> Gross distribution \$ <b>13,567.00</b>	OMB No. 1545-0119  <b>2004</b>  Form <b>1099-R</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
		<b>2a</b> Taxable amount \$ <b>13,567.00</b>	Total distribution <input type="checkbox"/>	
PAYER'S Federal identification number  <b>XX-XXXXXXX</b>	RECIPIENT'S identification number  <b>XXX-XX-XXXX</b>	<b>3</b> Capital gain (included in box 2a)  \$	<b>4</b> Federal income tax withheld  \$ <b>1,357.00</b>	<b>Copy B</b> <b>Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.</b>
RECIPIENT'S name <b>STUART MOREHOUSE</b>		<b>5</b> Employee contributions or insurance premiums  \$	<b>6</b> Net unrealized appreciation in employer's securities  \$	
Street address (including apt. no.) <b>10923 FRANKLIN ST</b>		<b>7</b> Distribution code(s) 7	<b>8</b> Other \$ %	
City, state, and ZIP code <b>YOUR CITY, STATE, ZIP</b>		<b>9a</b> Your percentage of total distribution %	<b>9b</b> Total employee contributions \$	This information is being furnished to the Internal Revenue Service.
Account number (optional)		<b>10</b> State tax withheld \$ \$ \$	<b>11</b> State/Payer's state no.	<b>12</b> State distribution \$ \$ \$
		<b>13</b> Local tax withheld \$ \$ \$	<b>14</b> Name of locality	<b>15</b> Local distribution \$ \$ \$

Form 1099-R

Department of the Treasury - Internal Revenue Service

# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 4—Stuart's 1099-INT

<input type="checkbox"/> CORRECTED (if checked)			
PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>EMBRY BANK</b> <b>4000 N BIRCH ST</b> <b>YOUR CITY, STATE, ZIP</b>		Payer's RTN (optional)	OMB No. 1545-0112  <div style="font-size: 2em; font-weight: bold;">2004</div> Interest Income  Form 1099-INT
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	<b>1</b> Interest income not included in box 3 \$ <b>716.00</b>	
RECIPIENT'S name <b>STUART MOREHOUSE</b>  Street address (including apt. no.) <b>10923 FRANKLIN ST</b>  City, state, and ZIP code <b>YOUR CITY, STATE, ZIP</b>		<b>2</b> Early withdrawal penalty \$	<b>3</b> Interest on U.S. Savings Bonds and Treas. obligations \$
Account number (optional)		<b>4</b> Federal income tax withheld \$	<b>5</b> Investment expenses \$
		<b>6</b> Foreign tax paid \$	<b>7</b> Foreign country or U.S. possession

**Copy B**

**For Recipient**

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-INT** (keep for your records) Department of the Treasury - Internal Revenue Service

# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 5—Morehouse Form 1040A

Form 1040A Department of the Treasury—Internal Revenue Service U.S. Individual Income Tax Return 2004 IRS Use Only—Do not write or staple in this space.

OMB No. 1545-0085

**Label** (See page 19.)

Your first name and initial Last name

If a joint return, spouse's first name and initial Last name

Home address (number and street). If you have a P.O. box, see page 20. Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, see page 20.

**Use the IRS label.** Otherwise, please print or type.

**Important!** You must enter your SSN(s) above.

**Presidential Election Campaign** (See page 20.)

Note. Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? . . .

You Spouse  
 Yes  No  Yes  No

**Filing status** (Check only one box.)

1  Single

2  Married filing jointly (even if only one had income)

3  Married filing separately. Enter spouse's SSN above and full name here. ▶

4  Head of household (with qualifying person). (See page 20.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶

5  Qualifying widow(er) with dependent child (see page 21)

**Exemptions**

6a  Yourself. If someone can claim you as a dependent, do not check box 6a.

b  Spouse

c Dependents:

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 23)
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

If more than six dependents, see page 21.

Boxes checked on 6a and 6b

No. of children on 6c who:

- lived with you
- did not live with you due to divorce or separation (see page 23)

Dependents on 6c not entered above

Add numbers on lines above ▶

d Total number of exemptions claimed.

**Income**

7 Wages, salaries, tips, etc. Attach Form(s) W-2. 7

8a Taxable interest. Attach Schedule 1 if required. 8a

8b Tax-exempt interest. Do not include on line 8a. 8b

9a Ordinary dividends. Attach Schedule 1 if required. 9a

9b Qualified dividends (see page 25). 9b

10 Capital gain distributions (see page 25). 10

11a IRA distributions. 11a

11b Taxable amount (see page 25). 11b

12a Pensions and annuities. 12a

12b Taxable amount (see page 26). 12b

13 Unemployment compensation and Alaska Permanent Fund dividends. 13

14a Social security benefits. 14a

14b Taxable amount (see page 28). 14b

15 Add lines 7 through 14b (far right column). This is your total income. ▶ 15

**Adjusted gross income**

16 Deduction for clean-fuel vehicles (see page 28). 16

17 IRA deduction (see page 28). 17

18 Student loan interest deduction (see page 31). 18

19 Tuition and fees deduction (see page 31). 19

20 Add lines 16 through 19. These are your total adjustments. 20

21 Subtract line 20 from line 15. This is your adjusted gross income. ▶ 21

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 57. Cat. No. 11327A Form 1040A (2004)

# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 5 (continued)—Morehouse Form 1040A

Form 1040A (2004)		Page <b>2</b>
<b>Tax, credits, and payments</b>	<b>22</b> Enter the amount from line 21 (adjusted gross income). <span style="float: right;">22</span>	
<b>Standard Deduction for—</b> • People who checked any box on line 23a or 23b or who can be claimed as a dependent, see page 32. • All others: Single or Married filing separately, \$4,850 Married filing jointly or Qualifying widow(er), \$9,700 Head of household, \$7,150	<b>23a</b> Check if: <input type="checkbox"/> You were born before January 2, 1940, <input type="checkbox"/> Blind } <b>Total boxes checked</b> ▶ 23a <input type="checkbox"/> <input type="checkbox"/> Spouse was born before January 2, 1940, <input type="checkbox"/> Blind }	
	<b>b</b> If you are married filing separately and your spouse itemizes deductions, see page 32 and check here ▶ 23b <input type="checkbox"/>	
	<b>24</b> Enter your <b>standard deduction</b> (see left margin). <span style="float: right;">24</span>	
	<b>25</b> Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-. <span style="float: right;">25</span>	
	<b>26</b> Multiply \$3,100 by the total number of exemptions claimed on line 6d. <span style="float: right;">26</span>	
	<b>27</b> Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your <b>taxable income</b> . <span style="float: right;">▶ 27</span>	
	<b>28 Tax</b> , including any alternative minimum tax (see page 33). <span style="float: right;">28</span>	
	<b>29</b> Credit for child and dependent care expenses. Attach Schedule 2. <span style="float: right;">29</span>	
	<b>30</b> Credit for the elderly or the disabled. Attach Schedule 3. <span style="float: right;">30</span>	
	<b>31</b> Education credits. Attach Form 8863. <span style="float: right;">31</span>	
<b>32</b> Child tax credit (see page 37). <span style="float: right;">32</span>		
<b>33</b> Retirement savings contributions credit. Attach Form 8880. <span style="float: right;">33</span>		
<b>34</b> Adoption credit. Attach Form 8839. <span style="float: right;">34</span>		
<b>35</b> Add lines 29 through 34. These are your <b>total credits</b> . <span style="float: right;">35</span>		
<b>36</b> Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-. <span style="float: right;">36</span>		
<b>37</b> Advance earned income credit payments from Form(s) W-2. <span style="float: right;">37</span>		
<b>38</b> Add lines 36 and 37. This is your <b>total tax</b> . <span style="float: right;">▶ 38</span>		
<b>39</b> Federal income tax withheld from Forms W-2 and 1099. <span style="float: right;">39</span>		
<b>40</b> 2004 estimated tax payments and amount applied from 2003 return. <span style="float: right;">40</span>		
If you have a qualifying child, attach Schedule EIC.	<b>41 Earned income credit (EIC)</b> . <span style="float: right;">41</span>	
	<b>42</b> Additional child tax credit. Attach Form 8812. <span style="float: right;">42</span>	
	<b>43</b> Add lines 39 through 42. These are your <b>total payments</b> . <span style="float: right;">▶ 43</span>	
<b>Refund</b>	<b>44</b> If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you <b>overpaid</b> . <span style="float: right;">44</span>	
Direct deposit? See page 50 and fill in 45b, 45c, and 45d.	<b>45a</b> Amount of line 44 you want <b>refunded to you</b> . <span style="float: right;">▶ 45a</span>	
	▶ <b>b</b> Routing number <input type="text"/> ▶ <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
	▶ <b>d</b> Account number <input type="text"/>	
	<b>46</b> Amount of line 44 you want <b>applied to your 2005 estimated tax</b> . <span style="float: right;">46</span>	
<b>Amount you owe</b>	<b>47 Amount you owe</b> . Subtract line 43 from line 38. For details on how to pay, see page 51. <span style="float: right;">▶ 47</span>	
	<b>48</b> Estimated tax penalty (see page 52). <span style="float: right;">48</span>	
<b>Third party designee</b>	Do you want to allow another person to discuss this return with the IRS (see page 52)? <input type="checkbox"/> <b>Yes</b> . Complete the following. <input type="checkbox"/> <b>No</b>	
	Designee's name ▶ _____ Phone no. ( ) ▶ _____ Personal identification number (PIN) ▶ <input type="text"/>	
<b>Sign here</b>	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.	
Joint return? See page 20. Keep a copy for your records.	Your signature _____ Date _____ Your occupation _____ Daytime phone number ( ) _____	
	Spouse's signature. If a joint return, <b>both</b> must sign. _____ Date _____ Spouse's occupation _____	
<b>Paid preparer's use only</b>	Preparer's signature ▶ _____ Date _____ Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN _____	
	Firm's name (or yours if self-employed), address, and ZIP code ▶ _____ EIN : _____ Phone no. ( ) _____	

Printed on recycled paper

Form 1040A (2004)

# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 6—Stuart's Social Security Worksheet

## Social Security Benefits Worksheet—Lines 14a and 14b

Keep for Your Records

### Before you begin:

- ✓ Complete Form 1040A, lines 16 and 17, if they apply to you.
- ✓ If you are married filing separately and you **lived apart** from your spouse for all of 2004, enter "D" to the right of the word "benefits" on line 14a.
- ✓ Be sure you have read the **Exception** on page 25 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.



1. Enter the total amount from <b>box 5</b> of all your <b>Forms SSA-1099</b> and <b>Forms RRB-1099</b> . . . . .	1.	
2. Enter one-half of line 1 . . . . .	2.	
3. Enter the total of the amounts from Form 1040A, lines 7, 8a, 9a, 10, 11b, 12b, and 13 . . . . .	3.	
4. Enter the amount, if any, from Form 1040A, line 8b . . . . .	4.	
5. Add lines 2, 3, and 4 . . . . .	5.	
6. Enter the total of the amounts from Form 1040A, lines 16 and 17 . . . . .	6.	
7. Is the amount on line 6 less than the amount on line 5? <input type="checkbox"/> <b>No.</b> None of your social security benefits are taxable.		
<input type="checkbox"/> <b>Yes.</b> Subtract line 6 from line 5 . . . . .	7.	
8. If you are: <ul style="list-style-type: none"> <li>• Married filing jointly, enter \$32,000.</li> <li>• Single, head of household, qualifying widow(er), or married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter \$25,000.</li> <li>• Married filing separately and you lived with your spouse at any time in 2004, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.</li> </ul>	8.	
9. Is the amount on line 8 less than the amount on line 7? <input type="checkbox"/> <b>No.</b> None of your social security benefits are taxable. You do not have to enter any amount on line 14a or 14b of Form 1040A. <b>But</b> if you are married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter -0- on line 14b. Be sure you entered "D" to the right of the word "benefits" on line 14a.		
<input type="checkbox"/> <b>Yes.</b> Subtract line 8 from line 7 . . . . .	9.	
10. Enter: \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you <b>lived apart</b> from your spouse for all of 2004 . . . . .	10.	
11. Subtract line 10 from line 9. If zero or less, enter -0- . . . . .	11.	
12. Enter the <b>smaller</b> of line 9 or line 10 . . . . .	12.	
13. Enter one-half of line 12 . . . . .	13.	
14. Enter the <b>smaller</b> of line 2 or line 13 . . . . .	14.	
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- . . . . .	15.	
16. Add lines 14 and 15 . . . . .	16.	
17. Multiply line 1 by 85% (.85) . . . . .	17.	
18. <b>Taxable social security benefits.</b> Enter the <b>smaller</b> of line 16 or line 17 . . . . . <ul style="list-style-type: none"> <li>• Enter the amount from line 1 above on Form 1040A, line 14a.</li> <li>• Enter the amount from line 18 above on Form 1040A, line 14b.</li> </ul>	18.	



If part of your benefits are taxable for 2004 **and** they include benefits paid in 2004 that were for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.



# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 7—Morehouse Form 8880

Form **8880**

## Credit for Qualified Retirement Savings Contributions

OMB No. 1545-1805

**2004**

Attachment Sequence No. **129**

Department of the Treasury  
Internal Revenue Service

▶ Attach to Form 1040 or Form 1040A.  
▶ See instructions on back.

Name(s) shown on return

Your social security number



You **cannot** take this credit if **either** of the following applies.

- The amount on Form 1040, line 37, or Form 1040A, line 22, is more than \$25,000 (\$37,500 if head of household; \$50,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral **(a)** was born after January 1, 1987, **(b)** is claimed as a dependent on someone else's 2004 tax return, or **(c)** was a **student** (see instructions).

	(a) You		(b) Your spouse	
<b>1</b> Traditional and Roth IRA contributions for 2004. <b>Do not</b> include rollover contributions . . . . .	<b>1</b>			
<b>2</b> Elective deferrals to a 401(k) or other qualified employer plan, voluntary employee contributions, and 501(c)(18)(D) plan contributions for 2004 (see instructions) . . . . .	<b>2</b>			
<b>3</b> Add lines 1 and 2 . . . . .	<b>3</b>			
<b>4</b> Certain distributions received <b>after</b> 2001 and <b>before</b> the due date (including extensions) of your 2004 tax return (see instructions). If married filing jointly, include <b>both</b> spouses' amounts in <b>both</b> columns. See instructions for an exception . . . . .	<b>4</b>			
<b>5</b> Subtract line 4 from line 3. If zero or less, enter -0- . . . . .	<b>5</b>			
<b>6</b> In each column, enter the <b>smaller</b> of line 5 or \$2,000 . . . . .	<b>6</b>			
<b>7</b> Add the amounts on line 6. If zero, <b>stop</b> ; you cannot take this credit . . . . .			<b>7</b>	
<b>8</b> Enter the amount from Form 1040, line 37, or Form 1040A, line 22 . . . . .	<b>8</b>			
<b>9</b> Enter the applicable decimal amount shown below:				

If line 8 is—		And your filing status is—		
Over—	But not over—	Married filing jointly	Head of household	Single, Married filing separately, or Qualifying widow(er)
Enter on line 9—				
---	\$15,000	.5	.5	.5
\$15,000	\$16,250	.5	.5	.2
\$16,250	\$22,500	.5	.5	.1
\$22,500	\$24,375	.5	.2	.1
\$24,375	\$25,000	.5	.1	.1
\$25,000	\$30,000	.5	.1	.0
\$30,000	\$32,500	.2	.1	.0
\$32,500	\$37,500	.1	.1	.0
\$37,500	\$50,000	.1	.0	.0
\$50,000	---	.0	.0	.0

**Note:** If line 9 is zero, **stop**; you cannot take this credit.

<b>10</b> Multiply line 7 by line 9 . . . . .	<b>10</b>			
<b>11</b> Enter the amount from Form 1040, line 45, or Form 1040A, line 28 . . . . .	<b>11</b>			
<b>12</b> Enter the total of your credits from Form 1040, lines 46 through 51, or Form 1040A, lines 29 through 32 . . . . .	<b>12</b>			
<b>13</b> Subtract line 12 from line 11. If zero, <b>stop</b> ; you cannot take this credit . . . . .	<b>13</b>			
<b>14</b> <b>Credit for qualified retirement savings contributions.</b> Enter the <b>smaller</b> of line 10 or line 13 here and on Form 1040, line 52, or Form 1040A, line 33 . . . . .	<b>14</b>			

\*See Pub. 590 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.

For Paperwork Reduction Act Notice, see back of form.

Cat. No. 33394D

Form **8880** (2004)

Comprehensive Problems

**CP-9**

**PENSION EARNER**

# PENSION EARNER COMPREHENSIVE PROBLEMS

## PROBLEM 2

Jay and Sandra Madison are married and they need your help with their 2004 federal income tax return. They provide you with the following information:

- Jay was born February 14, 1931. Sandra was born November 27, 1936.
- The address and social security numbers are correct on their income statements. Jay's middle name is Roy and Sandra's middle name is Helen. They show their social security cards and a photo ID to you.
- They want to file a joint return and both of them want to contribute to the Presidential Election Campaign.
- Neither of them can be claimed as someone else's dependent and they do not have any dependents.
- Jay is retired. Sandra has never worked outside the home.
- Jay receives pension (**Exhibit 8**) and social security income (**Exhibit 9**).
- The only other income they have is from the sale of stock (**Exhibits 10 and 11**). The 100 shares of ABC stock was bought on 12/01/1985 at \$24.00 per share. The 200 shares of XYZ stock was bought on 12/20/1987 at \$28.50 per share. The basis of the stock has not changed since the purchase date. No commission was paid on the purchase or the sale. There are no capital loss carryovers.
- They do not have enough deductions to itemize. They are not blind.
- They did not make any estimated tax payments.
- If they are entitled to a refund, they want the check mailed to their house.
- They do not want to designate a third party representative.
- Your site identification number is Sxxxxxxxx.

Complete their Form 1040 (**Exhibit 12**) using the Schedule D (**Exhibit 13**), the Social Security Worksheet (**Exhibit 14**) and the Qualified Dividends and Capital Gain Tax Worksheet (**Exhibit 15**) if needed.

See **Exhibits 19–22** for the answer.

# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 8—Jay's Form 1099-R

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0119		<b>2004</b>	Form <b>1099-R</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>	
PAYER'S name, street address, city, state, and ZIP code <b>CONCORD ASSOCIATES</b>  <b>345 EAST 100TH ST</b>  <b>YOUR CITY, STATE, ZIP</b>		<b>1</b> Gross distribution \$ <b>18,946.00</b>	<b>2a</b> Taxable amount \$ <b>18,946.00</b>				
PAYER'S Federal identification number <b>XX-XXXXXXX</b>		RECIPIENT'S identification number <b>XXX-XX-XXXX</b>		<b>3</b> Capital gain (included in box 2a) \$	<b>4</b> Federal income tax withheld \$ <b>2,560.00</b>	<b>Copy B</b> Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.  This information is being furnished to the Internal Revenue Service.	
RECIPIENT'S name <b>JAY R MADISON</b>  Street address (including apt. no.) <b>99 DOUGLAS AVE</b>  City, state, and ZIP code <b>YOUR CITY, STATE, ZIP</b>		<b>5</b> Employee contributions or insurance premiums \$	<b>6</b> Net unrealized appreciation in employer's securities \$	<b>7</b> Distribution code(s) 7	IRA/SEP/SIMPLE <input type="checkbox"/>		<b>8</b> Other \$ %
Account number (optional)		<b>9a</b> Your percentage of total distribution %	<b>9b</b> Total employee contributions \$	<b>10</b> State tax withheld \$	<b>11</b> State/Payer's state no. \$		<b>12</b> State distribution \$
Account number (optional)		<b>13</b> Local tax withheld \$	<b>14</b> Name of locality \$	<b>15</b> Local distribution \$			

Form **1099-R**

Department of the Treasury - Internal Revenue Service

# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 9—Jay's Form SSA-1099

FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT		
<b>2004</b> • PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. • SEE THE REVERSE FOR MORE INFORMATION.		
Box 1. Name <b>JAY R MADISON</b>		Box 2. Beneficiary's Social Security Number <b>XXX-XX-XXXX</b>
Box 3. Benefits Paid in 2004 <b>14,264.00</b>	Box 4. Benefits Repaid to SSA in 2004	Box 5. Net Benefits for 2003 (Box 3 minus Box 4) <b>14,264.00</b>
<b>DESCRIPTION OF AMOUNT IN BOX 3</b>  <b>PAID BY DIRECT DEPOSIT</b> <b>13,465.00</b>  <b>MEDICARE PREMIUMS</b> <b>799.00</b> ----- <b>BENEFITS PAID IN 2004</b> <b>14,264.00</b>		<b>DESCRIPTION OF AMOUNT IN BOX 4</b>           Box 6. Voluntary Federal Income Tax Withholding           Box 7. Address  <b>99 DOUGLAS AVENUE</b>  <b>YOUR CITY, STATE ZIP</b>           Box 8. Claim Number (Use this number if you need to contact SSA.)
Form SSA-1099-SM (1-2005)		<b>DO NOT RETURN THIS FORM TO SSA OR IRS</b>

# PENSION EARNER COMPREHENSIVE PROBLEMS

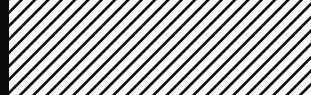


Exhibit 10—Jay's 1099-B

<input type="checkbox"/> CORRECTED (if checked)				<b>2004</b>		<b>Proceeds From Broker and Barter Exchange Transactions</b>
PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Harris Inc 123 Lamar Your City, State Zip</b>		1a Date of sale or exchange <b>07/15/2004</b>	OMB No. 1545-0715		Form <b>1099-B</b>	
		1b CUSIP no.	2 Stocks, bonds, etc. Reported to IRS } <input checked="" type="checkbox"/> Gross proceeds <input type="checkbox"/> Gross proceeds less commissions and option premiums			
		\$ <b>5,124</b>				
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	3 Bartering \$	4 Federal income tax withheld \$		<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
RECIPIENT'S name <b>JAY R MADISON</b>		5 No. of shares exchanged	6 Classes of stock exchanged			
Street address (including apt. no.) <b>99 DOUGLAS</b>		7 Description <b>100 shares ABC Inc.</b>				
City, state, and ZIP code <b>YOUR CITY, STATE ZIP</b>		8 Profit or (loss) realized in 2004 \$	9 Unrealized profit or (loss) on open contracts—12/31/2003 \$			
CORPORATION'S name, street address, city, state, and ZIP code		10 Unrealized profit or (loss) on open contracts—12/31/2004 \$	11 Aggregate profit or (loss) \$			
Account number (optional)	2nd TIN not. <input type="checkbox"/>	12 If this box is checked, you cannot take a loss on your tax return based on the amount in box 2 . . . <input type="checkbox"/>				
Form <b>1099-B</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service		

# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 11—Sandra's 1099-B

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Dillard Inc 345 Fairbury Your City, State Zip</b>		<b>1a</b> Date of sale or exchange <b>11/14/2004</b>	OMB No. 1545-0715 <b>2004</b>	<b>Proceeds From Broker and Barter Exchange Transactions</b>
		<b>1b</b> CUSIP no.	Form <b>1099-B</b>	
		<b>2</b> Stocks, bonds, etc. \$ <b>10,796</b>	Reported } <input checked="" type="checkbox"/> Gross proceeds to IRS } <input type="checkbox"/> Gross proceeds less commissions and option premiums	
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	<b>3</b> Bartering \$	<b>4</b> Federal income tax withheld \$	<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name <b>SANDRA H MADISON</b>		<b>5</b> No. of shares exchanged	<b>6</b> Classes of stock exchanged	
Street address (including apt. no.) <b>99 DOUGLAS</b>		<b>7</b> Description <b>200 shares XYZ Inc.</b>		
City, state, and ZIP code <b>YOUR CITY, STATE ZIP</b>		<b>8</b> Profit or (loss) realized in 2004 \$	<b>9</b> Unrealized profit or (loss) on open contracts—12/31/2003 \$	
CORPORATION'S name, street address, city, state, and ZIP code		<b>10</b> Unrealized profit or (loss) on open contracts—12/31/2004 \$	<b>11</b> Aggregate profit or (loss) \$	
Account number (optional)	2nd TIN not. <input type="checkbox"/>	<b>12</b> If this box is checked, you cannot take a loss on your tax return based on the amount in box 2 . . . <input type="checkbox"/>		

Form **1099-B**

(keep for your records)

Department of the Treasury - Internal Revenue Service

# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 12—Jay and Sandra's Form 1040

Form	<b>1040</b>	Department of the Treasury—Internal Revenue Service <b>U.S. Individual Income Tax Return 2004</b>	(99) IRS Use Only—Do not write or staple in this space.		
<b>Label</b> (See instructions on page 19.) <b>Use the IRS label.</b> Otherwise, please print or type. <b>Presidential Election Campaign</b> (See page 19.)		For the year Jan. 1—Dec. 31, 2004, or other tax year beginning _____, 2004, ending _____, 20			
		OMB No. 1545-0074			
		Your first name and initial _____ Last name _____		Your social security number _____	
		If a joint return, spouse's first name and initial _____ Last name _____		Spouse's social security number _____	
<b>Important!</b> You <b>must</b> enter your SSN(s) above.		Home address (number and street). If you have a P.O. box, see page 19. _____ Apt. no. _____			
		City, town or post office, state, and ZIP code. If you have a foreign address, see page 19. _____			
<b>Note.</b> Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund?		You <input type="checkbox"/> Yes <input type="checkbox"/> No		Spouse <input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>Filing Status</b> Check only one box.		1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here.			
		4 <input type="checkbox"/> Head of household (with qualifying person). (See page 20.) If the qualifying person is a child but not your dependent, enter this child's name here.			
<b>Exemptions</b> If more than four dependents, see page 21.		5 <input type="checkbox"/> Qualifying widow(er) with dependent child (see page 20)			
		6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a b <input type="checkbox"/> Spouse			
<b>Dependents:</b> (1) First name Last name		(2) Dependent's social security number		(3) Dependent's relationship to you	
		(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 21)			
Add numbers on lines above		d Total number of exemptions claimed		0	
<b>Income</b> Attach Forms W-2 and W-2G here. Also attach Form(s) 1099-R if tax was withheld. If you did not get a W-2, see page 22. Enclose, but do not attach, any payment. Also, please use Form 1040-V.		7 Wages, salaries, tips, etc. Attach Form(s) W-2		7	
		8a Taxable interest. Attach Schedule B if required		8a	
b Tax-exempt interest. Do not include on line 8a		8b		9a	
		9a Ordinary dividends. Attach Schedule B if required		9a	
b Qualified dividends (see page 23)		9b		10	
		10 Taxable refunds, credits, or offsets of state and local income taxes (see page 23)		10	
11 Alimony received 12 Business income or (loss). Attach Schedule C or C-EZ 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here		11		12	
		13		14	
14 Other gains or (losses). Attach Form 4797		14		15b	
		15a IRA distributions		15a	
b Taxable amount (see page 25)		16a		16b	
		16a Pensions and annuities		16a	
b Taxable amount (see page 25)		17		18	
		17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
18 Farm income or (loss). Attach Schedule F 19 Unemployment compensation		18		19	
		19		20b	
20a Social security benefits		20a		20b	
		20a Social security benefits		20a	
b Taxable amount (see page 27)		21		22	
		21 Other income. List type and amount (see page 27)		21	
22 Add the amounts in the far right column for lines 7 through 21. This is your total income		22		23	
		23		24	
<b>Adjusted Gross Income</b>		23 Deduction for clean-fuel vehicles (see page 29)		23	
		24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ		24	
25 IRA deduction (see page 29)		25		26	
		25 IRA deduction (see page 29)		25	
26 Student loan interest deduction (see page 31)		26		27	
		26 Student loan interest deduction (see page 31)		26	
27 Tuition and fees deduction (see page 32)		27		28	
		27 Tuition and fees deduction (see page 32)		27	
28 Health savings account deduction. Attach Form 8889		28		29	
		28 Health savings account deduction. Attach Form 8889		28	
29 Moving expenses. Attach Form 3903		29		30	
		29 Moving expenses. Attach Form 3903		29	
30 One-half of self-employment tax. Attach Schedule SE		30		31	
		30 One-half of self-employment tax. Attach Schedule SE		30	
31 Self-employed health insurance deduction (see page 33)		31		32	
		31 Self-employed health insurance deduction (see page 33)		31	
32 Self-employed SEP, SIMPLE, and qualified plans		32		33	
		32 Self-employed SEP, SIMPLE, and qualified plans		32	
33 Penalty on early withdrawal of savings		33		34a	
		33 Penalty on early withdrawal of savings		33	
34a Alimony paid b Recipient's SSN		34a		35	
		34a Alimony paid b Recipient's SSN		34a	
35 Add lines 23 through 34a		35		36	
		35 Add lines 23 through 34a		35	
36 Subtract line 35 from line 22. This is your adjusted gross income		36		36	
		36 Subtract line 35 from line 22. This is your adjusted gross income		36	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 77.

Cat. No. 11320B

Form 1040 (2004)

# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 12 (continued)—Jay and Sandra's Form 1040

Form 1040 (2004)		Page <b>2</b>								
<b>Tax and Credits</b>	<p><b>37</b> Amount from line 36 (adjusted gross income) . . . . . <b>37</b></p> <p><b>38a</b> Check <input type="checkbox"/> <b>You</b> were born before January 2, 1940, <input type="checkbox"/> <b>Blind.</b> } <b>Total boxes</b>  if: <input type="checkbox"/> <b>Spouse</b> was born before January 2, 1940, <input type="checkbox"/> <b>Blind.</b> } <b>checked ▶ 38a</b></p> <p><b>b</b> If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 34 and check here . . . . . <b>▶ 38b</b> <input type="checkbox"/></p> <p><b>39</b> <b>Itemized deductions</b> (from Schedule A) or your <b>standard deduction</b> (see left margin) . . . . . <b>39</b></p> <p><b>40</b> Subtract line 39 from line 37 . . . . . <b>40</b></p> <p><b>41</b> If line 37 is \$107,025 or less, multiply \$3,100 by the total number of exemptions claimed on line 6d. If line 37 is over \$107,025, see the worksheet on page 35 . . . . . <b>41</b></p> <p><b>42</b> <b>Taxable income.</b> Subtract line 41 from line 40. If line 41 is more than line 40, enter -0- . . . . . <b>42</b></p> <p><b>43</b> <b>Tax</b> (see page 36). Check if any tax is from: <b>a</b> <input type="checkbox"/> Form(s) 8814 <b>b</b> <input type="checkbox"/> Form 4972 . . . . . <b>43</b></p> <p><b>44</b> <b>Alternative minimum tax</b> (see page 38). Attach Form 6251 . . . . . <b>44</b></p> <p><b>45</b> Add lines 43 and 44 . . . . . <b>▶ 45</b></p> <p><b>46</b> Credit for child and dependent care expenses. Attach Form 2441 . . . . . <b>46</b></p> <p><b>47</b> Credit for the elderly or the disabled. Attach Schedule R . . . . . <b>47</b></p> <p><b>48</b> Education credits. Attach Form 8863 . . . . . <b>48</b></p> <p><b>49</b> Credits from: <b>a</b> <input type="checkbox"/> Form 8396 <b>b</b> <input type="checkbox"/> Form 8859 . . . . . <b>49</b></p> <p><b>50</b> Foreign tax credit. Attach Form 1116 if required . . . . . <b>50</b></p> <p><b>51</b> Child tax credit (see page 40) . . . . . <b>51</b></p> <p><b>52</b> Retirement savings contributions credit. Attach Form 8880 . . . . . <b>52</b></p> <p><b>53</b> Adoption credit. Attach Form 8839 . . . . . <b>53</b></p> <p><b>54</b> Other credits. Check applicable box(es): <b>a</b> <input type="checkbox"/> Form 3800  <b>b</b> <input type="checkbox"/> Form 8801 <b>c</b> <input type="checkbox"/> Specify . . . . . <b>54</b></p> <p><b>55</b> Add lines 46 through 54. These are your <b>total credits</b> . . . . . <b>55</b></p> <p><b>56</b> Subtract line 55 from line 45. If line 55 is more than line 45, enter -0- . . . . . <b>▶ 56</b></p>									
<b>Other Taxes</b>	<p><b>57</b> Self-employment tax. Attach Schedule SE . . . . . <b>57</b></p> <p><b>58</b> Social security and Medicare tax on tip income not reported to employer. Attach Form 4137 . . . . . <b>58</b></p> <p><b>59</b> Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required . . . . . <b>59</b></p> <p><b>60</b> Advance earned income credit payments from Form(s) W-2 . . . . . <b>60</b></p> <p><b>61</b> Household employment taxes. Attach Schedule H . . . . . <b>61</b></p> <p><b>62</b> Add lines 56 through 61. This is your <b>total tax</b> . . . . . <b>▶ 62</b></p>									
<b>Payments</b>	<p><b>63</b> Federal income tax withheld from Forms W-2 and 1099 . . . . . <b>63</b></p> <p><b>64</b> 2004 estimated tax payments and amount applied from 2003 return . . . . . <b>64</b></p> <p><b>65</b> <b>Earned income credit (EIC)</b> . . . . . <b>65</b></p> <p><b>66</b> Excess social security and tier 1 RRTA tax withheld (see page 56) . . . . . <b>66</b></p> <p><b>67</b> Additional child tax credit. Attach Form 8812 . . . . . <b>67</b></p> <p><b>68</b> Amount paid with request for extension to file (see page 56) . . . . . <b>68</b></p> <p><b>69</b> Other payments from: <b>a</b> <input type="checkbox"/> Form 2439 <b>b</b> <input type="checkbox"/> Form 4136 <b>c</b> <input type="checkbox"/> Form 8885 . . . . . <b>69</b></p> <p><b>70</b> Add lines 63 through 69. These are your <b>total payments</b> . . . . . <b>▶ 70</b></p>									
<b>Refund</b>	<p><b>71</b> If line 70 is more than line 62, subtract line 62 from line 70. This is the amount you <b>overpaid</b> . . . . . <b>71</b></p> <p><b>72a</b> Amount of line 71 you want <b>refunded to you</b> . . . . . <b>72a</b></p> <p><b>▶ b</b> Routing number <input type="text"/> <b>▶ c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings</p> <p><b>▶ d</b> Account number <input type="text"/></p> <p><b>73</b> Amount of line 71 you want <b>applied to your 2005 estimated tax</b> . . . . . <b>▶ 73</b></p>									
<b>Amount You Owe</b>	<p><b>74</b> <b>Amount you owe.</b> Subtract line 70 from line 62. For details on how to pay, see page 57 . . . . . <b>▶ 74</b></p> <p><b>75</b> Estimated tax penalty (see page 58) . . . . . <b>75</b></p>									
<b>Third Party Designee</b>	<p>Do you want to allow another person to discuss this return with the IRS (see page 58)? <input type="checkbox"/> <b>Yes.</b> Complete the following. <input type="checkbox"/> <b>No</b></p> <p>Designee's name <input type="text"/> Phone no. <input type="text"/> ( ) Personal identification number (PIN) <input type="text"/></p>									
<b>Sign Here</b>	<p>Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:33%;">Your signature</td> <td style="width:15%;">Date</td> <td style="width:33%;">Your occupation</td> <td style="width:19%;">Daytime phone number</td> </tr> <tr> <td>Spouse's signature. If a joint return, <b>both</b> must sign.</td> <td>Date</td> <td>Spouse's occupation</td> <td>( )</td> </tr> </table>		Your signature	Date	Your occupation	Daytime phone number	Spouse's signature. If a joint return, <b>both</b> must sign.	Date	Spouse's occupation	( )
Your signature	Date	Your occupation	Daytime phone number							
Spouse's signature. If a joint return, <b>both</b> must sign.	Date	Spouse's occupation	( )							
<b>Paid Preparer's Use Only</b>	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:40%;">Preparer's signature <input type="text"/></td> <td style="width:10%;">Date</td> <td style="width:10%;">Check if self-employed <input type="checkbox"/></td> <td style="width:40%;">Preparer's SSN or PTIN</td> </tr> <tr> <td>Firm's name (or yours if self-employed), address, and ZIP code <input type="text"/></td> <td>EIN</td> <td>Phone no. ( )</td> <td></td> </tr> </table>		Preparer's signature <input type="text"/>	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN	Firm's name (or yours if self-employed), address, and ZIP code <input type="text"/>	EIN	Phone no. ( )	
Preparer's signature <input type="text"/>	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN							
Firm's name (or yours if self-employed), address, and ZIP code <input type="text"/>	EIN	Phone no. ( )								



# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 13—Jay and Sandra's Schedule D

<b>SCHEDULE D</b> <b>(Form 1040)</b> <small>Department of the Treasury Internal Revenue Service (99)</small>	<b>Capital Gains and Losses</b> ▶ Attach to Form 1040.    ▶ See Instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.	OMB No. 1545-0074 <span style="font-size: 2em; font-weight: bold;">2004</span> Attachment Sequence No. <b>12</b>			
Name(s) shown on Form 1040		Your social security number			
<b>Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less</b>					
<b>(a)</b> Description of property <small>(Example: 100 sh. XYZ Co.)</small>	<b>(b)</b> Date acquired <small>(Mo., day, yr.)</small>	<b>(c)</b> Date sold <small>(Mo., day, yr.)</small>	<b>(d)</b> Sales price <small>(see page D-6 of the instructions)</small>	<b>(e)</b> Cost or other basis <small>(see page D-6 of the instructions)</small>	<b>(f)</b> Gain or (loss) <small>Subtract (e) from (d)</small>
1					
2	Enter your short-term totals, if any, from Schedule D-1, line 2		2		
3	Total short-term sales price amounts. Add lines 1 and 2 in column (d)		3		
4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824				4
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				5
6	Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions				6 (            )
7	Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f)				7
<b>Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year</b>					
<b>(a)</b> Description of property <small>(Example: 100 sh. XYZ Co.)</small>	<b>(b)</b> Date acquired <small>(Mo., day, yr.)</small>	<b>(c)</b> Date sold <small>(Mo., day, yr.)</small>	<b>(d)</b> Sales price <small>(see page D-6 of the instructions)</small>	<b>(e)</b> Cost or other basis <small>(see page D-6 of the instructions)</small>	<b>(f)</b> Gain or (loss) <small>Subtract (e) from (d)</small>
8					
9	Enter your long-term totals, if any, from Schedule D-1, line 9		9		
10	Total long-term sales price amounts. Add lines 8 and 9 in column (d)		10		
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12
13	Capital gain distributions. See page D-2 of the instructions				13
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions				14 (            )
15	Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f). Then go to Part III on the back				15
For Paperwork Reduction Act Notice, see Form 1040 instructions.			Cat. No. 11338H		Schedule D (Form 1040) 2004

# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 13 (continued)—Jay and Sandra's Schedule D

Schedule D (Form 1040) 2004

Page **2**

**Part III Summary**

<p><b>16</b> Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13 . . . . .</p> <p><b>17</b> Are lines 15 and 16 <b>both</b> gains?  <input type="checkbox"/> <b>Yes.</b> Go to line 18.  <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.</p> <p><b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> on page D-7 of the instructions . . . . . ▶</p> <p><b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page D-8 of the instructions . . . . . ▶</p> <p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below.  <input type="checkbox"/> <b>No.</b> Complete the <b>Schedule D Tax Worksheet</b> on page D-10 of the instructions. <b>Do not</b> complete lines 21 and 22 below.</p> <p><b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of:  <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) } . . . . .</li> </ul> <p><b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.</p> <p><b>22</b> Do you have qualified dividends on Form 1040, line 9b?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040.  <input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040.</p> </p>	<p><b>16</b></p> <p><b>18</b></p> <p><b>19</b></p> <p><b>21</b> (      )</p>	
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Schedule D (Form 1040) 2004

# PENSION EARNER COMPREHENSIVE PROBLEMS

## Exhibit 14—Jay and Sandra’s Social Security Worksheet

### Social Security Benefits Worksheet—Lines 20a and 20b

Keep for Your Records

- Before you begin:**
- ✓ Complete Form 1040, lines 21, 23 through 25, and 28 through 34a, if they apply to you.
  - ✓ Figure any write-in adjustments to be entered on the dotted line next to line 35 (see page 33).
  - ✓ If you are married filing separately and you lived apart from your spouse for all of 2004, enter “D” to the right of the word “benefits” on line 20a.
  - ✓ Be sure you have read the **Exception** on page 27 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.



1. Enter the total amount from <b>box 5</b> of all your <b>Forms SSA-1099</b> and <b>Forms RRB-1099</b> . . . . .	<b>1.</b>			
2. Enter one-half of line 1 . . . . .	<b>2.</b>			
3. Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 14, 15b, 16b, 17 through 19, and 21 . . . . .	<b>3.</b>			
4. Enter the amount, if any, from Form 1040, line 8b . . . . .	<b>4.</b>			
5. Add lines 2, 3, and 4 . . . . .	<b>5.</b>			
6. Enter the total of the amounts from Form 1040, lines 23 through 25, and 28 through 34a, plus any write-in adjustments you entered on the dotted line next to line 35 . . . . .	<b>6.</b>			
7. Is the amount on line 6 less than the amount on line 5?				
<input type="checkbox"/> <b>No.</b> None of your social security benefits are taxable.				
<input type="checkbox"/> <b>Yes.</b> Subtract line 6 from line 5 . . . . .				
8. If you are:				
• Married filing jointly, enter \$32,000				
• Single, head of household, qualifying widow(er), or married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter \$25,000				
• Married filing separately and you lived with your spouse at any time in 2004, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17				
9. Is the amount on line 8 less than the amount on line 7?				
<input type="checkbox"/> <b>No.</b> None of your social security benefits are taxable. You do not have to enter any amounts on line 20a or 20b of Form 1040. <b>But</b> if you are married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter -0- on line 20b. Be sure you entered “D” to the right of the word “benefits” on line 20a.				
<input type="checkbox"/> <b>Yes.</b> Subtract line 8 from line 7 . . . . .				
10. Enter: \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you <b>lived apart</b> from your spouse for all of 2004 . .	<b>10.</b>			
11. Subtract line 10 from line 9. If zero or less, enter -0- . . . . .	<b>11.</b>			
12. Enter the <b>smaller</b> of line 9 or line 10 . . . . .	<b>12.</b>			
13. Enter one-half of line 12 . . . . .	<b>13.</b>			
14. Enter the <b>smaller</b> of line 2 or line 13 . . . . .	<b>14.</b>			
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- . . . . .	<b>15.</b>			
16. Add lines 14 and 15 . . . . .	<b>16.</b>			
17. Multiply line 1 by 85% (.85) . . . . .	<b>17.</b>			
18. <b>Taxable social security benefits.</b> Enter the <b>smaller</b> of line 16 or line 17 . . . . .	<b>18.</b>			
• Enter the amount from line 1 above on Form 1040, line 20a.				
• Enter the amount from line 18 above on Form 1040, line 20b.				

**TIP** If part of your benefits are taxable for 2004 **and** they include benefits paid in 2004 that were for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

# PENSION EARNER COMPREHENSIVE PROBLEMS

Exhibit 15—Madison Tax Computation

## Qualified Dividends and Capital Gain Tax Worksheet—Line 43

Keep for Your Records

- Before you begin:**
- ✓ See the instructions for line 43 on page 36 to see if you can use this worksheet to figure your tax.
  - ✓ If you do not have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Form 1040.



1. Enter the amount from Form 1040, line 42	1.	
2. Enter the amount from Form 1040, line 9b	2.	
3. Are you filing Schedule D?		
<input type="checkbox"/> <b>Yes.</b> Enter the <b>smaller</b> of line 15 or 16 of Schedule D, but do not enter less than -0-	} . . . 3.	
<input type="checkbox"/> <b>No.</b> Enter the amount from Form 1040, line 13		
4. Add lines 2 and 3	4.	
5. If you are claiming investment interest expense on Form 4952, enter the amount from line 4g of that form. Otherwise, enter -0-	5.	
6. Subtract line 5 from line 4. If zero or less, enter -0-	6.	
7. Subtract line 6 from line 1. If zero or less, enter -0-	7.	
8. Enter the <b>smaller</b> of:		
• The amount on line 1 or	} . . . . 8.	
• \$29,050 if single or married filing separately,		
• \$58,100 if married filing jointly or qualifying widow(er), or \$38,900 if head of household.		
9. Is the amount on line 7 equal to or more than the amount on line 8?		
<input type="checkbox"/> <b>Yes.</b> Skip lines 9 through 11; go to line 12 and check the "No" box.	} . . . . 9.	
<input type="checkbox"/> <b>No.</b> Enter the amount from line 7		
10. Subtract line 9 from line 8	10.	
11. Multiply line 10 by 5% (.05)	11.	
12. Are the amounts on lines 6 and 10 the same?		
<input type="checkbox"/> <b>Yes.</b> Skip lines 12 through 15; go to line 16.	} . . . . 12.	
<input type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 6		
13. Enter the amount from line 10 (if line 10 is blank, enter -0-)	13.	
14. Subtract line 13 from line 12	14.	
15. Multiply line 14 by 15% (.15)	15.	
16. Figure the tax on the amount on line 7. Use the Tax Table or Tax Computation Worksheet, whichever applies	16.	
17. Add lines 11, 15, and 16	17.	
18. Figure the tax on the amount on line 1. Use the Tax Table or Tax Computation Worksheet, whichever applies	18.	
19. <b>Tax on all taxable income.</b> Enter the <b>smaller</b> of line 17 or line 18. Also include this amount on Form 1040, line 43	19.	

Need more information or forms? See page 7.

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# PENSION EARNER COMPREHENSIVE PROBLEMS

ANSWERS TO PROBLEMS

Exhibit 16—Morehouse 1040A

Form <b>1040A</b>		Department of the Treasury—Internal Revenue Service		<b>U.S. Individual Income Tax Return</b>		<b>2004</b>		OMB No. 1545-0085	
Label (See page 19.)		Your first name and initial <b>STUART L</b>		Last name <b>MOREHOUSE</b>		Your social security number <b>XXX : XX : XXXX</b>			
Use the IRS label. Otherwise, please print or type.		If a joint return, spouse's first name and initial <b>DONNA R</b>		Last name <b>MOREHOUSE</b>		Spouse's social security number <b>XXX : XX : XXXX</b>			
		Home address (number and street). If you have a P.O. box, see page 20. <b>10923 FRANKLIN ST</b>				Apt. no.			
		City, town or post office, state, and ZIP code. If you have a foreign address, see page 20. <b>YOUR CITY, STATE, ZIP</b>							
<b>Presidential Election Campaign</b> (See page 20.)					<b>Note.</b> Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? . . . . .				
					You		Spouse		
					<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
<b>Filing status</b> (Check only one box.)		1 <input type="checkbox"/> Single		4 <input type="checkbox"/> Head of household (with qualifying person). (See page 20.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶					
		2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income)		5 <input type="checkbox"/> Qualifying widow(er) with dependent child (see page 21)					
		3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶							
<b>Exemptions</b>		6a <input checked="" type="checkbox"/> <b>Yourself.</b> If someone can claim you as a dependent, do not check box 6a.		b <input checked="" type="checkbox"/> <b>Spouse</b>		c <b>Dependents:</b>		Boxes checked on 6a and 6b	
		(1) First name		Last name		(2) Dependent's social security number		(3) Dependent's relationship to you	
		(4) <input checked="" type="checkbox"/> If qualifying child for child tax credit (see page 23)						No. of children on 6c who:	
								• lived with you	
								• did not live with you due to divorce or separation (see page 23)	
								Dependents on 6c not entered above	
								Add numbers on lines above ▶	
								2	
		d Total number of exemptions claimed.							
<b>Income</b>		7 Wages, salaries, tips, etc. Attach Form(s) W-2.		7		18,526			
Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.		8a Taxable interest. Attach Schedule 1 if required.		8a		716			
		b Tax-exempt interest. Do not include on line 8a. 8b							
		9a Ordinary dividends. Attach Schedule 1 if required.		9a					
		b Qualified dividends (see page 25).		9b					
		10 Capital gain distributions (see page 25).		10					
		11a IRA distributions. 11a		11b Taxable amount (see page 25).		11b			
If you did not get a W-2, see page 24.		12a Pensions and annuities. 12a		12b Taxable amount (see page 26).		12b		13,567	
Enclose, but do not attach, any payment.		13 Unemployment compensation and Alaska Permanent Fund dividends.		13					
		14a Social security benefits. 14a 10,998.00		14b Taxable amount (see page 28).		14b		2,704	
		15 Add lines 7 through 14b (far right column). This is your total income. ▶		15		35,513			
<b>Adjusted gross income</b>		16 Deduction for clean-fuel vehicles (see page 28).		16					
		17 IRA deduction (see page 28).		17		900			
		18 Student loan interest deduction (see page 31).		18					
		19 Tuition and fees deduction (see page 31).		19					
		20 Add lines 16 through 19. These are your total adjustments.		20		900			
		21 Subtract line 20 from line 15. This is your adjusted gross income. ▶		21		34,613			
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 57. Cat. No. 11327A Form <b>1040A</b> (2004)									

# PENSION EARNER COMPREHENSIVE PROBLEMS

## ANSWERS TO PROBLEMS

Exhibit 16 (continued)—Morehouse 1040A

Form 1040A (2004)		Page <b>2</b>
<b>Tax, credits, and payments</b>	<b>22</b> Enter the amount from line 21 (adjusted gross income).	22      34,613
<b>Standard Deduction for—</b> <ul style="list-style-type: none"> <li>• People who checked any box on line 23a or 23b or who can be claimed as a dependent, see page 32.</li> <li>• All others:            Single or Married filing separately, \$4,850            Married filing jointly or Qualifying widow(er), \$9,700            Head of household, \$7,150</li> </ul>	<b>23a</b> Check if: <input checked="" type="checkbox"/> You were born before January 2, 1940, <input type="checkbox"/> Blind } <b>Total boxes checked</b> ▶ 23a <span style="border: 1px solid black; padding: 2px;">1</span> <input type="checkbox"/> Spouse was born before January 2, 1940, <input type="checkbox"/> Blind }	
	<b>b</b> If you are married filing separately and your spouse itemizes deductions, see page 32 and check here ▶ 23b <input type="checkbox"/>	
	<b>24</b> Enter your <b>standard deduction</b> (see left margin).	24      10,650
	<b>25</b> Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.	25      23,963
	<b>26</b> Multiply \$3,100 by the total number of exemptions claimed on line 6d.	26      6,200
	<b>27</b> Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your <b>taxable income</b> .	▶ 27      17,763
	<b>28 Tax, including any alternative minimum tax</b> (see page 33).	28      1,951
	<b>29</b> Credit for child and dependent care expenses. Attach Schedule 2.	29
	<b>30</b> Credit for the elderly or the disabled. Attach Schedule 3.	30
	<b>31</b> Education credits. Attach Form 8863.	31
	<b>32</b> Child tax credit (see page 37).	32
	<b>33</b> Retirement savings contributions credit. Attach Form 8880.	33
	<b>34</b> Adoption credit. Attach Form 8839.	34
	<b>35</b> Add lines 29 through 34. These are your <b>total credits</b> .	35
	<b>36</b> Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.	36      1,951
	<b>37</b> Advance earned income credit payments from Form(s) W-2.	37
	<b>38</b> Add lines 36 and 37. This is your <b>total tax</b> .	▶ 38      1,951
	<b>39</b> Federal income tax withheld from Forms W-2 and 1099.	39      3,780
	<b>40</b> 2004 estimated tax payments and amount applied from 2003 return.	40
	<b>41 Earned income credit (EIC).</b>	41
	<b>42</b> Additional child tax credit. Attach Form 8812.	42
	<b>43</b> Add lines 39 through 42. These are your <b>total payments</b> .	▶ 43      3,780
	<b>44</b> If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you <b>overpaid</b> .	44      1,829
<b>Refund</b>  Direct deposit? See page 50 and fill in 45b, 45c, and 45d.	<b>45a</b> Amount of line 44 you want <b>refunded to you</b> .	▶ 45a      1,829
	▶ <b>b</b> Routing number <input style="width: 100px;" type="text"/> ▶ <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
	▶ <b>d</b> Account number <input style="width: 100px;" type="text"/>	
	<b>46</b> Amount of line 44 you want <b>applied to your 2005 estimated tax</b> .	46
<b>Amount you owe</b>	<b>47</b> Amount you owe. Subtract line 43 from line 38. For details on how to pay, see page 51.	▶ 47
	<b>48</b> Estimated tax penalty (see page 52).	48
<b>Third party designee</b>	Do you want to allow another person to discuss this return with the IRS (see page 52)? <input type="checkbox"/> Yes. Complete the following. <input checked="" type="checkbox"/> No	
	Designee's name ▶ _____	Phone no. ▶ ( ) _____
		Personal identification number (PIN) ▶ <input style="width: 40px;" type="text"/>
<b>Sign here</b>  Joint return? See page 20. Keep a copy for your records.	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.	
	Your signature	Date      Your occupation <b>RETIRED</b>
	Spouse's signature. If a joint return, <b>both</b> must sign.	Date      Spouse's occupation <b>SECRETARY</b>
		Daytime phone number ( ) _____
<b>Paid preparer's use only</b>	Preparer's signature ▶ _____	Date      Check if self-employed <input type="checkbox"/>
	Firm's name (or yours if self-employed), address, and ZIP code ▶ _____	EIN      Preparer's SSN or PTIN <b>SXXXXXXXXX</b>
		Phone no. ( ) _____

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Form 1040A (2004)

# PENSION EARNER COMPREHENSIVE PROBLEMS

## ANSWERS TO PROBLEMS

### Exhibit 17—Morehouse Social Security Worksheet

#### Social Security Benefits Worksheet—Lines 14a and 14b

Keep for Your Records

- Before you begin:**
- ✓ Complete Form 1040A, lines 16 and 17, if they apply to you.
  - ✓ If you are married filing separately and you **lived apart** from your spouse for all of 2004, enter "D" to the right of the word "benefits" on line 14a.
  - ✓ Be sure you have read the **Exception** on page 25 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.



1. Enter the total amount from <b>box 5</b> of all your <b>Forms SSA-1099</b> and <b>Forms RRB-1099</b> . . . . . 1.	10,998.00
2. Enter one-half of line 1 . . . . . 2.	5,499.00
3. Enter the total of the amounts from Form 1040A, lines 7, 8a, 9a, 10, 11b, 12b, and 13 . . . . . 3.	32,809.00
4. Enter the amount, if any, from Form 1040A, line 8b . . . . . 4.	
5. Add lines 2, 3, and 4 . . . . . 5.	38,308.00
6. Enter the total of the amounts from Form 1040A, lines 16 and 17 . . . . . 6.	900.00
7. Is the amount on line 6 less than the amount on line 5? <input type="checkbox"/> <b>No.</b> None of your social security benefits are taxable.	
<input checked="" type="checkbox"/> <b>Yes.</b> Subtract line 6 from line 5 . . . . . 7.	37,408.00
8. If you are: • Married filing jointly, enter \$32,000. • Single, head of household, qualifying widow(er), or married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter \$25,000. • Married filing separately and you lived with your spouse at any time in 2004, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.	32,000.00
9. Is the amount on line 8 less than the amount on line 7? <input type="checkbox"/> <b>No.</b> None of your social security benefits are taxable. You do not have to enter any amount on line 14a or 14b of Form 1040A. <b>But</b> if you are married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter -0- on line 14b. Be sure you entered "D" to the right of the word "benefits" on line 14a.	
<input checked="" type="checkbox"/> <b>Yes.</b> Subtract line 8 from line 7 . . . . . 9.	5,408.00
10. Enter \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you <b>lived apart</b> from your spouse for all of 2004 . . . . . 10.	12,000.00
11. Subtract line 10 from line 9. If zero or less, enter -0- . . . . . 11.	0.00
12. Enter the <b>smaller</b> of line 9 or line 10 . . . . . 12.	5,408.00
13. Enter one-half of line 12 . . . . . 13.	2,704.00
14. Enter the <b>smaller</b> of line 2 or line 13 . . . . . 14.	2,704.00
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- . . . . . 15.	0.00
16. Add lines 14 and 15 . . . . . 16.	2,704.00
17. Multiply line 1 by 85% (.85) . . . . . 17.	9,348.00
18. <b>Taxable social security benefits.</b> Enter the <b>smaller</b> of line 16 or line 17 . . . . . 18. • Enter the amount from line 1 above on Form 1040A, line 14a. • Enter the amount from line 18 above on Form 1040A, line 14b.	2,704.00



If part of your benefits are taxable for 2004 and they include benefits paid in 2004 that were for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

# PENSION EARNER COMPREHENSIVE PROBLEMS

## ANSWERS TO PROBLEMS

Exhibit 18—Morehouse Form 8880

Form <b>8880</b> Department of the Treasury Internal Revenue Service	<b>Credit for Qualified Retirement Savings Contributions</b> ▶ Attach to Form 1040 or Form 1040A. ▶ See instructions on back.	OMB No. 1545-1805 <b>2004</b> Attachment Sequence No. <b>129</b>
Name(s) shown on return <b>STUART L AND DONNA R MOREHOUSE</b>		Your social security number XXX XX XXXX



You **cannot** take this credit if **either** of the following applies.

- The amount on Form 1040, line 37, or Form 1040A, line 22, is more than \$25,000 (\$37,500 if head of household; \$50,000 if married filing jointly).
- The person(s) who made the qualified contribution or elective deferral **(a)** was born after January 1, 1987, **(b)** is claimed as a dependent on someone else's 2004 tax return, or **(c)** was a **student** (see instructions).

	(a) You		(b) Your spouse
<b>1</b> Traditional and Roth IRA contributions for 2004. <b>Do not</b> include rollover contributions . . . . .	<b>1</b>		900
<b>2</b> Elective deferrals to a 401(k) or other qualified employer plan, voluntary employee contributions, and 501(c)(18)(D) plan contributions for 2004 (see instructions) . . . . .	<b>2</b>		
<b>3</b> Add lines 1 and 2 . . . . .	<b>3</b>		900.00
<b>4</b> Certain distributions received <b>after</b> 2001 and <b>before</b> the due date (including extensions) of your 2004 tax return (see instructions). If married filing jointly, include <b>both</b> spouses' amounts in <b>both</b> columns. See instructions for an exception . . . . .	<b>4</b>	13,567.00	13,567.00
<b>5</b> Subtract line 4 from line 3. If zero or less, enter -0- . . . . .	<b>5</b>	0.00	0.00
<b>6</b> In each column, enter the <b>smaller</b> of line 5 or \$2,000 . . . . .	<b>6</b>	0.00	0.00
<b>7</b> Add the amounts on line 6. If zero, <b>stop</b> ; you cannot take this credit . . . . .	<b>7</b>		0.00
<b>8</b> Enter the amount from Form 1040, line 37*, or Form 1040A, line 22 . . . . .	<b>8</b>		
<b>9</b> Enter the applicable decimal amount shown below:			

**Stuart's pension distribution exceeds Donna's IRA contribution. Therefore, they are not eligible for the credit.**

If line 8 is—		And your filing status is—		
Over—	But not over—	Married filing jointly	Head of household	Single, Married filing separately, or Qualifying widow(er)
<b>Enter on line 9—</b>				
---	\$15,000	.5	.5	.5
\$15,000	\$16,250	.5	.5	.2
\$16,250	\$22,500	.5	.5	.1
\$22,500	\$24,375	.5	.2	.1
\$24,375	\$25,000	.5	.1	.1
\$25,000	\$30,000	.5	.1	.0
\$30,000	\$32,500	.2	.1	.0
\$32,500	\$37,500	.1	.1	.0
\$37,500	\$50,000	.1	.0	.0
\$50,000	---	.0	.0	.0

**Note:** If line 9 is zero, **stop**; you cannot take this credit.

<b>10</b> Multiply line 7 by line 9 . . . . .	<b>10</b>		
<b>11</b> Enter the amount from Form 1040, line 45, or Form 1040A, line 28 . . . . .	<b>11</b>		
<b>12</b> Enter the total of your credits from Form 1040, lines 46 through 51, or Form 1040A, lines 29 through 32 . . . . .	<b>12</b>		
<b>13</b> Subtract line 12 from line 11. If zero, <b>stop</b> ; you cannot take this credit . . . . .	<b>13</b>		
<b>14</b> <b>Credit for qualified retirement savings contributions.</b> Enter the <b>smaller</b> of line 10 or line 13 here and on Form 1040, line 52, or Form 1040A, line 33 . . . . .	<b>14</b>		

\*See Pub. 590 for the amount to enter if you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico.



# PENSION EARNER COMPREHENSIVE PROBLEMS

## ANSWERS TO PROBLEMS

Exhibit 19—Madison Form 1040

Form	<b>1040</b>	Department of the Treasury—Internal Revenue Service <b>U.S. Individual Income Tax Return 2004</b>	(99)	IRS Use Only—Do not write or staple in this space.		
		For the year Jan. 1—Dec. 31, 2004, or other tax year beginning _____, 2004, ending _____, 20		OMB No. 1545-0074		
<b>Label</b> (See instructions on page 19.) <b>Use the IRS label.</b> Otherwise, please print or type. <b>Presidential Election Campaign</b> (See page 19.)	<b>L A B E L H E R E</b>	Your first name and initial <b>JAY R</b>		Last name <b>MADISON</b>	Your social security number <b>XXX XX XXXX</b>	
		If a joint return, spouse's first name and initial <b>SANDRA H</b>		Last name <b>MADISON</b>	Spouse's social security number <b>XXX XX XXXX</b>	
		Home address (number and street). If you have a P.O. box, see page 19. <b>99 DOUGLAS AVE</b>			Apt. no.	<b>▲ Important! ▲</b> You <b>must</b> enter your SSN(s) above.
		City, town or post office, state, and ZIP code. If you have a foreign address, see page 19. <b>YOUR CITY, STATE, ZIP</b>				
<b>Presidential Election Campaign</b> (See page 19.)		Note. Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if filing a joint return, want \$3 to go to this fund? . . . . . <input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>			You <input type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b> Spouse <input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>	
<b>Filing Status</b>		1 <input type="checkbox"/> Single      4 <input type="checkbox"/> Head of household (with qualifying person). (See page 20.) If the qualifying person is a child but not your dependent, enter this child's name here. <input type="checkbox"/>				
Check only one box.		2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income)      3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. <input type="checkbox"/> 5 <input type="checkbox"/> Qualifying widow(er) with dependent child (see page 20)				
<b>Exemptions</b>		6a <input checked="" type="checkbox"/> <b>Yourself.</b> If someone can claim you as a dependent, do not check box 6a. . . . . } Boxes checked on 6a and 6b <b>2</b> b <input checked="" type="checkbox"/> <b>Spouse.</b> . . . . . } No. of children on 6c who: c <b>Dependents:</b> (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 21)			• lived with you _____ • did not live with you due to divorce or separation (see page 21) _____ Dependents on 6c not entered above _____ Add numbers on lines above <b>2</b>	
If more than four dependents, see page 21.		d Total number of exemptions claimed . . . . .				
<b>Income</b>		7 Wages, salaries, tips, etc. Attach Form(s) W-2 . . . . . <b>7</b> 8a Taxable interest. Attach Schedule B if required . . . . . <b>8a</b> b Tax-exempt interest. Do not include on line 8a . . . . . <b>8b</b> 9a Ordinary dividends. Attach Schedule B if required . . . . . <b>9a</b> b Qualified dividends (see page 23) . . . . . <b>9b</b> 10 Taxable refunds, credits, or offsets of state and local income taxes (see page 23) . . . . . <b>10</b> 11 Alimony received . . . . . <b>11</b> 12 Business income or (loss). Attach Schedule C or C-EZ . . . . . <b>12</b> 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> <b>13</b> 7,820 14 Other gains or (losses). Attach Form 4797 . . . . . <b>14</b> 15a IRA distributions . . . . . <b>15a</b> b Taxable amount (see page 25) <b>15b</b> 16a Pensions and annuities . . . . . <b>16a</b> b Taxable amount (see page 25) <b>16b</b> 18,946 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E . . . . . <b>17</b> 18 Farm income or (loss). Attach Schedule F . . . . . <b>18</b> 19 Unemployment compensation . . . . . <b>19</b> 20a Social security benefits . . . . . <b>20a</b> 14,264      b Taxable amount (see page 27) <b>20b</b> 949 21 Other income. List type and amount (see page 27) . . . . . <b>21</b> 22 Add the amounts in the far right column for lines 7 through 21. This is your <b>total income</b> <b>22</b> 27,715				
<b>Adjusted Gross Income</b>		23 Deduction for clean-fuel vehicles (see page 29) . . . . . <b>23</b> 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ . . . . . <b>24</b> 25 IRA deduction (see page 29) . . . . . <b>25</b> 26 Student loan interest deduction (see page 31) . . . . . <b>26</b> 27 Tuition and fees deduction (see page 32) . . . . . <b>27</b> 28 Health savings account deduction. Attach Form 8889 . . . . . <b>28</b> 29 Moving expenses. Attach Form 3903 . . . . . <b>29</b> 30 One-half of self-employment tax. Attach Schedule SE . . . . . <b>30</b> 31 Self-employed health insurance deduction (see page 33) . . . . . <b>31</b> 32 Self-employed SEP, SIMPLE, and qualified plans . . . . . <b>32</b> 33 Penalty on early withdrawal of savings . . . . . <b>33</b> 34a Alimony paid      b Recipient's SSN <b>34a</b> 35 Add lines 23 through 34a . . . . . <b>35</b> 36 Subtract line 35 from line 22. This is your <b>adjusted gross income</b> . . . . . <b>36</b> 27,715				
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 77.      Cat. No. 11320B      Form <b>1040</b> (2004)						

# PENSION EARNER COMPREHENSIVE PROBLEMS

## ANSWERS TO PROBLEMS

Exhibit 19 (continued)—Madison Form 1040

Form 1040 (2004)		Page <b>2</b>								
<b>Tax and Credits</b>	<p><b>37</b> Amount from line 36 (adjusted gross income) . . . . . <b>37</b> 27,715</p> <p><b>38a</b> Check <input checked="" type="checkbox"/> <b>You</b> were born before January 2, 1940, <input type="checkbox"/> Blind. <b>Total boxes</b> if: <input checked="" type="checkbox"/> <b>Spouse</b> was born before January 2, 1940, <input type="checkbox"/> Blind. <b>checked ▶ 38a</b> <b>2</b></p> <p><b>b</b> If you are married filing separately and your spouse itemizes deductions, or you were a dual-status alien, see page 34 and check here . . . . . <b>▶ 38b</b> <input type="checkbox"/></p> <p><b>39</b> <b>Itemized deductions</b> (from Schedule A) or your <b>standard deduction</b> (see left margin) . . . . . <b>39</b> 11,600</p> <p><b>40</b> Subtract line 39 from line 37 . . . . . <b>40</b> 16,115</p> <p><b>41</b> If line 37 is \$107,025 or less, multiply \$3,100 by the total number of exemptions claimed on line 6d. If line 37 is over \$107,025, see the worksheet on page 35 . . . . . <b>41</b> 6,200</p> <p><b>42</b> <b>Taxable income.</b> Subtract line 41 from line 40. If line 41 is more than line 40, enter -0- . . . . . <b>42</b> 9,915</p> <p><b>43</b> <b>Tax</b> (see page 36). Check if any tax is from: <b>a</b> <input type="checkbox"/> Form(s) 8814 <b>b</b> <input type="checkbox"/> Form 4972 . . . . . <b>43</b> 600</p> <p><b>44</b> <b>Alternative minimum tax</b> (see page 38). Attach Form 6251 . . . . . <b>44</b></p> <p><b>45</b> Add lines 43 and 44 . . . . . <b>▶</b> <b>45</b> 600</p> <p><b>46</b> Credit for child and dependent care expenses. Attach Form 2441 . . . . . <b>46</b></p> <p><b>47</b> Credit for the elderly or the disabled. Attach Schedule R . . . . . <b>47</b></p> <p><b>48</b> Education credits. Attach Form 8863 . . . . . <b>48</b></p> <p><b>49</b> Credits from: <b>a</b> <input type="checkbox"/> Form 8396 <b>b</b> <input type="checkbox"/> Form 8859 . . . . . <b>49</b></p> <p><b>50</b> Foreign tax credit. Attach Form 1116 if required . . . . . <b>50</b></p> <p><b>51</b> Child tax credit (see page 40) . . . . . <b>51</b></p> <p><b>52</b> Retirement savings contributions credit. Attach Form 8880 . . . . . <b>52</b></p> <p><b>53</b> Adoption credit. Attach Form 8839 . . . . . <b>53</b></p> <p><b>54</b> Other credits. Check applicable box(es): <b>a</b> <input type="checkbox"/> Form 3800 <b>b</b> <input type="checkbox"/> Form 8801 <b>c</b> <input type="checkbox"/> Specify . . . . . <b>54</b></p> <p><b>55</b> Add lines 46 through 54. These are your <b>total credits</b> . . . . . <b>55</b></p> <p><b>56</b> Subtract line 55 from line 45. If line 55 is more than line 45, enter -0- . . . . . <b>▶</b> <b>56</b> 600</p>									
<b>Other Taxes</b>	<p><b>57</b> Self-employment tax. Attach Schedule SE . . . . . <b>57</b></p> <p><b>58</b> Social security and Medicare tax on tip income not reported to employer. Attach Form 4137 . . . . . <b>58</b></p> <p><b>59</b> Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required . . . . . <b>59</b></p> <p><b>60</b> Advance earned income credit payments from Form(s) W-2 . . . . . <b>60</b></p> <p><b>61</b> Household employment taxes. Attach Schedule H . . . . . <b>61</b></p> <p><b>62</b> Add lines 56 through 61. This is your <b>total tax</b> . . . . . <b>▶</b> <b>62</b> 600</p>									
<b>Payments</b>	<p><b>63</b> Federal income tax withheld from Forms W-2 and 1099 . . . . . <b>63</b> 2,560</p> <p><b>64</b> 2004 estimated tax payments and amount applied from 2003 return . . . . . <b>64</b></p> <p><b>65</b> <b>Earned income credit (EIC)</b> . . . . . <b>65</b></p> <p><b>66</b> Excess social security and tier 1 RRTA tax withheld (see page 56) . . . . . <b>66</b></p> <p><b>67</b> Additional child tax credit. Attach Form 8812 . . . . . <b>67</b></p> <p><b>68</b> Amount paid with request for extension to file (see page 56) . . . . . <b>68</b></p> <p><b>69</b> Other payments from: <b>a</b> <input type="checkbox"/> Form 2439 <b>b</b> <input type="checkbox"/> Form 4136 <b>c</b> <input type="checkbox"/> Form 8885 . . . . . <b>69</b></p> <p><b>70</b> Add lines 63 through 69. These are your <b>total payments</b> . . . . . <b>▶</b> <b>70</b> 2,560</p>									
<b>Refund</b>	<p><b>71</b> If line 70 is more than line 62, subtract line 62 from line 70. This is the amount you <b>overpaid</b> . . . . . <b>71</b> 1,960</p> <p><b>72a</b> Amount of line 71 you want <b>refunded to you</b> . . . . . <b>72a</b> 1,960</p> <p><b>b</b> Routing number <input type="text"/> <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings</p> <p><b>d</b> Account number <input type="text"/></p>									
<b>Amount You Owe</b>	<p><b>73</b> Amount of line 71 you want <b>applied to your 2005 estimated tax</b> . . . . . <b>73</b></p> <p><b>74</b> <b>Amount you owe.</b> Subtract line 70 from line 62. For details on how to pay, see page 57 . . . . . <b>▶</b> <b>74</b></p> <p><b>75</b> Estimated tax penalty (see page 58) . . . . . <b>75</b></p>									
<b>Third Party Designee</b>	<p>Do you want to allow another person to discuss this return with the IRS (see page 58)? <input type="checkbox"/> <b>Yes.</b> Complete the following. <input checked="" type="checkbox"/> <b>No</b></p> <p>Designee's name <input type="text"/> Phone no. <input type="text"/> ( ) Personal identification number (PIN) <input type="text"/></p>									
<b>Sign Here</b>	<p>Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">Your signature</td> <td style="width: 15%;">Date</td> <td style="width: 33%;">Your occupation <b>RETIRED</b></td> <td style="width: 19%;">Daytime phone number ( )</td> </tr> <tr> <td>Spouse's signature. If a joint return, <b>both</b> must sign.</td> <td>Date</td> <td>Spouse's occupation <b>HOMEMAKER</b></td> <td></td> </tr> </table>	Your signature	Date	Your occupation <b>RETIRED</b>	Daytime phone number ( )	Spouse's signature. If a joint return, <b>both</b> must sign.	Date	Spouse's occupation <b>HOMEMAKER</b>		
Your signature	Date	Your occupation <b>RETIRED</b>	Daytime phone number ( )							
Spouse's signature. If a joint return, <b>both</b> must sign.	Date	Spouse's occupation <b>HOMEMAKER</b>								
<b>Paid Preparer's Use Only</b>	<p>Preparer's signature <input type="text"/> Date <input type="text"/> Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN <b>Sxxxxxxxx</b></p> <p>Firm's name (or yours if self-employed), address, and ZIP code <input type="text"/> EIN <input type="text"/> Phone no. ( ) <input type="text"/></p>									

# PENSION EARNER COMPREHENSIVE PROBLEMS

## ANSWERS TO PROBLEMS

Exhibit 20—Madison Schedule D

<b>SCHEDULE D</b> <b>(Form 1040)</b> <small>Department of the Treasury Internal Revenue Service (99)</small>	<b>Capital Gains and Losses</b> ▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040). ▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.	OMB No. 1545-0074 <b>2004</b> Attachment Sequence No. <b>12</b>			
Name(s) shown on Form 1040 <b>JAY R AND SANDRA H MADISON</b>		Your social security number <b>XXX XX XXXX</b>			
<b>Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less</b>					
<b>(a)</b> Description of property <small>(Example: 100 sh. XYZ Co.)</small>	<b>(b)</b> Date acquired <small>(Mo., day, yr.)</small>	<b>(c)</b> Date sold <small>(Mo., day, yr.)</small>	<b>(d)</b> Sales price <small>(see page D-6 of the instructions)</small>	<b>(e)</b> Cost or other basis <small>(see page D-6 of the instructions)</small>	<b>(f)</b> Gain or (loss) <small>Subtract (e) from (d)</small>
<b>1</b>					
<b>2</b> Enter your short-term totals, if any, from Schedule D-1, line 2 . . . . .		<b>2</b>			
<b>3 Total short-term sales price amounts.</b> Add lines 1 and 2 in column (d) . . . . .		<b>3</b>			
<b>4</b> Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .				<b>4</b>	
<b>5</b> Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .				<b>5</b>	
<b>6</b> Short-term capital loss carryover. Enter the amount, if any, from line 8 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .				<b>6</b>	( )
<b>7 Net short-term capital gain or (loss).</b> Combine lines 1 through 6 in column (f) . . . . .				<b>7</b>	
<b>Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year</b>					
<b>(a)</b> Description of property <small>(Example: 100 sh. XYZ Co.)</small>	<b>(b)</b> Date acquired <small>(Mo., day, yr.)</small>	<b>(c)</b> Date sold <small>(Mo., day, yr.)</small>	<b>(d)</b> Sales price <small>(see page D-6 of the instructions)</small>	<b>(e)</b> Cost or other basis <small>(see page D-6 of the instructions)</small>	<b>(f)</b> Gain or (loss) <small>Subtract (e) from (d)</small>
<b>8</b> 100 SHARES ABC INC	12/01/85	07/15/04	5,124	2,400	2,724
200 SHARES XYZ	12/20/87	11/14/04	10,796	5,700	5,096
<b>9</b> Enter your long-term totals, if any, from Schedule D-1, line 9 . . . . .		<b>9</b>			
<b>10 Total long-term sales price amounts.</b> Add lines 8 and 9 in column (d) . . . . .		<b>10</b>	15,920		
<b>11</b> Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 . . . . .				<b>11</b>	
<b>12</b> Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 . . . . .				<b>12</b>	
<b>13</b> Capital gain distributions. See page D-2 of the instructions . . . . .				<b>13</b>	
<b>14</b> Long-term capital loss carryover. Enter the amount, if any, from line 13 of your <b>Capital Loss Carryover Worksheet</b> on page D-5 of the Instructions . . . . .				<b>14</b>	( )
<b>15 Net long-term capital gain or (loss).</b> Combine lines 8 through 14 in column (f). Then go to Part III on the back . . . . .				<b>15</b>	7,820
For Paperwork Reduction Act Notice, see Form 1040 instructions.		Cat. No. 11338H		Schedule D (Form 1040) 2004	

# PENSION EARNER COMPREHENSIVE PROBLEMS

## ANSWERS TO PROBLEMS

Exhibit 20 (continued)—Madison Schedule D

Schedule D (Form 1040) 2004

Page **2**

### Part III Summary

<p><b>16</b> Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13 . . . . .</p> <p><b>17</b> Are lines 15 and 16 <b>both</b> gains?  <input checked="" type="checkbox"/> <b>Yes.</b> Go to line 18.  <input type="checkbox"/> <b>No.</b> Skip lines 18 through 21, and go to line 22.</p> <p><b>18</b> Enter the amount, if any, from line 7 of the <b>28% Rate Gain Worksheet</b> on page D-7 of the instructions . . . . . ▶</p> <p><b>19</b> Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page D-8 of the instructions . . . . . ▶</p> <p><b>20</b> Are lines 18 and 19 <b>both</b> zero or blank?  <input checked="" type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040. <b>Do not</b> complete lines 21 and 22 below.  <input type="checkbox"/> <b>No.</b> Complete the <b>Schedule D Tax Worksheet</b> on page D-10 of the instructions. <b>Do not</b> complete lines 21 and 22 below.</p> <p><b>21</b> If line 16 is a loss, enter here and on Form 1040, line 13, the <b>smaller</b> of:  <ul style="list-style-type: none"> <li>• The loss on line 16 or</li> <li>• (\$3,000), or if married filing separately, (\$1,500) } . . . . .</li> </ul> <p><b>Note.</b> When figuring which amount is smaller, treat both amounts as positive numbers.</p> <p><b>22</b> Do you have qualified dividends on Form 1040, line 9b?  <input type="checkbox"/> <b>Yes.</b> Complete Form 1040 through line 42, and then complete the <b>Qualified Dividends and Capital Gain Tax Worksheet</b> on page 37 of the Instructions for Form 1040.  <input type="checkbox"/> <b>No.</b> Complete the rest of Form 1040.</p> </p>	<p><b>16</b></p> <p style="background-color: #cccccc;"> </p> <p><b>18</b></p> <p style="background-color: #cccccc;"> </p> <p><b>19</b></p> <p style="background-color: #cccccc;"> </p> <p><b>21</b> (                    )</p> <p style="background-color: #cccccc;"> </p>	<p>7,820</p> <p>0</p> <p>0</p>	
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Proof as of June 18, 2004 (subject to change)

Printed on recycled paper

Schedule D (Form 1040) 2004

# PENSION EARNER COMPREHENSIVE PROBLEMS

## ANSWERS TO PROBLEMS

### Exhibit 21—Madison Social Security Benefits Worksheet

#### Social Security Benefits Worksheet—Lines 20a and 20b

Keep for Your Records

- Before you begin:**
- ✓ Complete Form 1040, lines 21, 23 through 25, and 28 through 34a, if they apply to you.
  - ✓ Figure any write-in adjustments to be entered on the dotted line next to line 35 (see page 33).
  - ✓ If you are married filing separately and you lived apart from your spouse for all of 2004, enter “D” to the right of the word “benefits” on line 20a.
  - ✓ Be sure you have read the **Exception** on page 27 to see if you can use this worksheet instead of a publication to find out if any of your benefits are taxable.



1. Enter the total amount from <b>box 5</b> of all your <b>Forms SSA-1099</b> and <b>Forms RRB-1099</b> .....	1.	14,264.00	
2. Enter one-half of line 1 .....	2.	7,132.00	
3. Enter the total of the amounts from Form 1040, lines 7, 8a, 9a, 10 through 14, 15b, 16b, 17 through 19, and 21 .....	3.	26,766.00	
4. Enter the amount, if any, from Form 1040, line 8b .....	4.		
5. Add lines 2, 3, and 4 .....	5.	33,898.00	
6. Enter the total of the amounts from Form 1040, lines 23 through 25, and 28 through 34a, plus any write-in adjustments you entered on the dotted line next to line 35 .....	6.		
7. Is the amount on line 6 less than the amount on line 5? <input type="checkbox"/> <b>No.</b> None of your social security benefits are taxable.			
<input checked="" type="checkbox"/> <b>Yes.</b> Subtract line 6 from line 5 .....	7.	33,898.00	
8. If you are: • Married filing jointly, enter \$32,000 • Single, head of household, qualifying widow(er), or married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter \$25,000 • Married filing separately and you lived with your spouse at any time in 2004, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17	8.	32,000.00	
9. Is the amount on line 8 less than the amount on line 7? <input type="checkbox"/> <b>No.</b> None of your social security benefits are taxable. You do not have to enter any amounts on line 20a or 20b of Form 1040. <b>But</b> if you are married filing separately and you <b>lived apart</b> from your spouse for all of 2004, enter -0- on line 20b. Be sure you entered “D” to the right of the word “benefits” on line 20a.			
<input checked="" type="checkbox"/> <b>Yes.</b> Subtract line 8 from line 7 .....	9.	1,898.00	
10. Enter: \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you <b>lived apart</b> from your spouse for all of 2004 ..	10.	12,000.00	
11. Subtract line 10 from line 9. If zero or less, enter -0- .....	11.	0.00	
12. Enter the <b>smaller</b> of line 9 or line 10 .....	12.	1,898.00	
13. Enter one-half of line 12 .....	13.	949.00	
14. Enter the <b>smaller</b> of line 2 or line 13 .....	14.	949.00	
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0- .....	15.	0.00	
16. Add lines 14 and 15 .....	16.	949.00	
17. Multiply line 1 by 85% (.85) .....	17.	12,124.00	
18. <b>Taxable social security benefits.</b> Enter the <b>smaller</b> of line 16 or line 17 .....	18.	949.00	
• Enter the amount from line 1 above on Form 1040, line 20a. • Enter the amount from line 18 above on Form 1040, line 20b.			



**TIP** If part of your benefits are taxable for 2004 **and** they include benefits paid in 2004 that were for an earlier year, you may be able to reduce the taxable amount. See Pub. 915 for details.

# PENSION EARNER COMPREHENSIVE PROBLEMS

## ANSWERS TO PROBLEMS

Exhibit 22—Madison Tax Computation

### Qualified Dividends and Capital Gain Tax Worksheet—Line 43

Keep for Your Records

- Before you begin:**
- ✓ See the instructions for line 43 on page 36 to see if you can use this worksheet to figure your tax.
  - ✓ If you do not have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Form 1040.



1. Enter the amount from Form 1040, line 42	1.	9,915.00	
2. Enter the amount from Form 1040, line 9b	2.		
3. Are you filing Schedule D?			
<input checked="" type="checkbox"/> <b>Yes.</b> Enter the <b>smaller</b> of line 15 or 16 of Schedule D, but do not enter less than -0-	} ... 3.	7,820.00	
<input type="checkbox"/> <b>No.</b> Enter the amount from Form 1040, line 13			
4. Add lines 2 and 3	4.	7,820.00	
5. If you are claiming investment interest expense on Form 4952, enter the amount from line 4g of that form. Otherwise, enter -0-	5.		
6. Subtract line 5 from line 4. If zero or less, enter -0-	6.	7,820.00	
7. Subtract line 6 from line 1. If zero or less, enter -0-	7.	2,095.00	
8. Enter the <b>smaller</b> of:			
<ul style="list-style-type: none"> <li>• The amount on line 1 or</li> <li>• \$29,050 if single or married filing separately,</li> <li>   \$58,100 if married filing jointly or qualifying widow(er), or</li> <li>   \$38,900 if head of household.</li> </ul>	} ... 8.	9,915.00	
9. Is the amount on line 7 equal to or more than the amount on line 8?			
<input type="checkbox"/> <b>Yes.</b> Skip lines 9 through 11; go to line 12 and check the "No" box.	} ... 9.	2,095.00	
<input checked="" type="checkbox"/> <b>No.</b> Enter the amount from line 7			
10. Subtract line 9 from line 8	10.	7,820.00	
11. Multiply line 10 by 5% (.05)	11.		391.00
12. Are the amounts on lines 6 and 10 the same?			
<input checked="" type="checkbox"/> <b>Yes.</b> Skip lines 12 through 15; go to line 16.	} ... 12.		
<input type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 6			
13. Enter the amount from line 10 (if line 10 is blank, enter -0-)	13.		
14. Subtract line 13 from line 12	14.		
15. Multiply line 14 by 15% (.15)	15.		
16. Figure the tax on the amount on line 7. Use the Tax Table or Tax Computation Worksheet, whichever applies	16.		209.00
17. Add lines 11, 15, and 16	17.		600.00
18. Figure the tax on the amount on line 1. Use the Tax Table or Tax Computation Worksheet, whichever applies	18.		993.00
19. <b>Tax on all taxable income.</b> Enter the <b>smaller</b> of line 17 or line 18. Also include this amount on Form 1040, line 43	19.		600.00

The volunteer tax preparation program must continuously seek the most efficient and effective training method.

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. Additional goals include:

- Making integrated training more interesting, less fatiguing and less intimidating than traditional methods,
- Achieving higher training retention, and
- Achieving tax law learning objectives as outlined in the Publication 678, Volunteer Assistor's Guide, lessons.

The training plan presented here is one approach to accomplishing integrated training. Instructors may need to modify the process to fit their particular training requirements.

### 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 (678M for military), 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 Training Exercises (CTE):** There are two comprehensive exercises the instructor and student 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.

Comprehensive Training Exercise A covers most course material except Earned Income Credit (EIC) and Child Tax Credit (CTC).

Comprehensive Training Exercise B covers EIC, Advance EIC, CTC and Additional CTC.

After the instructor and students together complete a section of the comprehensive exercise, the correct Federal Tax Liability is listed. The student can compare this tax liability with the number in the bottom 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. Individual Exercises:** Ten 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:** 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. The supplemental exercises are annotated as optional. As time permits use them to reinforce the learning process.

**Training Exercise Contents:** Table I depicts the relationship between the exercise number, the training module, and the Form 1040 line. The darkened area shows which modules should be covered before beginning a specific exercise. For example, Exercises 1 and 2 should be completed after Training Module 1 and 2 have been presented. The x's indicate which Form 1040 line numbers are covered in a particular exercise. The supplemental exercises are used to reopen previously completed exercises. For example, Supplemental Exercise 1 (S1) is opened following completion of Module 5 in order to add Forms 1099-R to Exercises 3 and 4 which were completed earlier.



2003 1040 Line#	2004 1040 Line#	SUBJECT Exercise Number	Exercises											
			CTE A	CTE B	1	2	3	4	5	6	7	8	9	10
		<b>Module 1</b>												
		Filing Status	MFJ	QW	MFJ	S	MFS	QW	MFJ	S	MFJ	HH	HH	MFJ
		TaxPayer or Spouse Blind												X
		Decedent Return									X			
		Dependent of another				X								
6	6	Dependents—Children	X	X	X		X	X	X		X	X	X	
6	6	Dependents—Other		X								X	X	X
		<b>Module 2</b>												
7	7	W-2	X	X	X	X	X	X	X	X		X	X	
8	8	Interest	X		X	X	X	X	X	X	X	X	X	X
		Seller financed interest	X						X					
8b	8b	Interest—Non-Taxable	X										X	
9	9	Dividends	X		X					X	X	X		X
		<b>Module 3</b>												
10	10	Taxable Refunds	X							X				
11	11	Alimony Income	X										X	
12	12	Small Business (C-EZ)	X				X						X	
		<b>Module 4</b>												
13	13	Capital Gain	X					X	X		X			X
		<b>Module 5</b>												
15a	15a	IRA Distribution (Code 7)	X							X				
15a	15a	IRA Distribution (Code G)	X				S1							
		IRA Distribution (Code 1)						S1						
16a	16a	Pension Income—All Taxable	X								X	X		X
16a	16a	Pension Income W/ Contributions	X											X
16a	16a	Railroad Retirement Benefits								X				
19	19	Unemployment Compensation	X										X	
20a	20a	Social Security Benefits	X								X			X
20a	20a	Railroad Retirement—Tier 1								X				
21	21	Other Income—W2G	X								X			
		<b>Module 6</b>												
24	25	IRA Deduction	X		S2									
25	26	Student Loan Interest Deduct	X		S2									
1	27/48	Tuition and Fees Deductions	X				S2					X		
32A	34A	Alimony Paid	X						S2					
		<b>Module 7</b>												
37	39	Itemized Deductions	X								X			
		<b>Module 8</b>												
45	46	Child & Dependent Care	X		S3				S3					
46	47	Credit for the Elderly												
44	50	Foreign Tax Credit	X											X
49	51	Child Tax Credit	X	X	X			X	X		X	X	X	
48	52	Retirement Savings Credit										X	X	
56	58	SS & MC Tax on Unreported Tips				X								
		<b>Module 9</b>												
58	60	Advance EIC		X									X	
		EITC Worksheets		X								X	X	
65	65	Earned Income Tax Credit		X								X	X	
		<b>Module 10</b>												
63	64	Estimated Tax Payments	X					S4						X
65	67	Additional Child Tax Credit		X								X		
70/72	72/74	Direct Deposit/Debit	X					S4			S5			
73	75	Underpayment Penalty								S6				
		Installment Payments							S6					
		Use PINS	X					S7				S7		

S# = Supplemental Exercises (performed by reopening an exercise after initial completion of the exercise)



## Process

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. The modules and their associated Publication 678 lessons are:

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 14, Pensions
Module 6	Lesson 4, Adjustments
Module 7	Lesson 5, Standard and Itemized Deductions
Module 8	Lesson 6, Miscellaneous Credits Lesson 8, Credit for Child and Dependent Care Expenses Lesson 9, Education Credits Lesson 11, Child Tax Credit
Module 9	Lesson 10, Earned Income Credit
Module 10	Lesson 7, Finishing the Return Lesson 11, Additional Child Tax Credit

## Directions

The exercises are designed to be completed by the student at appropriate times during the lesson.

- The 2003 exercise answers were derived using TaxWise 2003 (TW03). Because this publication goes to print long before TaxWise 2004 (TW04) is released and because tax law changes have not been finalized, the answers for 2004 are estimates based on the best information available at the time of publication.
- If TaxWise 2003 is used, assume no Advanced Child Tax Credit was received and check box 3 on 1040 Worksheet 3.
- If TaxWise 2003 is used, reduce all year values by one year. For example, Comprehensive Exercise 1, Line 10, states John and Jane itemized deductions in 2003. If you are using TaxWise 2003 software, change the year to 2002.
- All of the tax forms are for 2004. If TaxWise 2003 is used, assume the forms are for 2003.
- Use the “Training” User Name when completing these exercises. This user name requires all social security numbers and EIN’s begin with three unique numbers followed by the EFIN. See the table below for suggested exercise social security number and EIN assignments.



### Suggested Training User SSNs/EINs

Exercise	Taypayer SSN	Additional SSNs/EINs As Needed
1	011-EFIN	012-EFIN, 013-EFIN.....
2	021-EFIN	022-EFIN, 023-EFIN.....
3	031-EFIN	032-EFIN, 033-EFIN.....
4	041-EFIN	042-EFIN, 043-EFIN.....
5	051-EFIN	052-EFIN, 053-EFIN.....
6	061-EFIN	062-EFIN, 063-EFIN.....
7	071-EFIN	072-EFIN, 073-EFIN.....
8	081-EFIN	082-EFIN, 083-EFIN.....
9	091-EFIN	092-EFIN, 093-EFIN.....
10	101-EFIN	102-EFIN, 103-EFIN.....
COMP A	111-EFIN	112-EFIN, 113-EFIN.....
COMP B	121-EFIN	122-EFIN, 123-EFIN.....

- For entering telephone numbers, enter your telephone number or use 200 as the area code plus any other numbers.
- It is recommended that identical “Initial Forms” setup be established on all computers.
- 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 (except for Married Filing Separately returns which aren’t eligible for e-file in some states such as community property states).
- Some of the exercises will be reopened and additional information added as additional tax law is covered.

### **Publication 4012, Volunteer Resource Guide**

Publication 4012 can be very helpful for training and as a resource when performing tax preparation using tax software. Page references to this guide are included in the following suggested class schedule.

### **Suggested Class Schedule**

The schedule is designed for a four day class for beginning computer literate students with a fifth day as needed for state returns, completing exercises or other training.



Day 1	Topic	Suggested Teaching Time	Page References	
			Pub 678	Pub 4012
	Welcome & Introductions			
	Administrative	15 minutes		
	E-File Background			
	Introduction of TaxWise	15 minutes		29 to 31
	Enter Comprehensive Training Exercise A (CTE A) and input entity data	15 minutes		32 to 33
	<b>Module 1</b>			
	<b>Lesson 1 Exemptions, Dependents</b>	45 minutes	1-1 to 1-21	9 to 14
	Open CTE A and input exemptions and dependents	15 minutes		34
	Break	15 minutes		
	<b>Lesson 2 Filing Status</b>	45 minutes	2-1 to 2-10	7 to 8
	Open CTE A and input filing status	15 minutes		33
	<b>Lesson 2 Filing Requirements</b>	15 minutes	2-15 to 2-19	3 to 4
	<b>Module 2</b>			
	<b>Lesson 3 Wages</b>	30 minutes	3-1 to 3-9	
	Open CTE A and input Forms W-2	15 minutes		37 to 39
	Lunch	45 minutes		
	<b>Lesson 3 Interest</b>	30 minutes	3-9 to 3-17	
	Open CTE A and input Forms 1099-INT	15 minutes		40 to 41
	<b>Lesson 3 Dividends</b>	30 minutes	3-17 to 3-21	
	Open CTE A and input Form 1099-DIV	15 minutes		42 to 43
	Break	15 minutes		
	<b>Individual Exercise 1</b> – David Chapman	30 minutes		
	<b>Individual Exercise 2</b> – Ashley Madison	30 minutes		
	Using Exercise 2, get the red out, run diagnostics, create e-file, print	30 minutes		

**Notes:**

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

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

Day 2	Topic	Suggested Teaching Time	Page References	
			Pub 678	Pub 4012
	<b>Module 3</b>			
	<b>Lesson 3 Tax Refund &amp; Alimony</b>	15 minutes	3-21 to 3-22	
	Open CTE A and input Form 1099-G and alimony	15 minutes		
	<b>Lesson 3 Self Employment</b>	30 minutes	3-21 to 3-27	
	Open CTE A and input Form 1099-Misc	30 minutes		44
	<b>Individual Exercise 3</b> – Susanne Denison	30 minutes		
	Break	15 minutes		
	<b>Module 4</b>			
	<b>Lesson 12 Sale of Stock</b>	45 minutes	12-1 to 12-23	
	Open CTE A and input stock transactions	30 minutes		45
	<b>Lesson 13 Sale of Home</b>	15 minutes	13-1 to 13-5	
	Lunch	45 minutes		
	<b>Individual Exercise 4</b> – Clark Knox	30 minutes		
	<b>Individual Exercise 5</b> – Andrew Howard	30 minutes		
	<b>Module 5</b>			
	<b>Lesson 14 IRA Distributions</b>	30 minutes	14-16 to 14-18	
	Open CTE A and input Form 1099-R for IRA distribution	15 minutes		47
	Break	15 minutes		
	<b>Lesson 14 Pensions and Annuities</b>	30 minutes	14-1 to 14-10	
	Open CTE A and input Form 1099-R for pension	30 minutes		47
	<b>Lesson 3 Unemployment Compensation</b>	15 minutes	3-28	
	Open CTE A 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.

Day 3	Topic	Suggested Teaching Time	Page References	
			Pub 678	Pub 4012
	<b>Lesson 14 Social Security Benefits</b>	15 minutes	14-13 to 14-16	
	Open CTE A and input Form SSA-1099	15 minutes		48
	<b>Lesson 3 Other Income</b>	15 minutes		
	Open CTE A and input Form W-2G	15 minutes		
	<b>Optional Supplemental Exercise S-1</b> Open Exercise 3 (Susanne Denison) and add Form 1099-B Open Exercise 4 (Clark Knox) and add Form 1099-R	(30 minutes)		
	<b>Individual Exercise 6</b> – James Gordon	30 minutes		
	Break	15 minutes		
	<b>Module 6</b>			
	<b>Lesson 4 IRA Deductions</b>	30 minutes	4-1 to 4-15	
	Open CTE A and input the traditional IRA deduction	15 minutes		49
	<b>Lesson 4 Student Loan Interest, Tuition and Fees, and Alimony Paid Deductions</b>	30 minutes	4-17 to 4-24	
	Open CTE A and input student loan interest, tuition and fees, and alimony paid	15 minutes		49
	<b>Optional Supplemental Exercise S-2</b> Open Exercise 2 (David Chapman) and add Student Loan Interest Open Exercise 3 (Susanne Denison) and add tuition, books and lab fees either as an adjustment to income or as education credits Open Exercise 5 (Andrew Howard) and add alimony paid to first wife	(45 minutes)		
	Lunch	45 minutes		
	<b>Module 7</b>			
	<b>Lesson 5 Standard and Itemized Deductions and Tax Computation</b>	45 minutes	5-1 to 5-14	
	Open CTE A and input itemized deductions	30 minutes		51 to 54
	<b>Individual Exercise 7</b> – Troy McCook	30 minutes		
	Break	15 minutes		
	<b>Module 8</b>			
	<b>Lesson 6 Miscellaneous Tax Credits</b>	30 minutes	6-1 to 6-11	
	Discuss the effects of these tax credits on TaxWise			55
	<b>Lesson 8 Credit for Child and Dependent Care Expenses</b>	30 minutes	8-1 to 8-6	
	Open CTE A and input daycare expenses			56
	<b>Lesson 9 Education Credits</b>	30 minutes	9-1 to 9-10	
	Open CTE A and input the tuition expenses			57
	<b>Lesson 11 Child Tax Credit</b>	15 minutes	11-1 to 11-7	
	Discuss the automatic calculation for CTC	15 minutes		
	<b>Optional Supplemental Exercise S-3</b> Open Exercise 2 (David Chapman) and add dependent care Open Exercise 5 (Andrew Howard) and add dependent care	(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.

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.





Day 4	Topic	Suggested Teaching Time	Page References	
			Pub 678	Pub 4012
	<b>Module 9</b>			
	<b>Lesson 10 Earned Income Credit</b>	1 hour	10-1 to 10-31	
	<b>Comprehensive Exercise B</b> Complete a new return through Additional CTC	45 minutes		60
	<b>Individual Exercise 8</b> – John Reed	30 minutes		
	Break	15 minutes		
	<b>Module 10</b>			
	<b>Lesson 7 Finishing the Return</b>	45 minutes	7-1 to 7-26	
	Open CTE A, add Estimated Tax Payments and finish return	30 minutes		61
	Discuss Diagnostics, Printing, Signing	30 minutes		
	Lunch	45 minutes		
	Sign return using Self Select PIN	15 minutes		62
	<b>Optional Supplemental Exercise S-4</b> Open Exercise 4 (Clark Knox) and add estimated payments	(15 minutes)		
	<b>Optional Supplemental Exercise S-5</b> Open Exercise 7 (Troy McCook) for direct deposit/debit as required	(15 minutes)		
	<b>Optional Supplemental Exercise S-6</b> Open Exercise 6 (James Gordon) and complete Form 2210 Open Exercise 5 (Andrew Howard) and prepare installment payments and request wavier of underpayment if needed	(15 minutes)		
	<b>Optional Supplemental Exercise S-7</b> Open Exercise 8 (John Reed) and sign return using Self Select PIN Open Exercise 4 (Clark Knox) and sign return using Self Select PIN.	(15 minutes)		
	<b>Summary &amp; Review</b> Changes to Tax Law, TaxWise 2004 Update, Common Errors, Questions	60 minutes		
	Break	15 minutes		
	<b>Individual Exercise 9</b>	30 minutes		
	<b>Individual Exercise 10</b>	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 9 and Exercise 10 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 Time	Page References	
			Pub 678	Pub 4012
	Welcome returning experienced volunteers	15 minutes		
	Summary and review of tax law and TaxWise, common errors, and questions	45 minutes		
	Break	15 minutes		
	State Return	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 EXERCISE ANSWERS

Using TaxWise 2003

Exercise #	AGI (Line 34)	Taxable Income (Line 40)	Total Tax (Line 60)	Total Payment (Line 68)	Federal Refund/(Due) (Lines 70/72)
<b>CTE A Davidson</b>	76,965	52,344	5,846	6,084	119
<b>CTE B Hood</b>	24,612	5,412	1,200	4,008	2,808
<b>1 Chapman</b>	59,574	40,924	4,410	5,384	974
<b>2 Madison</b>	7,002	2,252	431	453	22
<b>3 Denison</b>	42,766	31,916	5,679	6,934	1,255
<b>4 Knox</b>	39,689	24,089	1,721	2,587	866
<b>5 Howard</b>	58,966	40,316	4,046	2,539	(1,507)
<b>6 Gordon</b>	33,273	24,323	3,282	1,478	(1,846) w/42 penalty
<b>7 McCook</b>	50,727	26,533	2,157	1,580	(577)
<b>8 Reed</b>	26,596	10,446	0	3,677	3,677
<b>9 Rosemont</b>	29,042	15,942	1,131	2,487	1,356
<b>10 Sterling</b>	54,937	34,387	3,606	3,494	(112)
<b>S1-EX 3 Denison</b>		NO CHG			
<b>S1-EX4 Knox</b>	49,689	34,089	4,221	3,587	(634)
<b>S2-EX1.a Chapman</b>	57,574	38,924	4,110	5,384	1,274
<b>S2-EX1.b Chapman</b>	57,257	38,607	4,065	5,384	1,319
<b>S2-EX3 Denison</b>		NO CHG			
<b>S2-EX5 Howard</b>	54,766	36,116	3,416	2,539	(877)
<b>S3-EX1 Chapman</b>	57,257	38,607	3,690	5,384	1,694
<b>S3-EX5 Howard</b>	54,766	36,116	3,057	2,539	(518)
<b>S4-EX4 Knox</b>	49,689	34,089	4,221	4,687	466
<b>S5-EX 7 McCook</b>		NO CHG			
<b>S6-EX6 Gordon</b>	NO CHG	NO CHG	NO CHG	NO CHG	(1,804) w/19 penalty removed
<b>S7-EX4&amp;8</b>		NO CHG			



## TRAINING EXERCISE ANSWERS

Using TaxWise 2004

Exercise #	AGI (Line 36)	Taxable Income (Ln 42)	Total Tax (Line 62)	Total Payment (Line 70)	Federal Refund/(Due) (Lines 72/74)	Std Ded	Pers Exemp
<b>CTE A Davidson</b>							
<b>CTE B Hood</b>	24,612	5,062	1,200	4,144	2,944	7,150	12,400
<b>1 Chapman</b>	59,574	40,574	4,337	5,384	1,047	9,700	9,300
<b>2 Madison</b>	7,002	2,152	421	453	32	4,850	0
<b>3 Denison</b>	42,766	31,716	5,557	6,934	1,377	4,850	6,200
<b>4 Knox</b>	39,689	23,789	1,462	2,587	1,125	9,700	6,200
<b>5 Howard</b>	58,966	39,960	3,850	2,539	(1,338) \$27 Penalty	9,700	9,300
<b>6 Gordon</b>	33,273	24,123	3,240	1,478	(1,803) \$41 Penalty	6,050	3,100
<b>7 McCook</b>	50,727	26,360	2,075	1,580	(495)	15,067	9,300
<b>8 Reed</b>	26,596	10,146	0	3,884	3,884	7,150	9,300
<b>9 Rosemont</b>	29,039	15,689	1,082	2,648	1,566	7,150	6,200
<b>10 Sterling</b>	54,937	34,037	3,181	3,494	313	11,600	9,300
<b>S1-EX 3 Denison</b>		NO CHG					
<b>S1-EX4 Knox</b>	49,689	33,789	4,112	3,587	(525)		
<b>S2-EX1.a Chapman</b>	57,574	38,574	4,064	5,384	1,320		
<b>S2-EX1.b Chapman</b>	57,257	38,257	3,992	5,384	1,392		
<b>S2-EX3 Denison</b>		NO CHG					
<b>S2-EX5 Howard</b>	54,766	35,766	3,220	2,539	(681)		
<b>S3-EX1 Chapman</b>	57,257	38,257	3,617	5,384	1,767		
<b>S3-EX5 Howard</b>	54,766	35,766	2,861	2,539	(322)		
<b>S4-EX4 Knox</b>	49,689	33,789	4,112	4,687	575		
<b>S5-EX 7 McCook</b>		NO CHG					
<b>S6-EX6 Gordon</b>	NO CHG	NO CHG	NO CHG	NO CHG	(1,762) without Pen.		
<b>S7-EX4&amp;8</b>		NO CHG					

**STUDENT NOTES**

Lined writing area for student notes.



The volunteer tax preparation program must continuously seek the most efficient and effective training method.

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. Additional goals include:

- Making integrated training more interesting, less fatiguing and less intimidating than traditional methods,
- Achieving higher training retention, and
- Achieving tax law learning objectives as outlined in the Publication 678, Volunteer Assistor's Guide, lessons.

### Testing and Certification

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

### Evaluations

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

### 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, you are provided the opportunity to work exercises on your own to reinforce what you 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 Training Exercises (CTE):**

There are two comprehensive exercises you and your instructor will work together. As the instructor works the exercise, the instructor's tax screen is displayed so you can emulate the instructor's entries. This part of the training should focus on an interactive approach—ask questions and see the results of entries in the application.

Comprehensive Training Exercise A covers most course material except Earned Income Credit (EIC) and Child Tax Credit (CTC).

Comprehensive Training Exercise B covers EIC, Advance EIC, CTC and Additional CTC.

After you and the instructor together complete a section of the comprehensive exercise, the correct Federal Tax Liability is listed. You can compare this tax liability with the number in the bottom 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 you have properly entered the information. If not, the instructor can work with you to correct the entry before proceeding to the next section.

**2. Individual Exercises:** Ten individual exercises are provided for you to work independently. These exercises are designed to allow you to practice what you have learned in the comprehensive exercise.

**3. Supplemental Exercises:** References to supplemental exercises indicate you will return to a previously completed individual exercise. The supplemental exercises provide additional information for you to input into the software. These supplemental exercises follow the delivery of the related tax law.

## Process

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. The modules and their associated Publication 678 lessons are:

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 14, Pensions
Module 6	Lesson 4, Adjustments
Module 7	Lesson 5, Standard and Itemized Deductions
Module 8	Lesson 6, Miscellaneous Credits Lesson 8, Credit for Child and Dependent Care Expenses Lesson 9, Education Credits Lesson 11, Child Tax Credit
Module 9	Lesson 10, Earned Income Credit
Module 10	Lesson 7, Finishing the Return Lesson 11, Additional Child Tax Credit

## Directions

The exercises are designed to be completed by the student at appropriate times during the lesson.

- The 2003 exercise answers were derived using TaxWise 2003 (TW03). Because this publication goes to print long before TaxWise 2004 (TW04) is released and because tax law changes have not been finalized, the answers for 2004 are estimates based on the best information available at the time of publication.
- If TaxWise 2003 is used, assume no Advanced Child Tax Credit was received and check box 3 on 1040 Worksheet 3.
- If TaxWise 2003 is used, reduce all year values by one year. For example, Comprehensive Exercise 1, Line 10, states John and Jane itemized deductions in 2003. If you are using TaxWise 2003 software, change the year to 2002.
- All of the tax forms are for 2004. If TaxWise 2003 is used, assume the forms are for 2003.
- Use the “Training” User Name when completing these exercises. This user name requires all social security numbers and EIN’s begin with three unique numbers followed by the EFIN. See the table below for suggested exercise social security number and EIN assignments.

## Suggested Training User SSNs/EINs

Exercise	Taypayer SSN	Additional SSNs/EINs As Needed
1	011-EFIN	012-EFIN, 013-EFIN.....
2	021-EFIN	022-EFIN, 023-EFIN.....
3	031-EFIN	032-EFIN, 033-EFIN.....
4	041-EFIN	042-EFIN, 043-EFIN.....
5	051-EFIN	052-EFIN, 053-EFIN.....
6	061-EFIN	062-EFIN, 063-EFIN.....
7	071-EFIN	072-EFIN, 073-EFIN.....
8	081-EFIN	082-EFIN, 083-EFIN.....
9	091-EFIN	092-EFIN, 093-EFIN.....
10	101-EFIN	102-EFIN, 103-EFIN.....
COMP A	111-EFIN	112-EFIN, 113-EFIN.....
COMP B	121-EFIN	122-EFIN, 123-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.
- 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 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 (except for Married Filing Separately returns which aren’t eligible for e-file in some states such as community property states).
- Some of the exercises will be reopened and additional information added as additional tax law is covered.

### **Publication 4012, Volunteer Resource Guide**

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



## Comprehensive Training Exercise A

### Customer Card

Taxpayer Name: <u>JOHN Q DAVIDSON</u>	SSN: <u>XXX-XX-XXXX</u>
Spouse Name: <u>JANE D SMITH</u>	SSN: <u>XXX-XX-XXXX</u>
Street Address: <u>1067 POST STREET</u>	
City, State and Zip Code: <u>[Your City, State and Zip Code]</u>	
Telephone Number: <u>[Your telephone number]</u>	
Date of Birth: Taxpayer: <u>07/28/1940</u> (for TW 2004) Spouse: <u>01/16/1940</u> Taxpayer: <u>07/28/1939</u> (for TW 2003)	
Occupation: TP: <u>CLERK</u>	SP: <u>SCHOOL TEACHER</u>
Give to Presidential Election Campaign Fund (Y/N):	TP: <u>YES</u> SP: <u>NO</u>

John and Jane have a daughter, Mary Davidson, who is a junior at a local community college. Her date of birth is 03/13/1983 and her SSN is XXX-XX-XXXX. They also have John's granddaughter, Ashley Tyler, living with them full time. Her date of birth is 05/08/1991 and her SSN is XXX-XX-XXXX. They indicated they paid for day care for Ashley while they both worked.

John and Jane are full time residents of your state and they want to file a state return.

If they have a refund, they want half of the refund applied to next years taxes and the other half deposited directly into their checking account. If they owe money, they want direct debit of any amount taken from their checking account. They show you a personal check with routing number 065502789 and account number XX-XXXXXXXX.

John provides you with tax documents and tax information that you sort in the order that will follow IRS Form 1040.

## Line 7 – Wages

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use  Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .	
b Employer identification number <b>XX-XXXXXXX</b>		1 Wages, tips, other compensation <b>28,134.00</b>		2 Federal income tax withheld <b>2,176.00</b>	
c Employer's name, address, and ZIP code  <b>Martin Petroleum</b> <b>549 Baylor Street</b> <b>Your City, State and Zip Code</b>		3 Social security wages <b>31,087.63</b>		4 Social security tax withheld <b>1,927.33</b>	
		5 Medicare wages and tips <b>31,087.63</b>		6 Medicare tax withheld <b>450.77</b>	
		7 Social security tips		8 Allocated tips	
d Employee's social security number <b>XXX-XX-XXXX</b>		9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial      Last name  <b>John Q. Davidson</b> <b>1067 Post Street</b> <b>Your City, State and Zip Code</b>		11 Nonqualified plans		12a See instructions for box 12 <b>D</b> <b>2,953.63</b>	
		13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b	
		14 Other		12c	
				12d	
f Employee's address and ZIP code					
15 State      Employer's state ID number <b>Your</b> <b>XX-XXXXXXX</b>	16 State wages, tips, etc. <b>28,134.00</b>	17 State income tax <b>844.00</b>	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

**Form W-2 Wage and Tax Statement 2004**      Department of the Treasury—Internal Revenue Service  
Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use  Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .	
b Employer identification number <b>XX-XXXXXXX</b>		1 Wages, tips, other compensation <b>13,817.00</b>		2 Federal income tax withheld <b>987.00</b>	
c Employer's name, address, and ZIP code  <b>Jackson School District</b> <b>12210 Coker Rd</b> <b>Your City, State and Zip Code</b>		3 Social security wages <b>13,817.00</b>		4 Social security tax withheld <b>856.65</b>	
		5 Medicare wages and tips <b>13,817.00</b>		6 Medicare tax withheld <b>200.45</b>	
		7 Social security tips		8 Allocated tips	
d Employee's social security number <b>XXX-XX-XXXX</b>		9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial      Last name  <b>Jane D. Smith</b> <b>130 Kilgore</b> <b>Your City, State and Zip Code</b>		11 Nonqualified plans		12a See instructions for box 12	
		13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b	
		14 Other		12c	
				12d	
f Employee's address and ZIP code					
15 State      Employer's state ID number <b>Your</b> <b>XX-XXXXXXX</b>	16 State wages, tips, etc. <b>13,817.00</b>	17 State income tax <b>693.00</b>	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

**Form W-2 Wage and Tax Statement 2004**      Department of the Treasury—Internal Revenue Service  
Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.

PRESS [F7]. TAX REFUND (DUE) – \$1,822 (TW03); \$2097  
(Est. for TW04 with completion of Form 8880)

## Line 8 – Interest

John is collecting payments on a seller financed mortgage. The purchaser is Charles Campbell (SSN XXX-XX-XXXX), 1523 North Curry Rd, Your City, State, and Zip Code. Last year John received \$2,782.15 interest on that loan.

CORRECTED (if checked)		PAYER'S name, street address, city, state, ZIP code, and telephone no.		Payer's RTN (optional)	OMB No. 1545-0112
		<b>Kendalt Federal Credit Union</b> <b>2602 Parks Road</b> <b>Your City, State and Zip Code</b>			<b>2004</b> <b>Interest Income</b> Form <b>1099-INT</b>
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	1 Interest income not included in box 3 \$ <b>456.34</b>		<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
RECIPIENT'S name <b>John Q. Davidson</b>		2 Early withdrawal penalty \$ <b>45.63</b>	3 Interest on U.S. Savings Bonds and Treas. obligations \$		
Street address (including apt. no.) <b>1067 Post Street</b>		4 Federal income tax withheld \$	5 Investment expenses \$		
City, state, and ZIP code <b>Your City, State and Zip Code</b>		6 Foreign tax paid \$	7 Foreign country or U.S. possession		
Account number (optional)					
Form <b>1099-INT</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service	

CORRECTED (if checked)		PAYER'S name, street address, city, state, ZIP code, and telephone no.		Payer's RTN (optional)	OMB No. 1545-0112
		<b>Hanover Bank</b> <b>P.O. Box 4019</b> <b>Your City, State and Zip Code</b>			<b>2004</b> <b>Interest Income</b> Form <b>1099-INT</b>
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	1 Interest income not included in box 3 \$ <b>123.00</b>		<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
RECIPIENT'S name <b>John Q. Davidson</b>		2 Early withdrawal penalty \$	3 Interest on U.S. Savings Bonds and Treas. obligations \$ <b>864.35</b>		
Street address (including apt. no.) <b>1067 Post Street</b>		4 Federal income tax withheld \$ <b>86.43</b>	5 Investment expenses \$		
City, state, and ZIP code <b>Your City, State and Zip Code</b>		6 Foreign tax paid \$	7 Foreign country or U.S. possession		
Account number (optional)					
Form <b>1099-INT</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service	

John received word from the Gordon Investment Service that he had been paid \$148.63 in tax exempt interest on that account.

PRESS [F7]. TAX REFUND (DUE) – \$1,285 (TW03); \$1,560 (Est. for TW04)

## Line 9 – Dividends

<input type="checkbox"/> CORRECTED (if checked)					
PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Pembroke Fund</b>  PO Box 5270  Your City, State and Zip Code		<b>1a</b> Total ordinary dividends	OMB No. 1545-0110	<b>2004</b>	<b>Dividends and Distributions</b>
		\$ 231.86			
		<b>1b</b> Qualified dividends	Form <b>1099-DIV</b>		
		\$ 231.86	<b>2a</b> Total capital gain distr.	<b>2b</b> Unrecap. Sec. 1250 gain	
		\$ 68.75	\$		
PAYER'S Federal identification number	RECIPIENT'S identification number			<b>Copy B For Recipient</b>	
XX-XXXXXXX	XXX-XX-XXXX				
RECIPIENT'S name <b>John Q. Davidson</b>  Street address (including apt. no.) <b>1067 Post Street</b>  City, state, and ZIP code Your City, State and Zip Code		<b>2c</b> Section 1202 gain	<b>2d</b> Collectibles (28%) gain	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
		\$	\$		
		<b>3</b> Nontaxable distributions	<b>4</b> Federal income tax withheld		
\$	\$ 0.00				
		<b>5</b> Investment expenses	\$		
<b>6</b> Foreign tax paid	<b>7</b> Foreign country or U.S. possession				
\$ 3.65					
Account number (optional)		<b>8</b> Cash liquidation distributions	<b>9</b> Noncash liquidation distributions		
		\$	\$		
Form <b>1099-DIV</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service	

PRESS [F7]. TAX REFUND (DUE) – \$1,266 (TW03); \$1,545 (Est. for TW04)

### Line 44 (2003) Line 50 (2004) – Foreign Tax Credit

John has \$3.65 foreign tax credit reported on the above Form 1099-Div.

PRESS [F7]. TAX REFUND (DUE) – \$1,270 (TW03); \$1,549 (Est. for TW04)

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0120		<b>2004</b>	Form <b>1099-G</b>	<b>Certain Government Payments</b>
PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Your State Department of Revenue</b>  1600 W Moberly  Your City, State and Zip Code		1 Unemployment compensation \$	2 State or local income tax refunds, credits, or offsets \$ <b>437.00</b>			
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	3 Box 2 amount is for tax year	4 Federal income tax withheld \$ <b>0.00</b>	<b>Copy B For Recipient</b>  This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.		
RECIPIENT'S name <b>John Q Davidson &amp; Jane D Smith</b>		5	6 Taxable grants \$			
Street address (including apt. no.) <b>1067 Post Street</b>		7 Agriculture payments \$	8 Box 2 is trade or business income <input type="checkbox"/>			
City, state, and ZIP code <b>Your City, State and Zip Code</b>		Account number (optional)				
Form <b>1099-G</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service		

### Line 10 – Taxable Refunds

John and Jane itemized deductions last year and received a \$437 tax refund from the state. Their taxable income was \$75,000 and their total itemized deductions were \_\_\_\_\_ (use \$8,210 for 2002 and \$9,860 for 2003).

PRESS [F7]. TAX REFUND (DUE) – \$1,218 (TW03); \$1,497 (Est. for TW04)

### Line 11 – Alimony Received

During the year Jane received \$1,200 in alimony payments from a previous husband.

PRESS [F7]. TAX REFUND (DUE) – \$1,038 (TW03); \$1,317 (Est. for TW04)

### Line 12 – Business Income

Jane has a small business, which she operates out of her home typing medical transcripts. The business code is 561410. In addition to the following Form 1099-MISC, she also received \$1,082 during the year from other doctors for this service. Her expenses were \$49 for paper and \$67.50 for a printer cartridge. Jane used her second car for picking up and delivering the typing jobs. She maintained a written record of mileage of 425 business miles and 10,000 other miles. She bought the car and started using it for business on January 2, 2003. Jane has another car available for personal use.

<input type="checkbox"/> CORRECTED (if checked)				
PAYER'S name, street address, city, state, ZIP code, and telephone no.  <b>Pratt Medical Centers, Inc</b>  <b>826 Paine Ave</b>  <b>Your City, State and Zip Code</b>		1 Rents	OMB No. 1545-0115  <div style="font-size: 2em; font-weight: bold;">2004</div> Form 1099-MISC	<b>Miscellaneous Income</b>  <b>Copy B For Recipient</b>
		\$		
		2 Royalties		
\$				
PAYER'S Federal identification number  <b>XX-XXXXXXX</b>		RECIPIENT'S identification number  <b>XXX-XX-XXXX</b>		
		3 Other income	4 Federal income tax withheld	
RECIPIENT'S name  <b>Jane D Smith</b>  Street address (including apt. no.)  <b>1067 Post Street</b>  City, state, and ZIP code  <b>Your City, State and Zip Code</b>		\$	\$	
		5 Fishing boat proceeds	6 Medical and health care payments	
		\$	\$	
Account number (optional)		7 Nonemployee compensation	8 Substitute payments in lieu of dividends or interest	
		\$ 1,637.00	\$	
Account number (optional)		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds	
		\$	\$	
Account number (optional)		11	12	
		13 Excess golden parachute payments	14 Gross proceeds paid to an attorney	
Account number (optional)		\$	\$	
		15	16 State tax withheld	
Account number (optional)		\$	17 State/Payer's state no.	
		\$	18 State income	
Account number (optional)		\$	\$	
		\$	\$	

Form **1099-MISC** (keep for your records) Department of the Treasury - Internal Revenue Service

PRESS [F7]. TAX REFUND (DUE) – \$347 (TW03); \$427 (Est. for TW04)

### Line 13 – Capital Gain Or Loss

<input type="checkbox"/> CORRECTED (if checked)				
PAYER'S name, street address, city, state, ZIP code, and telephone no.  <b>Felrum Brokerage Service</b> <b>82 Douglas St</b> <b>Your City, State and Zip Code</b>		1a Date of sale or exchange	OMB No. 1545-0715  <div style="font-size: 2em; font-weight: bold;">2004</div> Form 1099-B	<b>Proceeds From Broker and Barter Exchange Transactions</b>  <b>Copy B For Recipient</b>
		3/10/2004		
		1b CUSIP no.		
2 Stocks, bonds, etc.	Reported to IRS } <input type="checkbox"/> Gross proceeds <input checked="" type="checkbox"/> Gross proceeds less commissions and option premiums			
PAYER'S Federal identification number  <b>XX-XXXXXXX</b>		RECIPIENT'S identification number  <b>XXX-XX-XXXX</b>		
		\$ 8,858.61	\$	
RECIPIENT'S name  <b>John Q Davidson</b>  Street address (including apt. no.)  <b>1067 Post Street</b>  City, state, and ZIP code  <b>Your City, State, and Zip Code</b>		3 Bartering	4 Federal income tax withheld	
		\$	\$	
		5 No. of shares exchanged	6 Classes of stock exchanged	
CORPORATION'S name, street address, city, state, and ZIP code		100		
		7 Description		
Account number (optional)		Purdue		
		8 Profit or (loss) realized in 2004	9 Unrealized profit or (loss) on open contracts—12/31/2003	
Account number (optional)		\$	\$	
		10 Unrealized profit or (loss) on open contracts—12/31/2004	11 Aggregate profit or (loss)	
Account number (optional)		\$	\$	
		12 If this box is checked, you cannot take a loss on your tax return based on the amount in box 2 <input type="checkbox"/>		

Form **1099-B** (keep for your records) Department of the Treasury - Internal Revenue Service

John paid \$10,123 for the above stock on July 13, 1998.

John also made the following stock transactions during the tax year.

STOCK	QTY	BUY DATE	SELL DATE	SELL PRICE	COST / BASIS
Rust Corp	100	11/01/1998	09/23/2004	1,700.00	3,200.00
Rio Motors	150	07/15/2003	06/01/2004	10,675.00	9,543.00
Rider Corp	65	08/12/1996	12/30/2004	5,663.00	7,222.00

PRESS [F7]. TAX REFUND (DUE) – \$804 (TW03); \$1,080 (Est. TW04)

### Line 15 – IRA Distributions

<input type="checkbox"/> CORRECTED (if checked)				OMB No. 1545-0119		<b>2004</b>	Form <b>1099-R</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
PAYER'S name, street address, city, state, and ZIP code <b>Sauk Trust Co</b>  PO Box 254  Your City, State and Zip Code				<b>1</b> Gross distribution \$ <b>837.55</b>				
PAYER'S Federal identification number  <b>XX-XXXXXXX</b>		RECIPIENT'S identification number  <b>XXX-XX-XXXX</b>		<b>3</b> Capital gain (included in box 2a)  \$		<b>4</b> Federal income tax withheld  \$		<b>Copy B</b> Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.
RECIPIENT'S name <b>John Q Davidson</b>  Street address (including apt. no.) <b>1067 Post Street</b>  City, state, and ZIP code <b>Your City, State and Zip Code</b>				<b>5</b> Employee contributions or insurance premiums  \$		<b>6</b> Net unrealized appreciation in employer's securities  \$		
Account number (optional)				<b>7</b> Distribution code(s) 7		IRA/SEP/SIMPLE <input checked="" type="checkbox"/>		This information is being furnished to the Internal Revenue Service.
Account number (optional)				<b>9a</b> Your percentage of total distribution %		<b>8</b> Other \$ %		
Account number (optional)				<b>10</b> State tax withheld \$ <b>0</b>		<b>11</b> State/Payer's state no. <b>Your State</b>		<b>12</b> State distribution \$ <b>837.55</b>
Account number (optional)				<b>13</b> Local tax withheld \$		<b>14</b> Name of locality xx-xxxxxxx		<b>15</b> Local distribution \$

Form **1099-R** Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code <b>Yale Security IRA</b>  <b>PO Box 25237</b>  <b>Your City, State and Zip Code</b>		<b>1</b> Gross distribution OMB No. 1545-0119 <div style="text-align: center; font-size: 2em; font-weight: bold;">2004</div>		<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
		Form <b>1099-R</b>		
PAYER'S Federal identification number  <b>XX-XXXXXXX</b>		<b>2a</b> Taxable amount \$ <b>11,754.52</b>		<b>Copy B</b> <b>Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.</b>
		<b>2b</b> Taxable amount not determined <input checked="" type="checkbox"/> Total distribution <input type="checkbox"/>		
RECIPIENT'S identification number  <b>XXX-XX-XXXX</b>		<b>3</b> Capital gain (included in box 2a) \$		<b>4</b> Federal income tax withheld \$
RECIPIENT'S name <b>John Q Davidson</b>		<b>5</b> Employee contributions or insurance premiums \$		
Street address (including apt. no.) <b>1067 Post Street</b>		<b>6</b> Net unrealized appreciation in employer's securities \$		This information is being furnished to the Internal Revenue Service.
City, state, and ZIP code <b>Your City, State and Zip Code</b>		<b>7</b> Distribution code(s) <b>G</b>		
Account number (optional)		<b>8</b> Other \$ %		<b>9a</b> Your percentage of total distribution % <b>9b</b> Total employee contributions \$
Account number (optional)		<b>10</b> State tax withheld \$		
Account number (optional)		<b>11</b> State/Payer's state no. <b>Your State</b>		<b>12</b> State distribution \$ <b>1,200.00</b>
Account number (optional)		<b>13</b> Local tax withheld \$		
Account number (optional)		<b>14</b> Name of locality		<b>15</b> Local distribution \$
Account number (optional)		<b>15</b> Local distribution \$		

Form **1099-R** Department of the Treasury - Internal Revenue Service

John transferred the above IRA account to Merrill Lynch.

PRESS [F7]. TAX REFUND (DUE) – \$676

### Line 16 – Pensions And Annuities

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code <b>Defense Finance &amp; Accounting SVC</b>  <b>US Military Retirement Pay</b>  <b>PO Box 7139</b>  <b>Your City, State and Zip Code</b>		<b>1</b> Gross distribution OMB No. 1545-0119 <div style="text-align: center; font-size: 2em; font-weight: bold;">2004</div>		<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
		Form <b>1099-R</b>		
PAYER'S Federal identification number  <b>XX-XXXXXXX</b>		<b>2a</b> Taxable amount \$ <b>1,200.00</b>		<b>Copy B</b> <b>Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.</b>
		<b>2b</b> Taxable amount not determined <input type="checkbox"/> Total distribution <input type="checkbox"/>		
RECIPIENT'S identification number  <b>XXX-XX-XXXX</b>		<b>3</b> Capital gain (included in box 2a) \$		<b>4</b> Federal income tax withheld \$
RECIPIENT'S name <b>Jane D Smith</b>		<b>5</b> Employee contributions or insurance premiums \$		
Street address (including apt. no.) <b>1067 Post Street</b>		<b>6</b> Net unrealized appreciation in employer's securities \$		This information is being furnished to the Internal Revenue Service.
City, state, and ZIP code <b>Your City, State and Zip Code</b>		<b>7</b> Distribution code(s) <b>7</b>		
Account number (optional)		<b>8</b> Other \$ %		<b>9a</b> Your percentage of total distribution % <b>9b</b> Total employee contributions \$
Account number (optional)		<b>10</b> State tax withheld \$ <b>0</b>		
Account number (optional)		<b>11</b> State/Payer's state no. <b>Your State</b>		<b>12</b> State distribution \$ <b>1,200.00</b>
Account number (optional)		<b>13</b> Local tax withheld \$		
Account number (optional)		<b>14</b> Name of locality		<b>15</b> Local distribution \$
Account number (optional)		<b>15</b> Local distribution \$		

Form **1099-R** Department of the Treasury - Internal Revenue Service



CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code <b>Stillman Pension Fund</b>  <b>36964 Dana Rd</b>  <b>Your City, State and Zip Code</b>		<b>1</b> Gross distribution \$ <b>18,625.00</b>		OMB No. 1545-0119  <div style="font-size: 2em; font-weight: bold;">2004</div>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
		<b>2a</b> Taxable amount \$			
PAYER'S Federal identification number <b>XX-XXXXXXX</b>		RECIPIENT'S identification number <b>XXX-XX-XXXX</b>		<b>Copy B</b> <b>Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.</b>	
RECIPIENT'S name <b>John Q Davidson</b>  Street address (including apt. no.) <b>1067 Post Street</b>  City, state, and ZIP code <b>Your City, State and Zip Code</b>		<b>3</b> Capital gain (included in box 2a) \$		<b>4</b> Federal income tax withheld \$ <b>1,715.00</b>	
		<b>5</b> Employee contributions or insurance premiums \$		<b>6</b> Net unrealized appreciation in employer's securities \$	
Account number (optional)		<b>7</b> Distribution code(s) <b>7</b>		<b>8</b> Other \$ %	
		<b>9a</b> Your percentage of total distribution %		<b>9b</b> Total employee contributions \$ <b>5,864.00</b>	
Account number (optional)		<b>10</b> State tax withheld \$ <b>0</b>		<b>11</b> State/Payer's state no. <b>Your State</b>	
		\$		<b>12</b> State distribution \$ <b>18,625.00</b>	
		\$		\$	
		<b>13</b> Local tax withheld \$		<b>14</b> Name of locality	
		\$		<b>15</b> Local distribution \$	
		\$		\$	

Form **1099-R** Department of the Treasury - Internal Revenue Service

John retired at the age of 62 and started drawing his retirement pay on January 1, 2002 (2003 for TaxWise 2004). He has recovered \$271.00 tax free in prior years. Jane is not included in his retirement plan.

PRESS [F7]. TAX REFUND (DUE) – \$(541) (TW03); \$(465) (Est. TW04)

### Line 19 – Unemployment Compensation

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Your State Unemployment Commission</b>  <b>32 Suffolk Street</b>  <b>Your City, State and Zip Code</b>		<b>1</b> Unemployment compensation \$ <b>1,263.00</b>		OMB No. 1545-0120  <div style="font-size: 2em; font-weight: bold;">2004</div>	<b>Certain Government Payments</b>
		<b>2</b> State or local income tax refunds, credits, or offsets \$			
PAYER'S Federal identification number <b>XX-XXXXXXX</b>		RECIPIENT'S identification number <b>XXX-XX-XXXX</b>		<b>Copy B</b> <b>For Recipient</b>  This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
RECIPIENT'S name <b>John Q. Davidson</b>  Street address (including apt. no.) <b>1067 Post Street</b>  City, state, and ZIP code <b>Your City, State and Zip Code</b>		<b>3</b> Box 2 amount is for tax year		<b>4</b> Federal income tax withheld \$ <b>120.00</b>	
		<b>5</b>		<b>6</b> Taxable grants \$	
Account number (optional)		<b>7</b> Agriculture payments \$		<b>8</b> Box 2 is trade or business income <input type="checkbox"/>	

Form **1099-G** (keep for your records) Department of the Treasury - Internal Revenue Service

PRESS [F7]. TAX REFUND (DUE) – \$(609) (TW03); \$(533) (Est. TW04)

## Line 20 – Social Security Benefits

FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT		
<b>2004</b> : PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. SEE THE REVERSE FOR MORE INFORMATION.		
Box 1. Name <b>John Q. Davidson</b>	Box 2. Beneficiary's Social Security Number <b>XXX-XX-XXXX</b>	
Box 3. Benefits Paid in 2004 <b>12,682.00</b>	Box 4. Benefits Repaid to SSA in 2004	Box 5. Net Benefits for 2003 (Box 3 minus Box 4) <b>12,682.00</b>
<b>DESCRIPTION OF AMOUNT IN BOX 3</b>  Paid by check or direct deposit:      \$11,883.00  Medicare Premiums:      \$799.00  Total:      \$12,682.00		<b>DESCRIPTION OF AMOUNT IN BOX 4</b>     Box 6. Voluntary Federal Income Tax Withholding <p style="text-align: right;"><b>600.00</b></p> Box 7. Address <p style="text-align: center;"><b>1067 Post Street Your City, State, and Zip Code</b></p> Box 8. Claim Number (Use this number if you need to contact SSA.)
Form SSA-1099-SM (1-2005) <span style="float: right;"><b>DO NOT RETURN THIS FORM TO SSA OR IRS</b></span>		

PRESS [F7]. TAX REFUND (DUE) – \$(1773) (TW03); \$(1,569)  
(Est. TW04 with \$24 penalty)

## Line 21 – Other Income

<input type="checkbox"/> CORRECTED (if checked)				OMB No. 1545-0238	
PAYER'S name, address, ZIP code, Federal identification number, and telephone number  <b>Lottery Board</b>  <b>15 West Jackson</b>  <b>Your City, State, and Zip Code</b>	1 Gross winnings <b>1,200.00</b>	2 Federal income tax withheld	<div style="font-size: 2em; font-weight: bold; margin-bottom: 10px;">2004</div> <div style="font-weight: bold; margin-bottom: 10px;">Form W-2G</div> <div style="font-weight: bold; margin-bottom: 10px;">Certain Gambling Winnings</div>		
	3 Type of wager <b>Lottery</b>	4 Date won <b>04 : 14 : 2004</b>			6 Race
	5 Transaction	7 Winnings from identical wagers			8 Cashier
	9 Winner's taxpayer identification no. <b>XXX-XX-XXXX</b>	10 Window			This information is being furnished to the Internal Revenue Service.
11 First I.D.	12 Second I.D.				
13 State/Payer's state identification no. <b>XX-XXXXXXX</b>	14 State income tax withheld <b>36.00</b>	<div style="font-weight: bold; margin-bottom: 5px;">Copy B</div> Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 2, attach this copy to your return.			
Under penalties of perjury, I declare that, to the best of my knowledge and belief, the name, address, and taxpayer identification number that I have furnished correctly identify me as the recipient of this payment and any payments from identical wagers, and that no other person is entitled to any part of these payments.					
Signature ▶	Date ▶				
Form <b>W-2G</b>				Department of the Treasury - Internal Revenue Service	

Jane had \$2,250 in gambling losses.

PRESS [F7]. TAX REFUND (DUE) – \$(2080) (TW03); \$(1,816)  
(Est. TW04 with \$30 penalty)

### **Line 24 (2003) Line 25 (2004) – IRA Deductions**

If possible Jane would like to put \$2,000, *tax free*, into her regular IRA account.

PRESS [F7]. TAX REFUND (DUE) – \$(2080) (TW03); \$(1,816)  
(Est. TW04 with \$30 penalty)

### **Line 25 (2003) Line 26 (2004) – Student Loan Interest Deduction**

Jane paid \$268 interest on a student loan she took to obtain her teaching degree.

PRESS [F7]. TAX REFUND (DUE) – \$(2004) (TW03); \$(1,715) (Est. TW04 with \$28 penalty)

### **Line 26 (2003) Line 27 (2004) – Tuition And Fees Deductions**

Jane had to take several special training courses which were required by her job at the local college. The class tuition and fees totaled \$317.85. (This should be re-examined when all entries have been completed to see if an Education Credit, Form 8863 results in a lower tax.)

PRESS [F7]. TAX REFUND (DUE) – \$(1927) (TW03); \$(1,690)  
(Est. TW04 with \$27 penalty)

### **Line 32a (2003) Line 34a (2004) – Alimony Paid**

John paid \$3,600 in alimony to a previous wife. Her social security number is xxx-xx-xxxx. His previous wife, Mary Dana, lives at 2708 Mills Drive, Your City, State and Zip Code.

PRESS [F7]. TAX REFUND (DUE) – \$(1193) (TW03); \$(1,115)  
(Est. TW04 with \$12 penalty)

### **Line 37 (2003) Line 39 (2004) – Itemized Deductions**

Because of high medical expenses this year, John wants to itemize deductions and provides the following:

Medical Insurance	\$1,200
Doctor Bills	1,653
Hospital Bills	3,200
Medical Mileage	1,236 Miles
Prescription drugs	965
Prescription Eye Glasses	210
Church cash donations	1,650
Misc cash donations to nonprofit orgs.	225
Contribution to Millsap Elementary School	250
Salvation Army (FMV of clothes and TV)	350
Home mortgage interest	3,164
County Real Estate Tax	875
City Real Estate Tax	258
Personal property tax (based on the value)	624
Gambling Losses	2,250

PRESS [F7]. TAX REFUND (DUE) – \$(736) (TW03); \$(683) (Est. TW04)

**Line 45 (2003) Line 46 (2004) – Credit For Child And Dependent Care Expenses**

John and Jane paid the Maryville Day Care Center \$1,100 to watch Ashley after school each day. The center’s address is 128 Menio St, your City, State, and Zip Code. Their EIN is XX-XXXXXX.

PRESS [F7]. TAX REFUND (DUE) – \$(516) (TW03); \$(463) (Est. TW04)

**Line 47 (2003) Line 48 (2004) – Education Credits**

John and Jane paid \$1,715 in tuition and fees for their daughter to attend the local college as a junior.

PRESS [F7]. TAX REFUND (DUE) – \$(173) (TW03); \$(120) (Est. TW04)

**Line 62 (2003) Line 64 (2004) – Estimated Tax Payments**

John and Jane made the following estimated tax payments.

DATE PAID	AMOUNT PAID
04/14	\$100
09/18	\$100

They also applied \$200 from last year’s tax refund toward this year’s taxes.

PRESS [F7]. TAX REFUND (DUE) – \$227 (TW03); \$280 (Est. TW04)

**Recheck Tuition Deduction Taken On Line 26 (2003) Line 27 (2004) – Remove Tuition and Fees deduction from line 26 (2003) line 27 (2004) and enter on Form 8863, Education Credits, to see if a lesser tax results.**

PRESS [F7]. TAX REFUND (DUE) – \$238 (TW03); \$292 (Est. TW04)

**Line 70a (2003) Line 72a (2004) – Amount You Want Refunded To You**

John and Jane want any refund or debit deposited or withdrawn from their checking account. (See the first page for their bank routing and account numbers.)

**Line 71 (2003) Line 73 (2004) – Applied To next year’s Estimated Taxes**

If John and Jane have a refund coming they want half of the refund applied to next year’s taxes.

PRESS [F7]. TAX REFUND (DUE) – \$119 (TW03); \$146 (Est. TW04)

## **Signature Line**

John and Jane want to sign their return using pins. John enters “45678” and Jane enters “89123”. Their last year’s AGI was \$75,000.

## Exercise No. 1

### Customer Card

Taxpayer Name: <u>DAVID A CHAPMAN</u>	SSN: <u>XXX-XX-XXXX</u>
Spouse Name: <u>MARY E CHAPMAN</u>	SSN: <u>XXX-XX-XXXX</u>
Street Address: <u>867 KENYON AVE</u>	
City, State and Zip Code: <u>[Your City, State and Zip Code]</u>	
Telephone Number: <u>[Your telephone number]</u>	
Date of Birth: Taxpayer: <u>11/18/71</u>	Spouse: <u>08/07/73</u>
Occupation: TP: <u>MECHANIC</u>	SP: <u>TEACHER</u>
Give to Pres Elect Campaign Fund (Y/N): TP: <u>YES</u> SP: <u>NO</u>	

### Other Information Provided By The Taxpayer

- David and Mary were married on October 11, 2004. David has one daughter, from his previous marriage. His daughter's name is Alice and she was born on April 14, 1994, and has a Social Security Number of XXX-XX-XXXX. Alice lived with David all of last year but her mother provided almost half of her support.
- Mary, whose maiden name was Wilson, tells you she has not yet notified the Social Security Administration of her name change to Chapman.


a Control number		OMB No. 1545-0008	Safe, accurate, FAST! Use  Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .
b Employer identification number <b>XX-XXXXXX</b>	1 Wages, tips, other compensation <b>32,810.49</b>	2 Federal income tax withheld <b>4,812.52</b>	
c Employer's name, address, and ZIP code  <b>Huron Airlines Inc</b> <b>P.O. Box 6610</b> <b>Your City, State and Zip Code</b>	3 Social security wages <b>34,040.49</b>	4 Social security tax withheld <b>2,110.00</b>	
	5 Medicare wages and tips <b>34,040.49</b>	6 Medicare tax withheld <b>494.00</b>	
	7 Social security tips	8 Allocated tips	
d Employee's social security number <b>XXX-XX-XXXX</b>	9 Advance EIC payment	10 Dependent care benefits	
e Employee's first name and initial      Last name  <b>David A Chapman</b>  <b>876 Kenyon Ave</b>  <b>Your City, State and Zip Code</b>	11 Nonqualified plans	12a See instructions for box 12 <b>D</b> <b>1,230.00</b>	
	13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	12b	
	14 Other	12c	
f Employee's address and ZIP code		12d	
15 State      Employer's state ID number <b>Your</b> <b>XX-XXXXXX</b>	16 State wages, tips, etc. <b>32,810.49</b>	17 State income tax <b>984.00</b>	18 Local wages, tips, etc.
			19 Local income tax
			20 Locality name

Form **W-2** Wage and Tax Statement

2004

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .	
b Employer identification number <b>XX-XXXXXXX</b>				1 Wages, tips, other compensation <b>26,189.53</b>		2 Federal income tax withheld <b>547.00</b>	
c Employer's name, address, and ZIP code  <b>Department of Public Schools</b> <b>100 Snow Street</b> <b>Your City, State and Zip Code</b>				3 Social security wages <b>26,189.53</b>		4 Social security tax withheld <b>1,624.00</b>	
				5 Medicare wages and tips <b>26,189.53</b>		6 Medicare tax withheld <b>380.00</b>	
				7 Social security tips		8 Allocated tips	
d Employee's social security number <b>XXX-XX-XXXX</b>				9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial      Last name  <b>Mary E. Chapman</b> <b>546 Berry Street</b> <b>Your City, State and Zip Code</b>				11 Nonqualified plans		12a See instructions for box 12	
				13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b	
				14 Other		12c	
						12d	
f Employee's address and ZIP code							
15 State Employer's state ID number <b>Your XX-XXXXXXX</b>		16 State wages, tips, etc. <b>26,189.53</b>		17 State income tax <b>526.00</b>		18 Local wages, tips, etc.	
						19 Local income tax	
						20 Locality name	

Form **W-2** Wage and Tax Statement **2004** Department of the Treasury—Internal Revenue Service  
**Copy B—To Be Filed With Employee's FEDERAL Tax Return.**  
This information is being furnished to the Internal Revenue Service.

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Lamar Bank</b> <b>5501 South Ave</b> <b>Your City, State and Zip Code</b>		Payer's RTN (optional)	OMB No. 1545-0112 <b>2004</b> Form <b>1099-INT</b>	<b>Interest Income</b>
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	1 Interest income not included in box 3 \$ <b>217.00</b>		
RECIPIENT'S name <b>David A. Chapman</b>  Street address (including apt. no.) <b>876 Kenyon Ave</b> City, state, and ZIP code <b>Your City, State and Zip Code</b>		2 Early withdrawal penalty \$	3 Interest on U.S. Savings Bonds and Treas. obligations \$	<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Account number (optional)		4 Federal income tax withheld \$ <b>0.00</b>	5 Investment expenses \$	
		6 Foreign tax paid \$	7 Foreign country or U.S. possession	

Form **1099-INT**

(keep for your records)

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Quincy Savings Bank</b> <b>4801 W. Belmont Ave</b> <b>Your City, State and Zip Code</b>		1a Total ordinary dividends \$ <b>237.35</b>	OMB No. 1545-0110 <b>2004</b> Form <b>1099-DIV</b>	<b>Dividends and Distributions</b>
		1b Qualified dividends \$ <b>237.35</b>		
PAYER'S Federal identification number <b>XX-XXXXXXX</b>		2a Total capital gain distr. \$ <b>120.33</b>	2b Unrecap. Sec. 1250 gain \$	<b>Copy B For Recipient</b>  This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S identification number <b>XXX-XX-XXXX</b>				
RECIPIENT'S name <b>Mary E. Chapman</b>  Street address (including apt. no.) <b>876 Kenyon Ave</b> City, state, and ZIP code <b>Your City, State and Zip Code</b>		2c Section 1202 gain \$	2d Collectibles (28%) gain \$	
Account number (optional)		3 Nontaxable distributions \$	4 Federal income tax withheld \$ <b>24.00</b>	
		5 Investment expenses \$	6 Foreign tax paid \$	
		7 Foreign country or U.S. possession	8 Cash liquidation distributions \$	
		9 Noncash liquidation distributions \$		

Form **1099-DIV**

(keep for your records)

Department of the Treasury - Internal Revenue Service



## Exercise No. 2

### Customer Card

Taxpayer Name: <u>ASHLEY L MADISON</u>		SSN: <u>XXX-XX-XXXX</u>
Spouse Name: _____		SSN: _____
Street Address: <u>1715 MARION DRIVE</u>		
City, State and Zip Code: <u>[Your City, State and Zip Code]</u>		
Telephone Number: <u>[Your telephone number]</u>		
Date of Birth:	Taxpayer: <u>04/02/1983</u>	Spouse: _____
Occupation:	TP: <u>STUDENT</u>	SP: _____
Give to Pres Elect Campaign Fund (Y/N):		TP: <u>YES</u> SP: _____

### Other Information Provided By The Taxpayer

- Ashley is not married and is a sophomore at the local college. She wants to earn a business degree and carried a full credit load six months last year.
- She was supported by and lived with her parents last year.
- She worked part time to earn some extra spending money.
- This is the first year Ashley has filed a tax return.
- If there is a refund she wants it sent to her home. If she owes more taxes she will pay by check.
- The family moved into a new house in January of this year.

a Control number	OMB No. 1545-0008	Safe, accurate, FAST! Use	Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .
b Employer identification number <b>XX-XXXXXXX</b>	1 Wages, tips, other compensation <b>4,311.68</b>	2 Federal income tax withheld <b>453.00</b>	
c Employer's name, address, and ZIP code  <b>The Rockford Steakhouse</b>  <b>341 1st Street</b>  <b>Your City, State and Zip Code</b>	3 Social security wages <b>4,311.68</b>	4 Social security tax withheld <b>267.20</b>	
	5 Medicare wages and tips <b>4,311.68</b>	6 Medicare tax withheld <b>63.40</b>	
	7 Social security tips	8 Allocated tips <b>2,672.00</b>	
d Employee's social security number <b>XXX-XX-XXXX</b>	9 Advance EIC payment	10 Dependent care benefits	
e Employee's first name and initial      Last name  <b>Ashley L. Madison</b>  <b>2715 Alma Street</b>  <b>Your City, State and Zip Code</b>	11 Nonqualified plans	12a See instructions for box 12	
	13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	12b	
	14 Other	12c	
f Employee's address and ZIP code		12d	
15 State Employer's state ID number Your <b>XX-XXXXXXX</b>	16 State wages, tips, etc. <b>4,311.68</b>	17 State income tax <b>64.00</b>	18 Local wages, tips, etc.
			19 Local income tax
			20 Locality na

Form **W-2** Wage and Tax Statement

2004

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

**Fisk Federal Bank**

**P.O. Box 319194**

**Your City, State and Zip Code**

Payer's RTN (optional)

OMB No. 1545-0112

**2004**

**Interest Income**

Form **1099-INT**

PAYER'S Federal identification number

**XX-XXXXXXX**

RECIPIENT'S identification number

**XXX-XX-XXXX**

1 Interest income not included in box 3

\$ **17.83**

RECIPIENT'S name

**Ashley L. Madison**

2 Early withdrawal penalty

\$

3 Interest on U.S. Savings Bonds and Treas. obligations

\$

Street address (including apt. no.)

**2715 Alma Street**

4 Federal income tax withheld

\$ **0.00**

5 Investment expenses

\$

City, state, and ZIP code

**Your City, State and Zip Code**

6 Foreign tax paid

\$

7 Foreign country or U.S. possession

Account number (optional)

**Copy B**

**For Recipient**

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-INT**

(keep for your records)

Department of the Treasury - Internal Revenue Service

### Exercise No. 3

#### Customer Card

Taxpayer Name: SUSANNE E DENISON SSN: XXX-XX-XXXX

Spouse Name: \_\_\_\_\_ SSN: \_\_\_\_\_

Street Address: 2125 HOOD DRIVE

City, State and Zip Code: [Your City, State and Zip Code]


Telephone Number: [Your telephone number]

Date of Birth: Taxpayer: 07/07/1962 Spouse: \_\_\_\_\_

Occupation: TP: TEACHER SP: \_\_\_\_\_

Give to Pres Elect Campaign Fund (Y/N): TP: NO SP: \_\_\_\_\_

- Susanne has not lived with her husband since September of 2004 and he will not agree to file jointly with her. Her husband's name is Charles V. Denison (SS# XXX-XX-XXXX) and he lives at 130 N Elon Ave, Your City, State and Zip Code.
- Susanne has one daughter, Agnes (SS# XXX-XX-XXXX) who was born on February 26, 1986. She is a full time student (freshman) at the local college. Susanne provided for all of Agnes' support during last year.
- All year Susanne has been typing medical transcripts, at night, in her home to make extra money. She provided you with a Form 1099-MISC from the Parsons Medical Centers for the money she received from them. She also received \$1,576.50 from other doctors for this service. Last year she paid \$49 for paper, \$67.87 for printer cartridges and \$187 for repairs to her computer. She also paid \$52 a month for high speed Internet access that is needed to download and send transcription data.
- Susanne and Charles did not itemize deductions last year. Charles already submitted his tax return and he did not itemize deductions this year.
- Susanne will take care of any amount due by check and wants any refund sent to her home address.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .			
b Employer identification number <b>XX-XXXXXXX</b>				1 Wages, tips, other compensation <b>36,240.67</b>	2 Federal income tax withheld <b>6,933.87</b>				
c Employer's name, address, and ZIP code  <b>Marion School District</b> <b>1309 Ferns Street SE</b> <b>Your City, State and Zip Code</b>				3 Social security wages <b>36,240.67</b>	4 Social security tax withheld <b>2,246.92</b>				
				5 Medicare wages and tips <b>36,240.67</b>	6 Medicare tax withheld <b>525.00</b>				
				7 Social security tips	8 Allocated tips				
d Employee's social security number <b>XXX-XX-XXXX</b>				9 Advance EIC payment		10 Dependent care benefits			
e Employee's first name and initial      Last name  <b>Susanne Denison</b> <b>2125 Hood Drive</b> <b>Your City, State and Zip Code</b>				11 Nonqualified plans		12a See instructions for box 12			
				13 Statutory employee <input type="checkbox"/>	Retirement plan <input checked="" type="checkbox"/>	Third-party sick pay <input type="checkbox"/>	12b		
				14 Other			12c		
							12d		
f Employee's address and ZIP code									
15 State	Employer's state ID number <b>Your XX-XXXXXXX</b>	16 State wages, tips, etc. <b>36,240.67</b>	17 State income tax <b>1,087.00</b>	18 Local wages, tips, etc.	19 Local income tax	20 Locality name			

Form **W-2** Wage and Tax Statement **2004** Department of the Treasury—Internal Revenue Service  
 Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
 This information is being furnished to the Internal Revenue Service.

<input type="checkbox"/> CORRECTED (if checked)				
PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Salem Bank</b> <b>PO Box 27865</b> <b>Your City, State and Zip Code</b>		Payer's RTN (optional)	OMB No. 1545-0112 <b>2004</b> Form <b>1099-INT</b>	<b>Interest Income</b>
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	1 Interest income not included in box 3 <b>\$ 683.45</b>		
RECIPIENT'S name <b>Susanne Denison</b>  Street address (including apt. no.) <b>2125 Hood Drive</b> City, state, and ZIP code <b>Your City, State and Zip Code</b>		2 Early withdrawal penalty <b>\$</b>	3 Interest on U.S. Savings Bonds and Treas. obligations <b>\$</b>	<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Account number (optional)		4 Federal income tax withheld <b>\$</b>	5 Investment expenses <b>\$</b>	
		6 Foreign tax paid <b>\$</b>	7 Foreign country or U.S. possession	
Form <b>1099-INT</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Parsons Medical Centers, Inc</b>  <b>826 Parks Ave</b>  Your City, State and Zip Code		1 Rents	OMB No. 1545-0115	<b>Miscellaneous Income</b>  <b>2004</b>  Form 1099-MISC	<b>Copy B For Recipient</b>
		\$	2 Royalties		
		\$	3 Other income		
PAYER'S Federal identification number  <b>XX-XXXXXXX</b>	RECIPIENT'S identification number  <b>XXX-XX-XXXX</b>	5 Fishing boat proceeds	6 Medical and health care payments		
RECIPIENT'S name  <b>Susanne E. Denison</b>  Street address (including apt. no.)  <b>2125 Hood Drive</b>  City, state, and ZIP code Your City, State and Zip Code		\$	7 Nonemployee compensation	8 Substitute payments in lieu of dividends or interest	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		\$	5,637.00	\$	
		\$	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds	
\$	11	12	\$		
\$	13 Excess golden parachute payments	14 Gross proceeds paid to an attorney	\$		
Account number (optional)		15	16 State tax withheld	17 State/Payer's state no.	18 State income
		\$	\$		\$
		\$	\$		\$

Form 1099-MISC

(keep for your records)

Department of the Treasury - Internal Revenue Service


## Exercise No. 4

### Customer Card


Taxpayer Name: CLARK M. KNOX      SSN: XXX-XX-XXXX  
Spouse Name: \_\_\_\_\_      SSN: \_\_\_\_\_  
Street Address: 516 WELLS AVE \_\_\_\_\_  
City, State and Zip Code: [Your City, State and Zip Code]  
Telephone Number: [Your telephone number]  
Date of Birth:      Taxpayer: 10/23/1966      Spouse: \_\_\_\_\_  
Occupation:      TP: STEEL WORKER      SP: \_\_\_\_\_  
Give to Pres Elect Campaign Fund (Y/N):      TP: YES      SP: \_\_\_\_\_

### Other Information Provided By The Taxpayer

- Clark's wife died in June 2002 and he has not remarried. He has a son, Frank (SS# XXX-XX-XXXX), born October 2, 1990.
- Clark did not itemize deductions last year.
- Clark sold the following stock this year:
  - 100 shares of Coe. He received this stock on April 12, 2004, as part of an inheritance. The stock was originally purchased for \$350 but the Fair Market Value of the stock when he inherited it was \$1,650 and was \$1,120 when he sold it on November 17, 2004.
  - 150 shares of Fullerton Motor Co. He sold the stock on June 1, 2004 for \$10,675. He bought the stock for \$6,675 on July 7, 1995. He had to pay a \$25 brokerage fee to sell the stock.
  - 65 shares of Alma Corp. Clark sold this stock for \$5,663 on December 12, 2004. He bought the stock through a stock purchase plan with the earliest date being May 4, 1999, and the final date being June 1, 2002. The total cost basis was \$7,218.
- Clark wants any money refunded or due handled by check.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .	
b Employer identification number <b>XX-XXXXXXX</b>		1 Wages, tips, other compensation <b>20,986.56</b>		2 Federal income tax withheld <b>1,319.00</b>			
c Employer's name, address, and ZIP code  <b>Case Foundry and Machine Co</b> <b>74 Harvard Ave.</b> <b>Your City, State and Zip Code</b>		3 Social security wages <b>22,765.56</b>		4 Social security tax withheld <b>1,411.46</b>			
		5 Medicare wages and tips <b>22,765.56</b>		6 Medicare tax withheld <b>330.10</b>			
		7 Social security tips		8 Allocated tips			
d Employee's social security number <b>XXX-XX-XXXX</b>		9 Advance EIC payment		10 Dependent care benefits			
e Employee's first name and initial Last name  <b>Clark M. Knox</b> <b>516 Wells Ave</b> <b>Your City, State and Zip Code</b>		11 Nonqualified plans		12a See instructions for box 12 <b>D</b> <b>1,779.00</b>			
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b			
		14 Other		12c			
				12d			
f Employee's address and ZIP code							
15 State Employer's state ID number <b>Your XX-XXXXXXX</b>	16 State wages, tips, etc. <b>20,986.56</b>	17 State income tax <b>545.00</b>	18 Local wages, tips, etc.	19 Local income tax	20 Locality name		

Form **W-2 Wage and Tax Statement** **2004** Department of the Treasury—Internal Revenue Service  
**Copy B—To Be Filed With Employee's FEDERAL Tax Return.**  
This information is being furnished to the Internal Revenue Service.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .	
b Employer identification number <b>XX-XXXXXXX</b>		1 Wages, tips, other compensation <b>16,765.11</b>		2 Federal income tax withheld <b>1,268.23</b>			
c Employer's name, address, and ZIP code  <b>Piedmont Steel Corp</b> <b>1134 Martin Street</b> <b>Your City, State and Zip Code</b>		3 Social security wages <b>17,923.65</b>		4 Social security tax withheld <b>1,111.27</b>			
		5 Medicare wages and tips <b>17,923.65</b>		6 Medicare tax withheld <b>259.89</b>			
		7 Social security tips		8 Allocated tips			
d Employee's social security number <b>XXX-XX-XXXX</b>		9 Advance EIC payment		10 Dependent care benefits			
e Employee's first name and initial Last name  <b>Clark M Knox</b> <b>516 Wells Ave</b> <b>Your City, State and Zip Code</b>		11 Nonqualified plans		12a See instructions for box 12 <b>D</b> <b>1,158.54</b>			
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b			
		14 Other		12c			
				12d			
f Employee's address and ZIP code							
15 State Employer's state ID number <b>Your XX-XXXXXXX</b>	16 State wages, tips, etc. <b>16,765.11</b>	17 State income tax <b>503.00</b>	18 Local wages, tips, etc.	19 Local income tax	20 Locality name		

Form **W-2 Wage and Tax Statement** **2004** Department of the Treasury—Internal Revenue Service  
**Copy B—To Be Filed With Employee's FEDERAL Tax Return.**  
This information is being furnished to the Internal Revenue Service.

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

Payer's RTN (optional)

OMB No. 1545-0112

**Wheeling National Bank**  
**3265 Martin Street**  
**Your City, State and Zip Code**

**2004**

**Interest Income**

Form **1099-INT**

PAYER'S Federal identification number

**XX-XXXXXXX**

RECIPIENT'S identification number

**XXX-XX-XXXX**

**1** Interest income not included in box 3

**\$ 47.31**

RECIPIENT'S name

**Clark M. Knox**

**2** Early withdrawal penalty

**\$**

**3** Interest on U.S. Savings Bonds and Treas. obligations

**\$**

Street address (including apt. no.)

**516 Wells**

City, state, and ZIP code

**Your City, State and Zip Code**

**4** Federal income tax withheld

**\$**

**5** Investment expenses

**\$**

Account number (optional)

**6** Foreign tax paid

**\$**

**7** Foreign country or U.S. possession

**Copy B**

**For Recipient**

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-INT**

(keep for your records)

Department of the Treasury - Internal Revenue Service



## Exercise No. 5

### Customer Card

Taxpayer Name: ANDREW J HOWARD SSN: XXX-XX-XXXX

Spouse Name: SARAH A HOWARD SSN: XXX-XX-XXXX

Street Address: 2708 OAKWOOD DRIVE

City, State and Zip Code: [Your City, State and Zip Code]

Telephone Number: [Your telephone number]


Date of Birth: Taxpayer: 08/12/1966 Spouse: 11/03/1968

Occupation: TP: STORE MANAGER SP: DISPATCHER


Give to Pres Elect Campaign Fund (Y/N): TP: YES SP: YES

### Other Information Provided By The Taxpayer

- Andrew and Sarah have been married for over 8 years and they would like you to file their return electronically.
- They have one son, Anthony, who was born on July 21, 1998, and has Social Security Number XXX-XX-XXXX. Anthony lived with his Grandparents five months last year. He lived with Andrew and Sarah for the rest of the year.
- Andrew and Sarah supported Sarah's mother, Nancy Hinds, who lived with them all of last year. Nancy's date of birth is March 2, 1931 (SS# XXX-XX-XXX). Although Nancy was born in the United States she later moved to Canada and became a Canadian citizen. Nancy received over \$5,000 in interest and dividends payments last year.
- The Howards itemized deductions last year but still had to pay the state \$123. They do not have enough deductions to itemize this year.
- Andrew sold some Pace stock last year and provides you with a Form 1099-B. He originally bought 50 shares of the stock on September 13, 1996, for \$91.60 a share. The stock split two for one in November 1998.
- Three years ago, Andrew sold a house at 1523 North Curry Rd, Your City, State and Zip Code to Charles Martin (SS# XXX-XX-XXXX) who is currently living there. The selling price of the house was \$65,500 which Andrew financed himself. Last year Andrew received \$5,764 in payments of which \$4,782 was interest.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .	
b Employer identification number <b>XX-XXXXXXX</b>		1 Wages, tips, other compensation <b>27,510.00</b>		2 Federal income tax withheld <b>1,375.50</b>			
c Employer's name, address, and ZIP code  <b>Alma Hardware, Inc</b> <b>643 Danville</b> <b>Your City, State and Zip Code</b>		3 Social security wages <b>27,510.00</b>		4 Social security tax withheld <b>1,705.62</b>			
		5 Medicare wages and tips <b>27,510.00</b>		6 Medicare tax withheld <b>399.00</b>			
		7 Social security tips		8 Allocated tips			
d Employee's social security number <b>XXX-XX-XXXX</b>		9 Advance EIC payment		10 Dependent care benefits			
e Employee's first name and initial      Last name  <b>Andrew J. Howard</b> <b>2708 Oakwood Drive</b> <b>Your City, State and Zip Code</b>		11 Nonqualified plans		12a See instructions for box 12			
		13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b			
		14 Other		12c			
f Employee's address and ZIP code							
15 State	Employer's state ID number <b>Your XX-XXXXXXX</b>	16 State wages, tips, etc. <b>27,510.00</b>	17 State income tax <b>171.00</b>	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2 Wage and Tax Statement** **2004** Department of the Treasury—Internal Revenue Service  
**Copy B—To Be Filed With Employee's FEDERAL Tax Return.**  
This information is being furnished to the Internal Revenue Service.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .	
b Employer identification number <b>XX-XXXXXXX</b>		1 Wages, tips, other compensation <b>21,441.00</b>		2 Federal income tax withheld <b>1,072.05</b>			
c Employer's name, address, and ZIP code  <b>County of Ventura</b> <b>12 Marin Street</b> <b>Your City, State and Zip Code</b>		3 Social security wages <b>23,517.00</b>		4 Social security tax withheld <b>1,458.05</b>			
		5 Medicare wages and tips <b>23,517.00</b>		6 Medicare tax withheld <b>341.00</b>			
		7 Social security tips		8 Allocated tips			
d Employee's social security number <b>XXX-XX-XXXX</b>		9 Advance EIC payment		10 Dependent care benefits			
e Employee's first name and initial      Last name  <b>Sarah A Howard</b> <b>2708 Oakwood</b> <b>Your City, State and Zip Code</b>		11 Nonqualified plans		12a See instructions for box 12 <b>D</b> <b>2,076.00</b>			
		13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b			
		14 Other		12c			
f Employee's address and ZIP code							
15 State	Employer's state ID number <b>Your XX-XXXXXXX</b>	16 State wages, tips, etc. <b>21,441.00</b>	17 State income tax <b>177.00</b>	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2 Wage and Tax Statement** **2004** Department of the Treasury—Internal Revenue Service  
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CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Bank of Amarillo</b> <b>200 E Glendale</b> <b>Your City, State and Zip Code</b>		Payer's RTN (optional)	OMB No. 1545-0112 <b>2004</b> Form <b>1099-INT</b>	<b>Interest Income</b>
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	1 Interest income not included in box 3 \$ <b>42.57</b>		
RECIPIENT'S name <b>Andrew J Howard</b>  Street address (including apt. no.) <b>2708 Oakwood Drive</b> City, state, and ZIP code <b>Your City, State and Zip Code</b>  Account number (optional)		2 Early withdrawal penalty \$	3 Interest on U.S. Savings Bonds and Treas. obligations \$ <b>911.12</b>	<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		4 Federal income tax withheld \$ <b>91.00</b>	5 Investment expenses \$	
		6 Foreign tax paid \$	7 Foreign country or U.S. possession	
Form <b>1099-INT</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Fairmont Brokerage Services</b> <b>82 Dartmouth Drive</b> <b>Your City, State and Zip Code</b>		1a Date of sale or exchange <b>3/10/2004</b>	OMB No. 1545-0715 <b>2004</b> Form <b>1099-B</b>	<b>Proceeds From Broker and Barter Exchange Transactions</b>
		1b CUSIP no.		
		2 Stocks, bonds, etc. \$ <b>8,859</b>	Reported to IRS } <input type="checkbox"/> Gross proceeds } <input checked="" type="checkbox"/> Gross proceeds less commissions and option premiums	<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
PAYER'S Federal identification number <b>xx-xxxxxxx</b>	RECIPIENT'S identification number <b>xxx-xx-xxxx</b>	3 Bartering \$	4 Federal income tax withheld \$	
RECIPIENT'S name <b>Andrew J Howard</b>  Street address (including apt. no.) <b>2708 Oakwood Drive</b> City, state, and ZIP code <b>Your City, State, and Zip Code</b>		5 No. of shares exchanged <b>100</b>	6 Classes of stock exchanged	
		7 Description <b>Pace</b>		
		8 Profit or (loss) realized in 2004 \$	9 Unrealized profit or (loss) on open contracts—12/31/2003 \$	
CORPORATION'S name, street address, city, state, and ZIP code		10 Unrealized profit or (loss) on open contracts—12/31/2004 \$	11 Aggregate profit or (loss) \$	
Account number (optional)	2nd TIN not. <input type="checkbox"/>	12 If this box is checked, you cannot take a loss on your tax return based on the amount in box 2 . . . . <input type="checkbox"/>		
Form <b>1099-B</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service


## Exercise No. 6

### Customer Card

Taxpayer Name: <u>JAMES D GORDON</u>	SSN: <u>XXX-XX-XXXX</u>
Spouse Name: _____	SSN: _____
Street Address: <u>128 BROWN LANE</u>	
City, State and Zip Code: <u>[Your City, State and Zip Code]</u>	
Telephone Number: <u>[Your telephone number]</u>	
Date of Birth: Taxpayer: <u>02/11/1938</u> (for TW 2004)	Spouse: _____
Taxpayer: <u>02/11/1937</u> (for TW 2003)	
Occupation: TP: <u>CHEMIST</u>	SP: _____
Give to Pres Elect Campaign Fund (Y/N):	TP: <u>NO</u> SP: _____

### Other Information Provided By The Taxpayer

- After a one-year separation James received a final divorce from his wife, Kathy, on November 11<sup>th</sup> last year. They have three grown children.
- James itemized deductions last year and received a \$171 refund check from his state. His taxable income was \$19,200 and his total itemized deductions were \$8,100. He filed Married Filing Separately last year.
- James's federal tax for last year was \$2,137 and he does not have enough itemized deductions to beat the standard deduction.
- James retired from the railroad on June 1, 2002 (2003 for TaxWise 2004) at the age of 65 and received his first retirement check on July 1 of that year. He collected \$125 tax free the first year of his retirement and \$249 the second year.
- If there is an underpayment penalty don't complete Form 2210 at this time. This will be covered as part of a supplementary exercise.
- James does not want to provide his bank account information.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .	
b Employer identification number <b>XX-XXXXXXX</b>				1 Wages, tips, other compensation <b>22,876.00</b>		2 Federal income tax withheld <b>917.00</b>	
c Employer's name, address, and ZIP code  <b>Franklin Industrial Minerals</b>  <b>612 10th Ave</b>  <b>Your City, State and Zip Code</b>				3 Social security wages <b>22,876.00</b>		4 Social security tax withheld <b>1,418.32</b>	
				5 Medicare wages and tips <b>22,876.00</b>		6 Medicare tax withheld <b>331.70</b>	
				7 Social security tips		8 Allocated tips	
d Employee's social security number <b>XXX-XX-XXXX</b>				9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial Last name  <b>James D Gordon</b>  <b>128 Brown Lane</b>  <b>Your City, State and Zip Code</b>				11 Nonqualified plans		12a See instructions for box 12	
				13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b	
				14 Other		12c	
						12d	
f Employee's address and ZIP code							
15 State Employer's state ID number <b>Your XX-XXXXXXX</b>		16 State wages, tips, etc. <b>22,876.00</b>		17 State income tax <b>0.00</b>		18 Local wages, tips, etc.	
						19 Local income tax	
						20 Locality name	

Form **W-2** Wage and Tax Statement **2004** Department of the Treasury—Internal Revenue Service  
**Copy B—To Be Filed With Employee's FEDERAL Tax Return.**  
This information is being furnished to the Internal Revenue Service.

<input type="checkbox"/> CORRECTED (if checked)		PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Hope National Bank</b> <b>561 14th Street</b> <b>Your City, State and Zip Code</b>		Payer's RTN (optional)		OMB No. 1545-0112 <b>2004</b> Form <b>1099-INT</b>		<b>Interest Income</b>	
PAYER'S Federal identification number <b>XX-XXXXXXX</b>		RECIPIENT'S identification number <b>XXX-XX-XXXX</b>		1 Interest income not included in box 3 <b>\$ 327.50</b>		<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.			
RECIPIENT'S name <b>James D Gordon</b>		2 Early withdrawal penalty <b>\$</b>		3 Interest on U.S. Savings Bonds and Treas. obligations <b>\$</b>					
Street address (including apt. no.) <b>128 Brown Lane</b>		4 Federal income tax withheld <b>\$</b>		5 Investment expenses <b>\$</b>					
City, state, and ZIP code <b>Your City, State and Zip Code</b>		6 Foreign tax paid <b>\$</b>		7 Foreign country or U.S. possession					
Account number (optional)									
Form <b>1099-INT</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service					

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code and telephone no. <b>Armstrong Brokerage</b> <b>1300 10th AVE</b> <b>Your City, State and Zip Code</b>		1a Total ordinary dividends \$ <b>123.75</b>	OMB No. 1545-0110 <b>2004</b>	<b>Dividends and Distributions</b>
		1b Qualified dividends \$ <b>123.75</b>	Form <b>1099-DIV</b>	
		2a Total capital gain distr. \$ <b>68.12</b>	2b Unrecap. Sec. 1250 gain \$	
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>			<b>Copy B For Recipient</b>
RECIPIENT'S name <b>James D Gordon</b>		2c Section 1202 gain \$	2d Collectibles (28%) gain \$	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.) <b>128 Brown Lane</b>		3 Nontaxable distributions \$	4 Federal income tax withheld \$	
City, state, and ZIP code <b>Your City, State and Zip Code</b>		5 Investment expenses \$	6 Foreign tax paid \$	
Account number (optional)		7 Foreign country or U.S. possession	8 Cash liquidation distributions \$	
		9 Noncash liquidation distributions \$		

Form **1099-DIV**

(keep for your records)

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code <b>Asbury Trust Co</b> <b>P O Box 254</b> <b>Your City, State and Zip Code</b>		1 Gross distribution \$ <b>837.55</b>	OMB No. 1545-0119 <b>2004</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
		2a Taxable amount \$ <b>837.55</b>	Form <b>1099-R</b>	
		2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>	<b>Copy B Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.</b>
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$ <b>0.00</b>	
RECIPIENT'S name <b>James D Gordon</b>		5 Employee contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$	
Street address (including apt. no.) <b>128 Brown Lane</b>		7 Distribution code(s) <b>7</b>	8 Other \$ %	This information is being furnished to the Internal Revenue Service.
City, state, and ZIP code <b>Your City, State and Zip Code</b>		9a Your percentage of total distribution %	9b Total employee contributions \$	
Account number (optional)		10 State tax withheld \$ <b>0.00</b>	11 State/Payer's state no. <b>Your State</b>	12 State distribution \$ <b>837.55</b>
			<b>XX-XXXXXXX</b>	
		13 Local tax withheld \$	14 Name of locality	15 Local distribution \$

Form **1099-R**

Department of the Treasury - Internal Revenue Service

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE <b>UNITED STATES RAILROAD RETIREMENT BOARD</b> 844 N RUSH ST CHICAGO IL 60611-2092		<b>2004</b>		ANNUITIES OR PENSIONS BY THE RAILROAD RETIREMENT BOARD	
PAYER'S FEDERAL IDENTIFYING NO. xx-xxxxxxx		3. Employee Contributions	5,397.25		<b>COPY B -</b>  <b>REPORT THIS INCOME ON YOUR FEDERAL TAX RETURN. IF THIS FORM SHOWS FEDERAL INCOME TAX WITHHELD IN BOX 9 ATTACH THIS COPY TO YOUR RETURN.</b>  <small>THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.</small>
1. Claim Number and Payee Code	4. Contributory Amount Paid	4,631.04			
2. Recipient's Identification Number xx-xxxxxxx	5. Vested Dual Benefit				
Recipient's Name, Street Address, City, State, and Zip Code  <b>James D. Gordon</b> <b>128 Brown Lane</b> <b>Your City, State, and Zip Code</b>	6. Supplemental Annuity				
	7. Total Gross Paid	4,631.04			
	8. Repayments				
	9. Federal Income Tax Withheld	561.00			
10. Rate of Tax		11. Country	12. Medicare Premium Total		

**FORM RRB-1099-R**

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE <b>UNITED STATES RAILROAD RETIREMENT BOARD</b> 844 N RUSH ST CHICAGO IL 60611-2092		<b>2004</b>		PAYMENTS BY THE RAILROAD RETIREMENT BOARD	
PAYER'S FEDERAL IDENTIFYING NO. xx-xxxxxxx		3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 2004	10,368.00		<b>COPY C -</b>  <small>FOR RECIPIENT'S RECORDS</small>  <small>THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.</small>
1. Claim Number and Payee Code	4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 2004				
2. Recipient's Identification Number xx-xxxxxxx	5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 2004	10,368.00			
Recipient's Name, Street Address, City, State, and Zip Code  <b>James D. Gordon</b> <b>128 Brown Lane</b> <b>Your City, State, and Zip Code</b>	6. Workers' Compensation Offset in 2004				
	7. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2003				
	8. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2002				
	9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 2000				
	10. Federal Income Tax Withheld	799.00			
		11. Medicare Premium Total			

**FORM RRB-1099** **DO NOT ATTACH TO YOUR INCOME TAX RETURN**

## Exercise No. 7

### Customer Card

Taxpayer Name: TROY H McCOOK SSN: XXX-XX-XXXX  
Spouse Name: YVONNE A McCOOK SSN: XXX-XX-XXXX  
Street Address: 30911 BARD ROAD  
City, State and Zip Code: [Your City, State and Zip Code]  
Telephone Number: [Your telephone number]  
Date of Birth: Taxpayer: 03/12/1933 Spouse: 10/30/1935  
Occupation: TP: RETIRED SP: HOUSEWIFE  
Give to Pres Elect Campaign Fund (Y/N): TP: NO SP: NO

### Other Information Provided By The Taxpayer

- Troy's wife, Yvonne, died on April 15, 2003 (2004 for TaxWise 2004).
- Troy's granddaughter Ashley Fergus (SS# XXX-XX-XXXX) moved in with Troy in May of last year. Troy has provided all of her support since that time. She was born on April 5, 1993 in France where her parents were stationed.
- Because of high medical expenses this year Troy wants to see if it would be to his advantage to itemized deductions this year. He provides these possible deductions

Doctors Bills	\$4,723
Hospital Bills	5,168
Medical Mileage	1,119 miles
Prescription Drugs	1,756
Prescription eyeglasses	210
Church Donations	850
Church Raffle Ticket (Didn't win)	25
Misc Cash Donations (non profit organizations)	201
Salvation Army (Old Clothes)	350
Funeral Expenses	6,875
Home Mortgage Interest	2,164
Country Real Estate Tax	378
City Real Estate Tax	120
Personal Property Tax (based on vehicle value)	623
Gambling Losses	2,550
Automobile Sales Tax	840

- The McCooks did not itemize deductions last year.



CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Alvin Bond Fund</b> <b>Suite 567</b> <b>100 Wiley Street</b> <b>Your City, State and Zip Code</b>		1a Total ordinary dividends \$ <b>1,564.67</b>	OMB No. 1545-0110 <b>2004</b>	<b>Dividends and Distributions</b>
		1b Qualified dividends \$ <b>874.50</b>	Form <b>1099-DIV</b>	
PAYER'S Federal identification number <b>XX-XXXXXXX</b>		RECIPIENT'S identification number <b>XXX-XX-XXXX</b>		<b>Copy B For Recipient</b>
RECIPIENT'S name <b>Troy H McCook</b>		2a Total capital gain distr. \$ <b>737</b>	2b Unrecap. Sec. 1250 gain \$	
Street address (including apt. no.) <b>30911 Bard Road</b>		2c Section 1202 gain \$	2d Collectibles (28%) gain \$	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
City, state, and ZIP code <b>Your City, State and Zip Code</b>		3 Nontaxable distributions \$	4 Federal income tax withheld \$ <b>0.00</b>	
Account number (optional)		5 Investment expenses \$	6 Foreign tax paid \$	
		7 Foreign country or U.S. possession	8 Cash liquidation distributions \$	
		9 Noncash liquidation distributions \$		

Form **1099-DIV**

(keep for your records)

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code <b>Harris Trust</b> <b>P O Box 1389</b> <b>Your City, State and Zip Code</b>		1 Gross distribution \$ <b>13,223.00</b>	OMB No. 1545-0119 <b>2004</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
		2a Taxable amount \$ <b>13,223.00</b>	Form <b>1099-R</b>	
PAYER'S Federal identification number <b>XX-XXXXXXX</b>		RECIPIENT'S identification number <b>XXX-XX-XXXX</b>		<b>Copy B Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.</b>
RECIPIENT'S name <b>Troy D McCook</b>		3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$ <b>0.00</b>	
Street address (including apt. no.) <b>30911 Bard Road</b>		5 Employee contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$	This information is being furnished to the Internal Revenue Service.
City, state, and ZIP code <b>Your City, State and Zip Code</b>		7 Distribution code(s) <b>7</b>	8 Other \$ %	
Account number (optional)		9a Your percentage of total distribution %	9b Total employee contributions \$	
		10 State tax withheld \$ <b>0.00</b>	11 State/Payer's state no. <b>Your State</b>	12 State distribution \$ <b>13,223.00</b>
		13 Local tax withheld \$	14 Name of locality \$	15 Local distribution \$

Form **1099-R**

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code <b>Defense Finance and Accounting Service</b> <b>US Military Retirement Pay</b> <b>P O Box 7139</b> <b>Your City, State and Zip Code</b>		<b>1</b> Gross distribution \$ <b>23,919.00</b>	OMB No. 1545-0119 <b>2004</b> Form <b>1099-R</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>	
PAYER'S Federal identification number <b>XX-XXXXXXX</b>		<b>2a</b> Taxable amount \$ <b>23,919.00</b>	<b>2b</b> Taxable amount not determined <input type="checkbox"/>		<b>Copy B</b> <b>Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.</b>
RECIPIENT'S identification number <b>XXX-XX-XXXX</b>		<b>3</b> Capital gain (included in box 2a) \$	<b>4</b> Federal income tax withheld \$ <b>1,580.00</b>		
RECIPIENT'S name <b>Troy H McCook</b>		<b>5</b> Employee contributions or insurance premiums \$	<b>6</b> Net unrealized appreciation in employer's securities \$		This information is being furnished to the Internal Revenue Service.
Street address (including apt. no.) <b>30911 Bard Road</b>		<b>7</b> Distribution code(s) <b>7</b>	<input type="checkbox"/> IRA/SEP/SIMPLE	<b>8</b> Other \$ %	
City, state, and ZIP code <b>Your City, State and Zip Code</b>		<b>9a</b> Your percentage of total distribution %	<b>9b</b> Total employee contributions \$		
Account number (optional)		<b>10</b> State tax withheld \$ <b>0.00</b>	<b>11</b> State/Payer's state no. <b>Your State</b> <b>XX-XXXXXXX</b>		<b>12</b> State distribution \$ <b>23,919.00</b>
		<b>13</b> Local tax withheld \$	<b>14</b> Name of locality		<b>15</b> Local distribution \$

Form **1099-R**

Department of the Treasury - Internal Revenue Service

**FORM SSA-1099 - SOCIAL SECURITY BENEFIT STATEMENT**

<b>2004</b> • PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. • SEE THE REVERSE FOR MORE INFORMATION.		
Box 1. Name <b>Troy H. McCook</b>	Box 2. Beneficiary's Social Security Number <b>XXX-XX-XXXX</b>	
Box 3. Benefits Paid in 2004 <b>12,675.00</b>	Box 4. Benefits Repaid to SSA in 2004	Box 5. Net Benefits for 2003 (Box 3 minus Box 4) <b>12,675.00</b>
<b>DESCRIPTION OF AMOUNT IN BOX 3</b> Paid by check or direct deposit \$11,876  Medicare Prem. deducted \$799  Total \$12,675		<b>DESCRIPTION OF AMOUNT IN BOX 4</b>   Box 6. Voluntary Federal Income Tax Withholding   Box 7. Address  <b>30911 Bard Road</b> <b>Your City, State, and Zip Code</b>   Box 8. Claim Number (Use this number if you need to contact SSA.)

Form SSA-1099-SM (1-2005)

**DO NOT RETURN THIS FORM TO SSA OR IRS**

**FORM SSA-1099 - SOCIAL SECURITY BENEFIT STATEMENT**

**2004** : PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME.  
 : SEE THE REVERSE FOR MORE INFORMATION.

Box 1. Name <b>Yvonne McCook</b>		Box 2. Beneficiary's Social Security Number <b>xxx-xx-xxxx</b>	
Box 3. Benefits Paid in 2004 <b>3,645.00</b>	Box 4. Benefits Repaid to SSA in 2004	Box 5. Net Benefits for 2003 (Box 3 minus Box 4) <b>3,645.00</b>	
DESCRIPTION OF AMOUNT IN BOX 3  Paid by check or direct deposit      \$3,245  Medicare Prem. deducted \$400  Total    \$3,645		DESCRIPTION OF AMOUNT IN BOX 4          Box 6. Voluntary Federal Income Tax Withholding          Box 7. Address  <b>30911 Bard Road</b> <b>Your City, State, and Zip Code</b>	
Box 8. Claim Number (Use this number if you need to contact SSA.)			

Form SSA-1099-SM (1-2005)

**DO NOT RETURN THIS FORM TO SSA OR IRS**

CORRECTED (if checked)

PAYER'S name, address, ZIP code, Federal identification number, and telephone number  <b>Rockhurst Casino</b>  <b>xx-xxxxxxx</b>  <b>14011 Athens Road</b>  <b>Your City, State, and Zip Code</b>	1 Gross winnings <b>1,200.00</b>	2 Federal income tax withheld
	3 Type of wager <b>25 slots</b>	4 Date won <b>4 : 14 : 2004</b>
	5 Transaction	6 Race
	7 Winnings from identical wagers	8 Cashier <b>2718</b>
WINNER'S name, address (including apt. no.), and ZIP code  <b>Yvonne McCook</b>  <b>30911 Bard Road</b>  <b>Your City, State, and Zip Code</b>	9 Winner's taxpayer identification no. <b>xxx-xx-xxxx</b>	10 Window
	11 First I.D.	12 Second I.D.
	13 State/Payer's state identification no. <b>xx xx-xxxxxxx</b>	14 State income tax withheld <b>120.00</b>
Under penalties of perjury, I declare that, to the best of my knowledge and belief, the name, address, and taxpayer identification number that I have furnished correctly identify me as the recipient of this payment and any payments from identical wagers, and that no other person is entitled to any part of these payments.		
Signature ►		Date ►

OMB No. 1545-0238

**2004**  
**Form W-2G**  
**Certain Gambling Winnings**

This information is being furnished to the Internal Revenue Service.

**Copy B**  
 Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 2, attach this copy to your return.

Form **W-2G**


Department of the Treasury - Internal Revenue Service

## Comprehensive Training Exercise B

### Customer Card

Taxpayer Name:	<u>MARY J HOOD</u>	SSN:	<u>XXX-XX-XXXX</u>
Spouse Name:	_____	SSN:	_____
Street Address:	<u>3717 E LEE STREET</u>		
City, State and Zip Code:	<u>[Your City, State and Zip Code]</u>		
Telephone Number:	<u>[Your telephone number]</u>		
Date of Birth:	Taxpayer: <u>12/12/1964</u>	Spouse:	_____
Occupation:	TP: <u>OPERATOR</u>	SP:	_____
Give to Pres Elect Campaign Fund (Y/N):	TP: <u>YES</u>	SP:	_____

- Mary has a daughter, Lauren Salem, and a son, William Hood, who live with her full time. Mary is divorced and provided for all of her children's support.
- Lauren's date of birth is 05/03/1987 and her SSN is XXX-XX-XXXX.
- William's date of birth is 02/15/1989 and his SSN is XXX-XX-XXXX.
- Mary's mother Barbara Bates also lives with her full time and Mary provides over half of her support. Barbara's date of birth is 03/12/1932 and her SSN# is XXX-XX-XXXX. Her only income is from Social Security and a small amount of bank interest.
- Mary is a full time resident of your state and she wants to file a state return.
- If there is a refund she wants it sent to her home. If she owes more taxes she will pay by check.
- Mary provides you with a Form W-2 that is her only tax document.
- She did not itemize deductions last year.
- She did not have her EIC reduced or disallowed last year.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .	
b Employer identification number <b>XX-XXXXXXX</b>				1 Wages, tips, other compensation <b>24,612.00</b>		2 Federal income tax withheld <b>687.00</b>	
c Employer's name, address, and ZIP code  <b>Bluefield Telecommunications</b>  <b>5775 Pomona Street</b>  <b>Your City, State and Zip Code</b>				3 Social security wages <b>24,612.00</b>		4 Social security tax withheld <b>1,525.94</b>	
				5 Medicare wages and tips <b>24,612.00</b>		6 Medicare tax withheld <b>356.87</b>	
				7 Social security tips		8 Allocated tips	
d Employee's social security number <b>XXX-XX-XXXX</b>				9 Advance EIC payment <b>1,200.00</b>		10 Dependent care benefits	
e Employee's first name and initial Last name  <b>Mary Jane Hood</b>  <b>3717 E Lee Street</b>  <b>Your City, State and Zip Code</b>				11 Nonqualified plans		12a See instructions for box 12	
				13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b	
				14 Other		12c	
						12d	
f Employee's address and ZIP code							
15 State Employer's state ID number <b>Your XX-XXXXXXX</b>		16 State wages, tips, etc. <b>24,612.00</b>		17 State income tax <b>265.00</b>		18 Local wages, tips, etc.	
						19 Local income tax	
						20 Locality name	

Form **W-2** Wage and Tax Statement

**2004**

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.


## Exercise No. 8

### Customer Card

Taxpayer Name: <u>JOHN J REED</u>	SSN: <u>XXX-XX-XXXX</u>
Spouse Name: _____	SSN: _____
Street Address: <u>108 N PHILLIPS STREET</u>	
City, State and Zip Code: <u>[Your City, State and Zip Code]</u>	
Telephone Number: <u>[Your telephone number]</u>	
Date of Birth: Taxpayer: <u>06/15/1965</u>	Spouse: _____
Occupation: TP: <u>MANAGER</u>	SP: _____
Give to Pres Elect Campaign Fund (Y/N): TP: <u>NO</u>	SP: _____

### Other Information Provided By The Taxpayer

- John is married to Elizabeth Reed (SSN xxx-xx-xxxx). However, she left him a year ago last November and has not lived with him since. Last year John and his wife filed separate tax returns and neither itemized deductions.
- John paid the total cost of maintaining his home for himself and two children. One of the children is his son, Jack (SSN xxx-xx-xxxx), whose date of birth is September 9, 1984. The other child is John's nephew, Jeffery Lamar (SSN xxx-xx-xxxx). Jeffery moved in with John on the first of June of last year when John's sister became ill. John cared for Jeffery as if he were his own child. Jeffery was born on March 23, 1989.
- In addition to a \$500 tax-free grant Jack received, John paid \$1,238 for tuition, books and lab fees for Jack who is a junior and a full time student at the local college.
- If a refund is due he wants a check to be mailed to his house and he will pay any tax due by check.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .				
b Employer identification number <b>XX-XXXXXXX</b>				1 Wages, tips, other compensation <b>14,713.78</b>	2 Federal income tax withheld <b>1,383.57</b>					
c Employer's name, address, and ZIP code  <b>King Insulation, Inc</b>  <b>2300 E Olivet</b>  <b>Your City, State and Zip Code</b>				3 Social security wages <b>15,609.34</b>	4 Social security tax withheld <b>967.78</b>					
				5 Medicare wages and tips <b>15,609.34</b>	6 Medicare tax withheld <b>226.34</b>					
				7 Social security tips	8 Allocated tips					
d Employee's social security number <b>XXX-XX-XXXX</b>				9 Advance EIC payment		10 Dependent care benefits				
e Employee's first name and initial Last name  <b>John J Reed</b>  <b>108 N Phillips Street</b>  <b>Your City, State and Zip Code</b>				11 Nonqualified plans		12a See instructions for box 12 <b>D</b> <b>895.56</b>				
				13 Statutory employee <input type="checkbox"/>	Retirement plan <input checked="" type="checkbox"/>	Third-party sick pay <input type="checkbox"/>	12b			
				14 Other			12c			
							12d			
f Employee's address and ZIP code				15 State Employer's state ID number <b>Your XX-XXXXXXX</b>	16 State wages, tips, etc. <b>14,713.78</b>	17 State income tax <b>334.00</b>	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2** Wage and Tax Statement **2004** Department of the Treasury—Internal Revenue Service  
**Copy B—To Be Filed With Employee's FEDERAL Tax Return.**  
This information is being furnished to the Internal Revenue Service.

<input type="checkbox"/> CORRECTED (if checked)				
PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Fergus Investment &amp; Loan</b>  <b>175 N. Fivier</b>  <b>Your City, State, and Zip Code</b>		1 Original issue discount for 2004* <b>\$ 837.00</b>	OMB No. 1545-0117  <b>2004</b>  Form <b>1099-OID</b>	<b>Original Issue Discount</b>
PAYER'S Federal identification number <b>XX-XXXXXXX</b>		2 Other periodic interest <b>\$</b>	4 Federal income tax withheld <b>\$ 83.00</b>	
RECIPIENT'S name <b>John Reed</b>  Street address (including apt. no.) <b>108 N. Phillips St.</b> City, state, and ZIP code <b>Your City, State, and Zip Code</b>		3 Early withdrawal penalty <b>\$</b>	<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
RECIPIENT'S identification number <b>XXX-XX-XXXX</b>		5 Description		
Account number (optional)		6 Original issue discount on U.S. Treasury obligations* <b>\$</b>		
		7 Investment expenses <b>\$</b>		
		* This may not be the correct figure to report on your income tax return. See instructions on the back.		
Form <b>1099-OID</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Adelphi Investment Service</b> <b>2121 N 7th Street</b> <b>Your City, State and Zip Code</b>		<b>1a</b> Total ordinary dividends \$ <b>108.96</b>	OMB No. 1545-0110 <b>2004</b>	<b>Dividends and Distributions</b>
		<b>1b</b> Qualified dividends \$ <b>108.96</b>	Form <b>1099-DIV</b>	
		<b>2a</b> Total capital gain distr. \$	<b>2b</b> Unrecap. Sec. 1250 gain \$	<b>Copy B For Recipient</b>
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>			
RECIPIENT'S name <b>John J Reed</b>		<b>2c</b> Section 1202 gain \$	<b>2d</b> Collectibles (28%) gain \$	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.) <b>108 N Phillips</b>		<b>3</b> Nontaxable distributions \$	<b>4</b> Federal income tax withheld \$	
City, state, and ZIP code <b>Your City, State and Zip Code</b>				
Account number (optional)		<b>5</b> Investment expenses \$	<b>6</b> Foreign tax paid \$	
		<b>7</b> Foreign country or U.S. possession	<b>9</b> Noncash liquidation distributions \$	

Form **1099-DIV**

(keep for your records)

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code <b>Defense Finance and Accounting Service</b> <b>US Military Retirement Pay</b> <b>P O Box 7139</b> <b>Your City, State and Zip Code</b>		<b>1</b> Gross distribution \$ <b>12,174.00</b>	OMB No. 1545-0119 <b>2004</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
		<b>2a</b> Taxable amount \$ <b>12,174.00</b>	Form <b>1099-R</b>	
		<b>2b</b> Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>	<b>Copy B Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.</b>
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	<b>3</b> Capital gain (included in box 2a) \$	<b>4</b> Federal income tax withheld \$ <b>675.00</b>	
RECIPIENT'S name <b>John J Reed</b>		<b>5</b> Employee contributions or insurance premiums \$	<b>6</b> Net unrealized appreciation in employer's securities \$	This information is being furnished to the Internal Revenue Service.
Street address (including apt. no.) <b>108 N Phillips Street</b>		<b>7</b> Distribution code(s) <b>7</b>	<b>8</b> Other \$ %	
City, state, and ZIP code <b>Your City, State and Zip Code</b>		<b>9a</b> Your percentage of total distribution %	<b>9b</b> Total employee contributions \$	
Account number (optional)		<b>10</b> State tax withheld \$ <b>0.00</b>	<b>11</b> State/Payer's state no. <b>Your State</b>	<b>12</b> State distribution \$ <b>12,174.00</b>
			<b>13</b> Local tax withheld \$	<b>14</b> Name of locality \$
				<b>15</b> Local distribution \$

Form **1099-R**

Department of the Treasury - Internal Revenue Service




## Exercise No. 9

### Customer Card


Taxpayer Name:	<u>HELEN E ROSEMONT</u>	SSN:	<u>XXX-XX-XXXX</u>
Spouse Name:	_____	SSN:	_____
Street Address:	<u>356 WILKES DRIVE</u>		
City, State and Zip Code:	<u>[Your City, State and Zip Code]</u>		
Telephone Number:	<u>[Your telephone number]</u>		
Date of Birth:	Taxpayer: <u>09/16/1970</u>	Spouse:	_____
Occupation:	TP: <u>EDITOR</u>	SP:	_____
Give to Pres Elect Campaign Fund (Y/N):	TP: <u>YES</u>	SP:	_____

### Other Information Provided By The Taxpayer

- Helen is a single mother who was divorced from her husband two years ago. They had two children, Mary (SSN XXX-XX-XXXX) whose date of birth is October 16, 1997, and Charles (SSN XXX-XX-XXXX) who was born on Christmas Day 1998. Both children lived with Helen all of last year and she provided all of their support. However the divorce settlement allows her ex-husband to claim Charles as a dependent on his tax return.
- Helen did not itemize deductions last year.
- She was supposed to receive \$3,600 in alimony last year but her ex husband was out of work part of the year and she only received \$2,400.
- Helen did not have her EIC reduced or disallowed last year.
- The Global Investment Service notified Helen that she received \$418.13 in Federal and State exempt interest on her investments.
- Helen did editing work from her home for the Waldorf Publishing Co. and provided a Form 1099-MISC document showing the amount paid. She put 254 miles on her only car for the business and she kept a record of her mileage. She recorded 10,000 other miles. She started doing this extra work on the 1st of July last year. Other expenses were \$25 for paper, \$47.50 for a printer cartridge and \$101.95 for postage.
- She took a word processing course at the local college in the evenings to improve her skills on the job. The course tuition was \$75.
- She prefers to receive a check if there is a refund and pay by check if there is an amount due.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .	
b Employer identification number <b>XX-XXXXXXX</b>		1 Wages, tips, other compensation <b>2,532.00</b>		2 Federal income tax withheld <b>328.00</b>			
c Employer's name, address, and ZIP code  <b>Butler, Inc.</b> <b>1906 Lawrence Drive</b> <b>Your City, State and Zip Code</b>		3 Social security wages <b>2,532.00</b>		4 Social security tax withheld <b>156.98</b>			
		5 Medicare wages and tips <b>2,532.00</b>		6 Medicare tax withheld <b>36.71</b>			
		7 Social security tips		8 Allocated tips			
d Employee's social security number <b>XXX-XX-XXXX</b>		9 Advance EIC payment		10 Dependent care benefits			
e Employee's first name and initial      Last name  <b>Helen E Rosemont</b> <b>12 Emory Street</b> <b>Your City, State and Zip Code</b>		11 Nonqualified plans		12a See instructions for box 12			
		13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b			
		14 Other		12c			
f Employee's address and ZIP code				12d			
15 State      Employer's state ID number <b>Your XX-XXXXXXX</b>	16 State wages, tips, etc. <b>2,532.00</b>	17 State income tax <b>201.00</b>	18 Local wages, tips, etc.	19 Local income tax	20 Locality name		

Form **W-2 Wage and Tax Statement** **2004** Department of the Treasury—Internal Revenue Service  
**Copy B—To Be Filed With Employee's FEDERAL Tax Return.**  
This information is being furnished to the Internal Revenue Service.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov">www.irs.gov</a> .	
b Employer identification number <b>XX-XXXXXXX</b>		1 Wages, tips, other compensation <b>19,998.00</b>		2 Federal income tax withheld <b>1,001.65</b>			
c Employer's name, address, and ZIP code  <b>Oakwood World-Herald</b> <b>1334 Dana Street</b> <b>Your City, State and Zip Code</b>		3 Social security wages <b>21,266.00</b>		4 Social security tax withheld <b>1,318.49</b>			
		5 Medicare wages and tips <b>21,266.00</b>		6 Medicare tax withheld <b>308.36</b>			
		7 Social security tips		8 Allocated tips			
d Employee's social security number <b>XXX-XX-XXXX</b>		9 Advance EIC payment		10 Dependent care benefits			
e Employee's first name and initial      Last name  <b>Helen E Rosemont</b> <b>356 Wilkes</b> <b>Your City, State and Zip Code</b>		11 Nonqualified plans		12a See instructions for box 12 <b>D</b> <b>1,268.00</b>			
		13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b			
		14 Other		12c			
f Employee's address and ZIP code				12d			
15 State      Employer's state ID number <b>Your XX-XXXXXXX</b>	16 State wages, tips, etc. <b>19,998.00</b>	17 State income tax <b>574.50</b>	18 Local wages, tips, etc.	19 Local income tax	20 Locality name		

Form **W-2 Wage and Tax Statement** **2004** Department of the Treasury—Internal Revenue Service  
**Copy B—To Be Filed With Employee's FEDERAL Tax Return.**  
This information is being furnished to the Internal Revenue Service.

CORRECTED (if checked)


PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Parks National Bank</b> <b>102 Rust Street</b> <b>Your City, State and Zip Code</b>		Payer's RTN (optional)	OMB No. 1545-0112 <b>2004</b> Form <b>1099-INT</b>	<b>Interest Income</b>
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	1 Interest income not included in box 3 \$ <b>416.87</b>		
RECIPIENT'S name <b>Helen E Rosemont</b>  Street address (including apt. no.) <b>356 Wilkes Street</b> City, state, and ZIP code <b>Your City, State and Zip Code</b>  Account number (optional)		2 Early withdrawal penalty \$	3 Interest on U.S. Savings Bonds and Treas. obligations \$	<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		4 Federal income tax withheld \$ <b>38.56</b>	5 Investment expenses \$	
		6 Foreign tax paid \$	7 Foreign country or U.S. possession	
Form <b>1099-INT</b>		(keep for your records)	Department of the Treasury - Internal Revenue Service	

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Waldorf Publishing Co</b> <b>PO Box 1765</b> <b>Your City, State and Zip Code</b>		1 Rents \$	OMB No. 1545-0115 <b>2004</b> Form <b>1099-MISC</b>	<b>Miscellaneous Income</b>
		2 Royalties \$	3 Other income \$	
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	4 Federal income tax withheld \$		<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name <b>Helen E Rosemont</b>  Street address (including apt. no.) <b>356 Wilkes</b> City, state, and ZIP code <b>Your City, State and Zip Code</b>  Account number (optional)		5 Fishing boat proceeds \$	6 Medical and health care payments \$	
		7 Nonemployee compensation \$ <b>2,875.88</b>	8 Substitute payments in lieu of dividends or interest \$	
		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds \$	
		11	12	
		13 Excess golden parachute payments \$	14 Gross proceeds paid to an attorney \$	
15		16 State tax withheld \$	17 State/Payer's state no.	18 State income \$
Form <b>1099-MISC</b>		(keep for your records)	Department of the Treasury - Internal Revenue Service	

CORRECTED (if checked)

**Certain  
Government  
Payments**

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Your State Unemployment Commission</b>  <b>1 Stockton Street</b>  <b>Your City, State and Zip Code</b>		<b>1</b> Unemployment compensation  <b>\$ 1,345.00</b>	OMB No. 1545-0120  <b>2004</b>  Form <b>1099-G</b>
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	<b>3</b> Box 2 amount is for tax year  <b>\$</b>	<b>4</b> Federal income tax withheld <b>\$ 135.00</b>
RECIPIENT'S name <b>Helen E Rosemont</b>  Street address (including apt. no.) <b>356 Wilkes Street</b>  City, state, and ZIP code <b>Your City, State and Zip Code</b>  Account number (optional)		<b>5</b> 	<b>6</b> Taxable grants  <b>\$</b>
		<b>7</b> Agriculture payments <b>\$</b>	<b>8</b> Box 2 is trade or business income <input type="checkbox"/>

**Copy B  
For Recipient**

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-G**

(keep for your records)

Department of the Treasury - Internal Revenue Service

## Exercise No. 10

### Customer Card

Taxpayer Name: <u>FRED P STERLING</u>	SSN: <u>XXX-XX-XXXX</u>
Spouse Name: <u>CHERYL A STERLING</u>	SSN: <u>XXX-XX-XXXX</u>
Street Address: <u>3717 BATES STREET</u>	
City, State and Zip Code: <u>[Your City, State and Zip Code]</u>	
Telephone Number: <u>[Your telephone number]</u>	
Date of Birth: Taxpayer: <u>09/21/1938</u> (for TW 2004)	Spouse: <u>02/11/1943</u>
	Taxpayer: <u>09/21/1937</u> (for TW 2003)
Occupation: TP: <u>RETIRED</u>	SP: <u>HOUSEWIFE</u>
Give to Pres Elect Campaign Fund (Y/N):	TP: <u>NO</u> SP: <u>NO</u>

### Other Information Provided By The Taxpayer

- Fred and Cheryl have been married for over 40 years and each year they come into your site to have their tax returns completed.
- Fred's sister, Louise Smith (SSN XXX-XX-XXXX) lived with them all year. Louise is an invalid and must rely upon Fred and Cheryl for her support. Louise receives \$250 a month in Social Security disability. She was born on 01/13/1940.
- Fred provides you with a doctor's certified statement that Cheryl has less than 20/200 vision in both eyes.
- The Sterlings itemized deductions last year but did not receive any state refund.
- In 1983 Fred purchased 100 shares of Chapman stock for \$12,000. He sold the stock on March 23 for \$23,789, which included the commission on the sale.
- Fred retired from the International Brotherhood of Electrical Workers at the age of 65 and started drawing his retirement on January 1, 2002 (2003 for TaxWise 2004). Cheryl is not covered by the plan. He recovered \$271 tax free each year since his retirement.
- The Sterlings would like to have any refunds or amount due handled by check.

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Chapman Federal S&amp;L Assn.</b> <b>1413 41st Ave</b> <b>Your City, State and Zip Code</b>		Payer's RTN (optional)	OMB No. 1545-0112 <b>2004</b> Form <b>1099-INT</b>	<b>Interest Income</b>
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	1 Interest income not included in box 3 <b>\$ 124.73</b>		
RECIPIENT'S name <b>Fred P Sterling</b>  Street address (including apt. no.) <b>3717 Bates Street</b> City, state, and ZIP code <b>Your City, State and Zip Code</b>  Account number (optional)		2 Early withdrawal penalty <b>\$</b>	3 Interest on U.S. Savings Bonds and Treas. obligations <b>\$</b>	<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		4 Federal income tax withheld <b>\$</b>	5 Investment expenses <b>\$</b>	
		6 Foreign tax paid <b>\$</b>	7 Foreign country or U.S. possession	
Form <b>1099-INT</b>		(keep for your records)	Department of the Treasury - Internal Revenue Service	

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. <b>Newberry City Bank</b> <b>1 McCook Plaza</b> <b>Your City, State and Zip Code</b>		Payer's RTN (optional)	OMB No. 1545-0112 <b>2004</b> Form <b>1099-INT</b>	<b>Interest Income</b>
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	1 Interest income not included in box 3 <b>\$ 1,863.78</b>		
RECIPIENT'S name <b>Fred P Sterling</b>  Street address (including apt. no.) <b>3717 Bates Street</b> City, state, and ZIP code <b>Your City, State and Zip Code</b>  Account number (optional)		2 Early withdrawal penalty <b>\$</b>	3 Interest on U.S. Savings Bonds and Treas. obligations <b>\$</b>	<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		4 Federal income tax withheld <b>\$</b>	5 Investment expenses <b>\$</b>	
		6 Foreign tax paid <b>\$</b>	7 Foreign country or U.S. possession	
Form <b>1099-INT</b>		(keep for your records)	Department of the Treasury - Internal Revenue Service	

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.  <b>Colgate Fund</b> <b>PO Box 5250</b> <b>Your City, State and Zip Code</b>		<b>1a</b> Total ordinary dividends OMB No. 1545-0110 \$ <b>162.99</b>	<b>2004</b>  Form <b>1099-DIV</b>	<b>Dividends and Distributions</b>
		<b>1b</b> Qualified dividends \$ <b>106.00</b>		
		<b>2a</b> Total capital gain distr. \$ <b>68.75</b>	<b>2b</b> Unrecap. Sec. 1250 gain \$	
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>		This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
RECIPIENT'S name <b>Fred P Sterling</b>  Street address (including apt. no.) <b>3717 Bates Street</b>  City, state, and ZIP code <b>Your City, State and Zip Code</b>		<b>2c</b> Section 1202 gain \$		<b>2d</b> Collectibles (28%) gain \$
		<b>3</b> Nontaxable distributions \$		<b>4</b> Federal income tax withheld \$
Account number (optional)				<b>5</b> Investment expenses \$
		<b>6</b> Foreign tax paid \$ <b>13.15</b>		<b>7</b> Foreign country or U.S. possession
		<b>8</b> Cash liquidation distributions \$		<b>9</b> Noncash liquidation distributions \$

Form **1099-DIV** (keep for your records) Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code <b>Scripps Investment Partners</b> <b>101 Morris Street</b> <b>Your City, State and Zip Code</b>		<b>1</b> Gross distribution OMB No. 1545-0119 \$ <b>11,793.00</b>	<b>2004</b>  Form <b>1099-R</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
		<b>2a</b> Taxable amount \$ <b>11,793.00</b>		
		<b>2b</b> Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>	
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	<b>3</b> Capital gain (included in box 2a) \$	<b>4</b> Federal income tax withheld \$ <b>1,179.00</b>	
RECIPIENT'S name <b>Fred P Sterling</b>  Street address (including apt. no.) <b>3717 Bates Street</b>  City, state, and ZIP code <b>Your City, State and Zip Code</b>		<b>5</b> Employee contributions or insurance premiums \$	<b>6</b> Net unrealized appreciation in employer's securities \$	This information is being furnished to the Internal Revenue Service.
		<b>7</b> Distribution code(s) IRA/SEP/SIMPLE <input type="checkbox"/>	<b>8</b> Other \$ _____ %	
Account number (optional)		<b>9a</b> Your percentage of total distribution %	<b>9b</b> Total employee contributions \$	
		<b>10</b> State tax withheld \$ <b>0.00</b>	<b>11</b> State/Payer's state no. <b>Your State</b> <b>XX-XXXXXXX</b>	
		<b>13</b> Local tax withheld \$	<b>14</b> Name of locality	<b>15</b> Local distribution \$

Form **1099-R** Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code <b>Averett Pension Fund</b> <b>36964 Doanne Rd</b> <b>Your City, State and Zip Code</b>		<b>1</b> Gross distribution \$ <b>18,625.00</b>	OMB No. 1545-0119 <b>2004</b> Form <b>1099-R</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
		<b>2a</b> Taxable amount \$	Total distribution <input type="checkbox"/>	
PAYER'S Federal identification number <b>XX-XXXXXXX</b>	RECIPIENT'S identification number <b>XXX-XX-XXXX</b>	<b>3</b> Capital gain (included in box 2a) \$	<b>4</b> Federal income tax withheld \$ <b>1,715.00</b>	<b>Copy B</b> <b>Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.</b>
RECIPIENT'S name <b>Fred P Sterling</b>  Street address (including apt. no.) <b>3717 Bates Street</b>  City, state, and ZIP code <b>Your City, State and Zip Code</b>		<b>5</b> Employee contributions or insurance premiums \$	<b>6</b> Net unrealized appreciation in employer's securities \$	
Account number (optional)		<b>7</b> Distribution code(s) <b>7</b>	<b>8</b> Other \$ %	This information is being furnished to the Internal Revenue Service.
		<b>9a</b> Your percentage of total distribution %	<b>9b</b> Total employee contributions \$ <b>5,864.00</b>	
		<b>10</b> State tax withheld \$	<b>11</b> State/Payer's state no.	<b>12</b> State distribution \$
		<b>13</b> Local tax withheld \$	<b>14</b> Name of locality	<b>15</b> Local distribution \$

Form **1099-R**

Department of the Treasury - Internal Revenue Service

**FORM SSA-1099 - SOCIAL SECURITY BENEFIT STATEMENT**

**2004** • PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME.  
• SEE THE REVERSE FOR MORE INFORMATION.

Box 1. Name <b>Fred Sterling</b>		Box 2. Beneficiary's Social Security Number <b>XXX-XX-XXXX</b>	
Box 3. Benefits Paid in 2004 <b>12,682.00</b>	Box 4. Benefits Repaid to SSA in 2004	Box 5. Net Benefits for 2003 (Box 3 minus Box 4) <b>12,682.00</b>	
<b>DESCRIPTION OF AMOUNT IN BOX 3</b>  Paid by check or direct deposit <p style="text-align: right;">\$11,883</p> Medicare premium deducted <p style="text-align: right;">\$ 799</p> Total <p style="text-align: right;">\$12,682</p>		<b>DESCRIPTION OF AMOUNT IN BOX 4</b>           Box 6. Voluntary Federal Income Tax Withholding <p style="text-align: right;">600.00</p> Box 7. Address <p style="text-align: center;"><b>3717 Bates</b> <b>Your City, State, and Zip Code</b></p> Box 8. Claim Number (Use this number if you need to contact SSA.)	

Form SSA-1099-SM (1-2005)

**DO NOT RETURN THIS FORM TO SSA OR IRS**



## Supplemental Exercise No. 1

- Open Exercise 3 (Susanne Denison) and enter the following tax document.

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0119		<b>2004</b> Form <b>1099-R</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
PAYER'S name, street address, city, state, and ZIP code <b>1ST Oakdale IRA</b>  <b>P O Box 25237</b>  <b>Your City, State and Zip Code</b>		<b>1</b> Gross distribution \$ <b>11,754.52</b>	<b>2a</b> Taxable amount \$		
PAYER'S Federal identification number <b>XX-XXXXXXX</b>		RECIPIENT'S identification number <b>XXX-XX-XXXX</b>		<b>3</b> Capital gain (included in box 2a) \$	<b>4</b> Federal income tax withheld \$
RECIPIENT'S name <b>Susanne E Denison</b>  Street address (including apt. no.) <b>2125 Hood Drive</b>  City, state, and ZIP code <b>Your City, State and Zip Code</b>		<b>5</b> Employee contributions or insurance premiums \$	<b>6</b> Net unrealized appreciation in employer's securities \$		This information is being furnished to the Internal Revenue Service.
Account number (optional)		<b>7</b> Distribution code(s) <b>G</b>	<b>8</b> Other \$	<b>9a</b> Your percentage of total distribution %	
		<b>9b</b> Total employee contributions \$	<b>10</b> State tax withheld \$	<b>11</b> State/Payer's state no. \$	
Account number (optional)		<b>13</b> Local tax withheld \$	<b>14</b> Name of locality \$	<b>12</b> State distribution \$	
		\$	\$	<b>15</b> Local distribution \$	

Form **1099-R**

Department of the Treasury - Internal Revenue Service

Susanne rolled her IRA account from 1<sup>st</sup> Oakdale IRA over into a Merrill Lynch IRA account.

2. Open Exercise 4 (Clark Knox) and enter the following tax document.

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0119		<b>2004</b>	Form <b>1099-R</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
PAYER'S name, street address, city, state, and ZIP code <b>Newcomb Financial Services</b>  200 Lincoln Street, 5th Floor  Your City, State and Zip Code		<b>1</b> Gross distribution \$ 10,000.00	<b>2a</b> Taxable amount \$ 10,000.00			
PAYER'S Federal identification number  XX-XXXXXXX	RECIPIENT'S identification number  XXX-XX-XXXX	<b>3</b> Capital gain (included in box 2a)  \$	<b>4</b> Federal income tax withheld  \$ 1,000.00		<b>Copy B</b> Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.	
RECIPIENT'S name <b>Clark M Knox</b>  Street address (including apt. no.) 516 Wells  City, state, and ZIP code Your City, State and Zip Code		<b>5</b> Employee contributions or insurance premiums  \$	<b>6</b> Net unrealized appreciation in employer's securities  \$			
Account number (optional)		<b>7</b> Distribution code(s) 1	IRA/SEP/SIMPLE <input checked="" type="checkbox"/>	<b>8</b> Other  \$ %	<b>9a</b> Your percentage of total distribution %	
Account number (optional)		<b>9b</b> Total employee contributions  \$	<b>10</b> State tax withheld \$ 0.00		<b>11</b> State/Payer's state no. Your State XX-XXXXXXX	
Account number (optional)		<b>12</b> State distribution \$ 10,000.00	<b>13</b> Local tax withheld \$		<b>14</b> Name of locality \$	
Account number (optional)		<b>15</b> Local distribution \$	\$		\$	

Form **1099-R**

Department of the Treasury - Internal Revenue Service

## Supplemental Exercise No. 2

1. Open Exercise 1 (David Chapman) and enter the following tax information.
    - a. David put \$2,000.00 into his regular IRA Account this year. Mary put the same amount into her ROTH IRA Account.
    - b. Last year Mary paid \$317.00 interest on the student loan she took to help pay for her teachers' degree.
- 

2. Open Exercise 5 (Andrew Howard) and enter the following tax information.

Andrew paid his first wife, Elizabeth Howard (SS#XXX-XX-XXXX), \$350.00 a month alimony last year

---

3. Open Exercise 3 (Susanne Denison) and enter the following tax information.

Susanne paid \$1473.50 last year for tuition, books and lab fees for her daughter Agnes.

### Supplemental Exercise No. 3

1. Open Exercise 1 (David Chapman) and enter the following tax information.

David paid his neighbor, Betty Wells (SSN XXX-XX-XXXX) who lives next door at 878 Kenyon Ave, to look after Alice while he and Mary were at work. He paid her \$1,875.

---

2. Open Exercise 5 (Andrew Howard) and enter the following tax information.

Andrew paid the Salem Day Care Center (EIN XX-XXXXXX) located at 87 North Casper Dr, [Your city, state, and zip] to take care of Anthony while he and Sarah were at work. He paid the day care center \$1,793.

---

## Supplemental Exercise No. 4

Open Exercise 4 (Clark M. Knox) and enter the following information:

Clark made a \$300.00 estimated tax payment on both 12 April and 16 June of last year. He reduced that value to \$250.00 for the payments made on 10 September of last year and 8 January of this year.

If Clark has a refund coming or owes more taxes he wants the amount either direct deposited or debited against his checking account. He gives you a bank card which identifies his bank's routing number as 065502789 and his account number as XX-XXXXXXX.

## Supplemental Exercise No. 5

Open Exercise 7 (Troy McCook) and enter the following tax information.

Troy decides that he wants half of any refund applied to next year's taxes with the rest being direct deposited to his checking account. If he owes money he would like it debited against his checking account. He provides you with the following information from his personal check. Routing number is 125106708 and the account number is XX-XXXXXXX.

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## Supplemental Exercise No. 6

1. Open Exercise 5 (Andrew Howard)
  - A. If there is a refund, the Howards would like to receive it by check. However, because of the Pace stock sale they believe they will owe money. If there is an amount due over \$500 they will have to make arrangements to pay by the IRS installment plan. If that happens they want the total amount due paid by installments. They can pay \$100 a month and would like the payments due on the 15th of each month. They will make the payments by check.
  - B. If there is any underpayment penalty they would like to request a waiver because of the unexpected and late sale of the stock. The Howard's total federal tax for last year was \$3,720.
2. Open Exercise 6 (James Gordon)

If there is an Underpayment Penalty imposed on this return add last year's tax to line 8 of Form 2210. If there is still a penalty, zero out the penalty on page 2 of form 1040. Inform the taxpayer that the IRS will figure any penalty.

## **Supplemental Exercise No. 7**

1. Open Exercise 4 (Clark Knox)

Clark wants to sign his return using the PIN System. His AGI for last year was \$46,543.00. He enters “76541” as his PIN.

2. Open Exercise 8 (John Reed)

John decides that he wants to use a PIN to sign his return. His AGI for last year was \$32,186.00 and he will enter “76923” as his PIN.



While every class is unique, we strive to have consistency in the training that is presented to the volunteers. To assist you in planning your class, the following pages present a variety of Suggested Class Schedules. The schedules cover a variety of situations and are divided into three basic categories: New Students, Returning Students and a Combination of New and Returning Students. There is even a suggested schedule for a Tax Law Refresher. At the top of each schedule, you will find information about the type of student and type of returns that the students will prepare. You should use the schedule that best fits your class.

You will note that the amount of time devoted to a Lesson will vary throughout the schedules. In determining the amount of time to devote to a Lesson, we considered the following factors:

- Difficulty of topic presented in the lesson
- Amount of new tax law in the lesson
- Experience level of the student
- Expected frequency of the subject for the student
- Topics that contain the most common errors on tax returns
- Total amount of class time

## **Schedules 1-3, New Students**

These three schedules are based on the following premises:

- Your class is primarily composed of students who have no prior tax experience, and
- The students have not participated in the VITA/TCE program in the past, and
- You are not using integrated or C-VITA training for this class

## **Schedules 4-5, Returning Students**

These two schedules are based on the following premises:

- Your class is primarily composed of students who have prior tax experience, and
- The students have participated in the VITA/TCE program in the past, and
- You are not using the integrated or C-VITA training for this class

## Schedules 6-9, Combination of New and Returning Students

These four schedules are based on the following premises:

- You have a class that composed of both new and returning students, and
- Some of the students have prior tax experience, and
- You are not using the integrated or C-VITA training for this class.

## Schedule 10 - Tax Law Refresher Only

This schedule provides a condensed training schedule for a tax law refresher class. This schedule should *not* be used with new volunteers.

## **INSTRUCTIONAL METHODS/APPROACHES**

This training material is designed to provide you the flexibility you need to convey the information your students require to prepare accurate and complete tax returns. The information can be taught using various approaches as follows:

**Traditional Classroom Training** (self-explanatory).

Appendix B contains recommended syllabuses/class schedules for presenting the course materials in one to 5-days.

**Self-Study.** Volunteers with prior experience may be comfortable studying the material on their own. New volunteers may find the self-study approach more convenient. If you choose this training approach, at least one formal meeting/classroom session will be helpful to address specific questions and administrative requirements.

**Tax Law/TaxWise Integrated Training.** Integrated training refers to teaching tax law in harmony with teaching the students how to use the Service's official volunteer e-file software - TaxWise. Appendix A contains extensive information on conducting a comprehensive integrated class.

**C-VITA** – The Condensed VITA training approach is designed for volunteers who already possess certain skill sets. C-VITA is not designed as a stand alone training option. For additional information see Publication 3888, C-VITA Training Guide.

**Link & Learn Taxes** – The new web-based program that allows the volunteers to complete their training and certification on-line. This method can reduce classroom time while allowing volunteers to complete their training anytime, anywhere. For more information, visit [www.irs.gov](http://www.irs.gov) and use keyword "Link & Learn" or "volunteer training."



**APPROXIMATE TEACHING/DISCUSSION TIMES — AT-A-GLANCE**  
**(IN HOUR INCREMENTS OR FRACTIONS THEREOF)**

Lesson/Topic	New Students	Returning Student	Combination New & Returning Student	Tax Law Refresher
<b>Introduction &amp; Administrative Guidelines</b>	½	½	½	¾
<b>Lesson 1</b> Getting Started	½	½	½	¼
<b>Lesson 2</b> Filing Status & Filing Requirements	½	½	½	¼
<b>Lesson 3</b> Income	1¾	¾	1½	½
<b>Lesson 4</b> Adjustments	1	½	½-1	¼
<b>Lesson 5</b> Standard & Itemized Deductions & Tax Computations	1-1¾	½	1	¼
<b>Lesson 6</b> Miscellaneous Credits	½-1	½	½-1	¼
<b>Lesson 7</b> Finishing the Return	1-1¼	1	1	¾
<b>Lesson 8</b> Credit for Child & Dependent Care Expenses	¾	¾	1	¼
<b>Lesson 9</b> Education Credits	1	½	1¼	¼
<b>Lesson 10</b> Earned Income Credit	2	1	2	½
<b>Lesson 11</b> Child Tax Credit	1¾	¾	1	¼
<b>Problem A</b> Wage Earner Comprehensive Problems	1¼	N/A	N/A	N/A
<b>Lesson 12</b> Sale of Stock	2	2	1¾	½
<b>Lesson 13</b> Sale of Home	½	½	½	¼
<b>Lesson 14</b> Pension	¾	1¼	2¼	¾
<b>Problem B</b> Pension Earner Comprehensive Problems	¾	N/A	¾	N/A

## Suggested Class Schedule 1

<b>Student experience level:</b>	No prior tax training
<b>Prior VITA/TCE experience:</b>	No prior experience
<b>Types of returns:</b>	<b><i>Wage-earner</i></b>
<b>Test:</b>	Done outside of class

*The following schedule lists suggested teaching times. You may need to adjust the times to meet the needs of your class.*

Day	Time	Topic	
1	8:30	Registration and Introductions	
	9:00	Lesson 1, Pub 678: Getting Started	
	9:30	Lesson 2, Pub 678: Filing Status and Filing Requirements	
	10:00	Break	
	10:15	Lesson 2, Pub 678: Income	
	11:30	Lunch	
	12:30	Continue Lesson 3	
	1:30	Short break	
	1:40	Lesson 4, Pub 678: Adjustments	
	2:40	Break	
	3:00	Lesson 5, Pub 678: Standard and Itemized Deductions and Tax Computation	
	4:00	Dismiss class	
	2	9:00	Review key points from yesterday and answer any questions
		9:30	Lesson 6, Pub 678: Miscellaneous Credits
10:00		Break	
10:15		Lesson 8, Pub 678: Child Care Credit	
11:30		Lunch	
12:30		Lesson 9, Pub 678: Education Credits	
1:30		Break	
1:45		Lesson 10, Pub 678: Earned Income Credit (EIC)	
2:45		Break	
3:00		Continue Lesson 10	
4:00		Dismiss	
3		9:00	Review key points from yesterday and answer any questions
		9:30	Lesson 11, Pub 678: Child Tax Credit
		10:15	Break
	10:30	Continue Lesson 11	
	11:30	Lunch	
	12:30	Lesson 7, Pub 678: Finishing the Return	
	1:30	Break	
	1:45	Pub 678 Wage-earner Comprehensive Problems	
	3:00	Break	
	3:15	Wrap-up	
	4:00	Dismiss	



## Suggested Class Schedule 2

<b>Student experience level:</b>	No prior tax training
<b>Prior VITA/TCE experience:</b>	No prior experience
<b>Types of returns:</b>	<b><i>Pension-earner</i></b>
<b>Test:</b>	Done outside of class

*The following schedule lists suggested teaching times. You may need to adjust the times to meet the needs of your class.*

Day	Time	Topic	
1	8:30	Registration and Introductions	
	9:00	Lesson 1, Pub 678: Getting Started	
	9:30	Lesson 2, Pub 678: Filing Status and Filing Requirements	
	10:00	Break	
	10:15	Lesson 3, Pub 678: Income	
	11:30	Lunch	
	12:30	Continue Lesson 3	
	1:30	Short break	
	1:40	Lesson 12, Pub 678: Sale of Stock	
	2:40	Break	
	3:00	Continue Lesson 12	
	4:00	Dismiss class	
	2	9:00	Review key points from yesterday and answer any questions
		9:30	Lesson 13, Pub 678: Sale of Home
10:00		Break	
10:15		Lesson 14, Pub 678: Pensions	
11:30		Lunch	
12:30		Continue Lesson 14	
1:30		Break	
1:45		Continue Lesson 14	
2:45		Break	
3:00		Lesson 4, Pub 678: Adjustments	
4:00		Dismiss	
3		9:00	Review key points from yesterday and answer any questions
		9:30	Lesson 5, Pub 678: Standard and Itemized Deductions and Tax Computation
		10:15	Break
	10:30	Continue Lesson 5	
	11:30	Lunch	
	12:30	Lesson 6, Pub 678: Miscellaneous Credits	
	1:30	Break	
	1:45	Lesson 7, Pub 678: Finishing the Return	
	3:00	Break	
	3:15	Wrap-up and work Pension-earner Comprehensive problems	
	4:00	Dismiss	

### Suggested Class Schedule 3

<b>Student experience level:</b>	No prior tax training
<b>Prior VITA/TCE experience:</b>	No prior experience
<b>Types of returns:</b>	<b><i>Wage earner and Pension-earner</i></b>
<b>Test:</b>	Done outside of class

*The following schedule lists suggested teaching times. You may need to adjust the times to meet the needs of your class.*

Day	Time	Topic	
1	8:30	Registration and Introductions	
	9:00	Lesson 1, Pub 678: Getting Started	
	9:30	Lesson 2, Pub 678: Filing Status and Filing Requirements	
	10:00	Break	
	10:15	Lesson 3, Pub 678: Income	
	11:30	Lunch	
	12:30	Continue Lesson 3	
	1:30	Short break	
	1:40	Lesson 12, Pub 678: Sale of Stock	
	2:40	Break	
	3:00	Continue Lesson 12	
	4:00	Dismiss	
	2	9:00	Review key points from yesterday and answer any questions
		9:30	Lesson 13, Pub 678: Sale of Home
10:00		Break	
10:15		Lesson 14, Pub 678: Pensions	
11:30		Lunch	
12:30		Continue Lesson 14	
1:30		Break	
1:45		Continue Lesson 14	
2:45		Break	
3:00		Lesson 4, Pub 678: Adjustments	
4:00		Dismiss	
3		9:00	Review key points from yesterday and answer any questions
		9:30	Lesson 5, Pub 678: Standard and Itemized Deductions and Tax Computation
		10:15	Break
	10:30	Continue Lesson 5	
	11:30	Lunch	
	12:30	Lesson 6, Pub 678: Miscellaneous Credits	
	1:00	Lesson 15, Pub 678: Credit for the Elderly and Disabled	
	1:30	Break	
	1:45	Lesson 8, Pub 678: Child and Dependent Care Credit	
	3:00	Break	
	3:15	Lesson 9, Pub 678: Education Credits	
	4:00	Dismiss	



4	9:00	review key points from yesterday and answer any questions
	9:30	Lesson 10, Pub 678: Earned Income Credit (EIC)
	10:15	Break
	10:30	Continue Lesson 10
	11:30	Lunch
	12:30	Lesson 11, Pub 678: Child Tax Credit
	1:30	Break
	1:45	Continue Lesson 11
	2:30	Break
	2:45	Lesson 7, Pub 678: Finishing the Return
	3:30	Wrap-up
	4:00	Dismiss
		Note: This schedule does not allow any class time for working the comprehensive problems. If you want your students to complete the comprehensive problems during the formal classroom training, you will need to expand this training to a fifth day.



## Suggested Class Schedule 4

<b>Student experience level:</b>	Prior tax training
<b>Prior VITA/TCE experience:</b>	Prior experience
<b>Types of returns:</b>	<b><i>Wage-earner</i></b>
<b>Test:</b>	Done outside of class

*The following schedule lists suggested teaching times. You may need to adjust the times to meet the needs of your class.*

Day	Time	Topic
1	8:30	Registration and Introductions
	9:00	Lesson 1, Pub 678: Getting Started
	9:30	Lesson 2, Pub 678: Filing Status and Filing Requirements
	10:00	Break
	10:15	Lesson 3, Pub 678: Income
	11:00	Lesson 4, Pub 678: Adjustments
	11:30	Lunch
	12:30	Lesson 5, Pub 678: Standard and Itemized Deductions and Tax Computation
	1:00	Lesson 6, Pub 678: Miscellaneous Credits
	1:30	Break
	1:45	Lesson 8, Pub 678: Child Care Credit
	2:30	Break
	2:45	Lesson 9, Pub 678: Education Credits
	3:15	Review and wrap-up
	4:00	Dismiss
	2	9:00
9:30		Lesson 10, Pub 678: Earned Income Credit (EIC)
10:30		Break
10:45		Lesson 11, Pub 678: Child Tax Credit
11:30		Lunch
12:30		Lesson 7, Pub 678: Finishing the Return
1:30		Break
1:45		Pub 678 Wage-earner Comprehensive problems
2:45		Break
3:00		Review and wrap-up
4:00		Dismiss





## Suggested Class Schedule 5

<b>Student experience level:</b>	Prior tax training
<b>Prior VITA/TCE experience:</b>	Prior experience
<b>Types of returns:</b>	<b><i>Pension-earner</i></b>
<b>Test:</b>	Done outside of class

*The following schedule lists suggested teaching times. You may need to adjust the times to meet the needs of your class.*

Day	Time	Topic	
1	8:30	Registration and Introductions	
	9:00	Lesson 1, Pub 678: Getting Started	
	9:30	Lesson 2, Pub 678: Filing Status and Filing Requirements	
	10:00	Break	
	10:15	Lesson 3, Pub 678: Income	
	11:30	Lunch	
	12:30	Lesson 12, Pub 678: Sale of Stock	
	1:30	Short break	
	1:40	Continue Lesson 12	
	2:40	Break	
	3:00	Lesson 13, Pub 678: Sale of Home	
	3:30	Review and wrap-up	
	4:00	Dismiss	
	2	9:00	Review key points from yesterday and answer any questions
		9:30	Lesson 14, Pub 678: Pensions
		10:45	Break
11:00		Lesson 4, Pub 678: Adjustments	
11:30		Lunch	
12:30		Lesson 5, Pub 678: Standard and Itemized Deductions and Tax Computation	
1:30		Break	
1:45		Lesson 6, Pub 678: Miscellaneous Credits	
2:15		Lesson 15, Pub 678: Credit for the Elderly and Disabled	
2:30		Lesson 7, Pub 678: Finishing the Return	
3:00		Wrap up and review	
4:00		Dismiss	



## Suggested Class Schedule 6

<b>Student experience level:</b>	Prior tax training
<b>Prior VITA/TCE experience:</b>	Prior experience
<b>Types of returns:</b>	<b><i>Wage earner and Pension-earner</i></b>
<b>Test:</b>	Done outside of class

*The following schedule lists suggested teaching times. You may need to adjust the times to meet the needs of your class.*

Day	Time	Topic
1	8:30	Registration and Introductions
	9:00	Lesson 1, Pub 678: Getting Started
	9:30	Lesson 2, Pub 678: Filing Status and Filing Requirements
	10:00	Break
	10:15	Lesson 3, Pub 678: Income
	11:30	Lunch
	12:30	Lesson 12, Pub 678: Sale of Stock
	1:30	Short break
	1:40	Continue Lesson 12
	2:40	Break
	3:00	Lesson 13, Pub 678: Sale of Home
	3:30	Review and wrap-up
	4:00	Dismiss
	2	9:00
9:30		Lesson 14, Pub 678: Pensions
10:45		Break
11:00		Lesson 4, Pub 678: Adjustments
11:30		Lunch
12:30		Lesson 5, Pub 678: Standard and Itemized Deductions and Tax Computation
1:30		Break
1:45		Lesson 6, Pub 678: Miscellaneous Credits
2:30		Lesson 8, Pub 678: Child Care Credit
3:30		Lesson 9, Pub 678: Education Credits
4:00		Dismiss
3	9:00	Review key points from yesterday and answer any questions
	9:30	Lesson 10, Pub 678: Earned Income Credit (EIC)
	10:15	Break
	10:30	Continue Lesson 10
	11:30	Lunch
	12:30	Lesson 11, Pub 678: Child Tax Credit
	1:30	Break
	1:45	Lesson 7, Pub 678: Finishing the Return
	3:00	Break
	3:15	Wrap-up and Review
	4:00	Dismiss



## Suggested Class Schedule 7

<b>Student experience level:</b>	Mixture of experience levels
<b>Prior VITA/TCE experience:</b>	Mixture of experience levels
<b>Types of returns:</b>	<b>Wage-earner</b>
<b>Test:</b>	Done outside of class

*The following schedule lists suggested teaching times. You may need to adjust the times to meet the needs of your class.*

Day	Time	Topic
		Days One and Two are Designed for New Volunteers; Experienced Volunteers are Invited to Attend All of the Class, but May Choose To Only Attend Day Three
1	8:30	Registration and Introductions
	9:00	Lesson 1, Pub 678: Getting Started (Suggestion: Ask students to record key concepts as you go through days one and two. These key concepts could then be used on day three when you review the lessons with the experienced volunteers.)
	9:30	Lesson 2, Pub 678: Filing Status and Filing Requirements
	10:00	Break
	10:15	Lesson 3, Pub 678: Income
	11:30	Lunch
	12:30	Continue Lesson 3
	1:30	Short break
	1:40	Lesson 4, Pub 678: Adjustments
	2:40	Break
	3:00	Lesson 5, Pub 678: Standard and Itemized Deductions and Tax Computation
	4:00	Lesson 6, Pub 678: Miscellaneous Credits
	4:30	Dismiss class
2	8:30	Review key points from yesterday and answer any questions
	9:00	Lesson 8, Pub 678: Child Care Credit
	10:00	Break
	10:15	Lesson 9, Pub 678: Education Credits
	11:30	Lunch
	12:30	Lesson 10, Pub 678: Earned Income Credit (EIC)
	1:30	Break
	1:45	Continue Lesson 10
	2:45	Break
	3:00	Lesson 11, Pub 678: Child Tax Credit
	4:00	Dismiss



3	8:30	Welcome experienced Volunteers and answer any questions
	9:00	Continue Lesson 11
	10:15	Break
	10:30	Lesson 7, Pub 678: Finishing the Return
	11:30	Lunch
	12:30	Review lessons 1 - 5
	1:30	Break
	1:45	Review lesson 6 - 10
	3:00	Break
	3:15	Wrap-up
	4:00	Dismiss



## Suggested Class Schedule 8

<b>Student experience level:</b>	Mixture of experience levels
<b>Prior VITA/TCE experience:</b>	Mixture of experience levels
<b>Types of returns:</b>	<b><i>Pension-earner</i></b>
<b>Test:</b>	Done outside of class

*The following schedule lists suggested teaching times. You may need to adjust the times to meet the needs of your class.*

Day	Time	Topic
		Days One and Two are Designed for New Volunteers; Experienced Volunteers are Invited to Attend All of the Class, but May Choose To Only Attend Day Three
1	8:30	Registration and Introductions
	9:00	Lesson 1, Pub 678: Getting Started (Suggestion: Ask students to record key concepts as you go through days one and two. These key concepts could then be used on day three when you review the lessons with the experienced volunteers.)
	9:30	Lesson 2, Pub 678: Filing Status and Filing Requirements
	10:00	Break
	10:15	Lesson 3, Pub 678: Income
	11:30	Lunch
	12:30	Continue Lesson 3
	1:30	Short break
	1:40	Lesson 12, Pub 678: Sale of Stock (Note: This topic will be continued on day 3 to allow the experienced volunteers to receive the latest information on this topic.)
	2:40	Break
	3:00	Lesson 13, Pub 678: Sale of Home
	3:30	Lesson 4, Pub 678: Adjustments
	4:00	Dismiss
2	8:30	Review key points from yesterday and answer any questions
	9:00	Lesson 14, Pub 678: Pensions
	10:00	Break
	10:15	Continue Lesson 14 (Note: This topic will be reviewed again on day 3 with the experienced volunteers. This will allow the new students to benefit from the "real life" situations that the experienced volunteers have encountered.)
	11:30	Lunch
	12:30	Lesson 5, Pub 678: Standard and Itemized Deductions and Tax Computation
	1:30	Break
	1:45	Lesson 6 , Pub 678: Miscellaneous Credits
	2:45	Break
	3:00	Review and wrap-up
	4:00	Dismiss



3	8:30	Welcome experienced volunteers and answer any questions
	9:00	Review Lesson 12, Sale of Stock
	9:45	Break
	10:00	Review Lesson 14, Pensions
	11:00	Lesson 7, Pub 678: Finishing the return
	12:00	Lunch
	1:00	Review Lessons 1 - 5
	2:00	Break
	2:15	Review Lessons 6 and 13
	3:00	Break
	3:15	Wrap-up and work Pension-earner Comprehensive problems
	4:00	Dismiss



## Suggested Class Schedule 9

<b>Student experience level:</b>	Mixture of experience levels
<b>Prior VITA/TCE experience:</b>	Mixture of experience levels
<b>Types of returns:</b>	<b><i>Wage-earner and Pension-earner</i></b>
<b>Test:</b>	Done outside of class

*The following schedule lists suggested teaching times. You may need to adjust the times to meet the needs of your class.*

Day	Time	Topic
		Days One and Two are Designed for New Volunteers; Experienced Volunteers are Invited to Attend All of the Class, but May Choose To Only Attend The Afternoon of Day Three and all of Day 4
1	8:30	Registration and Introductions
	9:00	Lesson 1, Pub 678: Getting Started (Suggestion: Ask students to record key concepts as you go through days one and two. These key concepts could then be used on days three and four when you review the lessons with the experienced volunteers.)
	9:30	Lesson 2, Pub 678: Filing Status and Filing Requirements
	10:00	Break
	10:15	Lesson 3, Pub 678: Income
	11:30	Lunch
	12:30	Continue Lesson 3
	1:30	Short break
	1:40	Lesson 12, Pub 678: Sale of Stock (Note: This lesson will be covered again on day 3 to allow the experienced volunteers to review the new rules.)
	2:40	Break
	3:00	Lesson 13, Pub 678: Sale of Home
	3:30	Lesson 4, Pub 678: Adjustments
	4:30	Dismiss
2	8:00	Review key points from yesterday and answer any questions
	8:30	Lesson 14, Pub 678: Pensions (Note: This lesson will be covered again on day 3 to allow the experienced volunteers to review the rules.)
	9:30	Break
	9:45	Continue Lesson 14
	11:30	Lunch



	12:30	Lesson 5, Pub 678: Standard and Itemized Deductions and Tax Computation
	1:30	Break
	1:45	Continue Lesson 5
	2:30	Break
	2:45	Lesson 6, Pub 678: Miscellaneous Credits
	3:30	Lesson 8, Pub 678: Child and Dependent Care Credit
	4:30	Dismiss
3	8:00	Review key points from yesterday and answer any questions
	8:30	Lesson 9, Pub 678: Education Credits
	9:30	Break
	9:45	Lesson 10, Pub 678: Earned Income Credit (EIC)
	11:30	Lunch
	12:30	Welcome experienced students and answer any questions
	1:00	Review Lesson 12, Stock Sales
	1:45	Break
	2:00	Review Lesson 14, Pensions
	3:00	Break
	3:15	Review Lessons 1, 3, 13, and 4
	4:30	Dismiss
4	8:00	Review key points from yesterday and answer any questions
	8:30	Review Lessons 5, 6, and 8
	10:15	Break
	10:30	Review lessons 9 and 10
	11:30	Lunch
	12:30	Lesson 11, Pub 678: Child tax Credit
	1:30	Break
	1:45	Continue Lesson 11
	2:30	Break
	2:45	Lesson 7, Pub 678: Finishing the Return
	3:30	Wrap-up
	4:00	Dismiss
		Note: This schedule does not allow any class time for working the comprehensive problems. If you want your students to complete the comprehensive problems during the formal classroom training, you will need to expand this training to a fifth day.





## Suggested Class Schedule 10

### Tax Law Refresher

This one-day class schedule should be used only with experienced volunteers who are willing to spend time self-studying the training material.

8:30	Welcome students and ask them to share an experience from last tax season (this will help you assess their experience level)
9:15	Review Lesson 1 – Getting Started and Administrative Guidelines
9:30	Lesson 2, Pub 678: Filing Status and Filing Requirements
9:45	Break
10:00	Review Lesson 3 – Income (No major changes) Review Lesson 12 – Stock Sales (No major changes)
11:00	Review Lesson 13 – Sale of Home (No major changes) Review Lesson 14 – Pensions (No major changes)
Noon	Lunch
1:00	Review Lesson 4 – Adjustments (No major changes) Review Lesson 5 – Itemized Deductions (No major changes) Review Lesson 6 – Miscellaneous Credits (No major changes)
1:45	Break
2:00	Review Lesson 8 – Child and Dependent Care Credit (No major changes) Review Lesson 9 – Education Credits (No major changes) Review Lesson 10 – Earned Income Credit (One of the top 10 errors on returns)
3:00	Break
3:15	Review Lesson 11 – Child Tax Credit (No major changes)
3:45	Review Lesson 7 – Finishing the return
4:30	Dismiss



**STUDENT NOTES**



## 2004 Earned Income Credit (EIC) Table

**Caution. This is not a tax table.**

**1.** To find your credit, read down the "At least - But less than" columns and find the line that includes the amount you were told to look up from your EIC Worksheet.

**2.** Then, go to the column that includes your filing status and the number of qualifying children you have. Enter the credit from that column on your EIC Worksheet.

**Example.** If your filing status is single, you have one qualifying child, and the amount you are looking up from your EIC Worksheet is \$2,455, you would enter \$842.

If the amount you are looking up from the worksheet is—		And your filing status is—		
		Single, head of household, or qualifying widow(er) and you have—		
At least	But less than	No children	One child	Two children
2,400	2,450	186	825	970
2,450	2,500	189	842	990

If the amount you are looking up from the worksheet is—		And your filing status is—						If the amount you are looking up from the worksheet is—		And your filing status is—					
		Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—					Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—		
At least	But less than	No children	One child	Two children	No children	One child	Two children	At least	But less than	No children	One child	Two children	No children	One child	Two children
\$1	\$50	\$2	\$9	\$10	\$2	\$9	\$10	2,750	2,800	212	944	1,110	212	944	1,110
50	100	6	26	30	6	26	30	2,800	2,850	216	961	1,130	216	961	1,130
100	150	10	43	50	10	43	50	2,850	2,900	220	978	1,150	220	978	1,150
150	200	13	60	70	13	60	70	2,900	2,950	224	995	1,170	224	995	1,170
200	250	17	77	90	17	77	90	2,950	3,000	228	1,012	1,190	228	1,012	1,190
250	300	21	94	110	21	94	110	3,000	3,050	231	1,029	1,210	231	1,029	1,210
300	350	25	111	130	25	111	130	3,050	3,100	235	1,046	1,230	235	1,046	1,230
350	400	29	128	150	29	128	150	3,100	3,150	239	1,063	1,250	239	1,063	1,250
400	450	33	145	170	33	145	170	3,150	3,200	243	1,080	1,270	243	1,080	1,270
450	500	36	162	190	36	162	190	3,200	3,250	247	1,097	1,290	247	1,097	1,290
500	550	40	179	210	40	179	210	3,250	3,300	251	1,114	1,310	251	1,114	1,310
550	600	44	196	230	44	196	230	3,300	3,350	254	1,131	1,330	254	1,131	1,330
600	650	48	213	250	48	213	250	3,350	3,400	258	1,148	1,350	258	1,148	1,350
650	700	52	230	270	52	230	270	3,400	3,450	262	1,165	1,370	262	1,165	1,370
700	750	55	247	290	55	247	290	3,450	3,500	266	1,182	1,390	266	1,182	1,390
750	800	59	264	310	59	264	310	3,500	3,550	270	1,199	1,410	270	1,199	1,410
800	850	63	281	330	63	281	330	3,550	3,600	273	1,216	1,430	273	1,216	1,430
850	900	67	298	350	67	298	350	3,600	3,650	277	1,233	1,450	277	1,233	1,450
900	950	71	315	370	71	315	370	3,650	3,700	281	1,250	1,470	281	1,250	1,470
950	1,000	75	332	390	75	332	390	3,700	3,750	285	1,267	1,490	285	1,267	1,490
1,000	1,050	78	349	410	78	349	410	3,750	3,800	289	1,284	1,510	289	1,284	1,510
1,050	1,100	82	366	430	82	366	430	3,800	3,850	293	1,301	1,530	293	1,301	1,530
1,100	1,150	86	383	450	86	383	450	3,850	3,900	296	1,318	1,550	296	1,318	1,550
1,150	1,200	90	400	470	90	400	470	3,900	3,950	300	1,335	1,570	300	1,335	1,570
1,200	1,250	94	417	490	94	417	490	3,950	4,000	304	1,352	1,590	304	1,352	1,590
1,250	1,300	98	434	510	98	434	510	4,000	4,050	308	1,369	1,610	308	1,369	1,610
1,300	1,350	101	451	530	101	451	530	4,050	4,100	312	1,386	1,630	312	1,386	1,630
1,350	1,400	105	468	550	105	468	550	4,100	4,150	316	1,403	1,650	316	1,403	1,650
1,400	1,450	109	485	570	109	485	570	4,150	4,200	319	1,420	1,670	319	1,420	1,670
1,450	1,500	113	502	590	113	502	590	4,200	4,250	323	1,437	1,690	323	1,437	1,690
1,500	1,550	117	519	610	117	519	610	4,250	4,300	327	1,454	1,710	327	1,454	1,710
1,550	1,600	120	536	630	120	536	630	4,300	4,350	331	1,471	1,730	331	1,471	1,730
1,600	1,650	124	553	650	124	553	650	4,350	4,400	335	1,488	1,750	335	1,488	1,750
1,650	1,700	128	570	670	128	570	670	4,400	4,450	339	1,505	1,770	339	1,505	1,770
1,700	1,750	132	587	690	132	587	690	4,450	4,500	342	1,522	1,790	342	1,522	1,790
1,750	1,800	136	604	710	136	604	710	4,500	4,550	346	1,539	1,810	346	1,539	1,810
1,800	1,850	140	621	730	140	621	730	4,550	4,600	350	1,556	1,830	350	1,556	1,830
1,850	1,900	143	638	750	143	638	750	4,600	4,650	354	1,573	1,850	354	1,573	1,850
1,900	1,950	147	655	770	147	655	770	4,650	4,700	358	1,590	1,870	358	1,590	1,870
1,950	2,000	151	672	790	151	672	790	4,700	4,750	361	1,607	1,890	361	1,607	1,890
2,000	2,050	155	689	810	155	689	810	4,750	4,800	365	1,624	1,910	365	1,624	1,910
2,050	2,100	159	706	830	159	706	830	4,800	4,850	369	1,641	1,930	369	1,641	1,930
2,100	2,150	163	723	850	163	723	850	4,850	4,900	373	1,658	1,950	373	1,658	1,950
2,150	2,200	166	740	870	166	740	870	4,900	4,950	377	1,675	1,970	377	1,675	1,970
2,200	2,250	170	757	890	170	757	890	4,950	5,000	381	1,692	1,990	381	1,692	1,990
2,250	2,300	174	774	910	174	774	910	5,000	5,050	384	1,709	2,010	384	1,709	2,010
2,300	2,350	178	791	930	178	791	930	5,050	5,100	388	1,726	2,030	388	1,726	2,030
2,350	2,400	182	808	950	182	808	950	5,100	5,150	390	1,743	2,050	390	1,743	2,050
2,400	2,450	186	825	970	186	825	970	5,150	5,200	390	1,760	2,070	390	1,760	2,070
2,450	2,500	189	842	990	189	842	990	5,200	5,250	390	1,777	2,090	390	1,777	2,090
2,500	2,550	193	859	1,010	193	859	1,010	5,250	5,300	390	1,794	2,110	390	1,794	2,110
2,550	2,600	197	876	1,030	197	876	1,030	5,300	5,350	390	1,811	2,130	390	1,811	2,130
2,600	2,650	201	893	1,050	201	893	1,050	5,350	5,400	390	1,828	2,150	390	1,828	2,150
2,650	2,700	205	910	1,070	205	910	1,070	5,400	5,450	390	1,845	2,170	390	1,845	2,170
2,700	2,750	208	927	1,090	208	927	1,090	5,450	5,500	390	1,862	2,190	390	1,862	2,190

(Continued on page 49)



**2004 Earned Income Credit (EIC) Table—Continued**

**(Caution. This is not a tax table.)**

If the amount you are looking up from the worksheet is—		And your filing status is—						If the amount you are looking up from the worksheet is—		And your filing status is—					
		Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—					Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—		
		No children	One child	Two children	No children	One child	Two children			No children	One child	Two children	No children	One child	Two children
At least	But less than	Your credit is—			Your credit is—			At least	But less than	Your credit is—			Your credit is—		
11,500	11,550	0	2,604	4,300	74	2,604	4,300	16,000	16,050	0	2,287	3,882	0	2,447	4,093
11,550	11,600	0	2,604	4,300	70	2,604	4,300	16,050	16,100	0	2,279	3,871	0	2,439	4,082
11,600	11,650	0	2,604	4,300	66	2,604	4,300	16,100	16,150	0	2,271	3,861	0	2,431	4,071
11,650	11,700	0	2,604	4,300	62	2,604	4,300	16,150	16,200	0	2,263	3,850	0	2,423	4,061
11,700	11,750	0	2,604	4,300	59	2,604	4,300	16,200	16,250	0	2,255	3,840	0	2,415	4,050
11,750	11,800	0	2,604	4,300	55	2,604	4,300	16,250	16,300	0	2,247	3,829	0	2,407	4,040
11,800	11,850	0	2,604	4,300	51	2,604	4,300	16,300	16,350	0	2,239	3,819	0	2,399	4,029
11,850	11,900	0	2,604	4,300	47	2,604	4,300	16,350	16,400	0	2,231	3,808	0	2,391	4,019
11,900	11,950	0	2,604	4,300	43	2,604	4,300	16,400	16,450	0	2,223	3,798	0	2,383	4,008
11,950	12,000	0	2,604	4,300	39	2,604	4,300	16,450	16,500	0	2,215	3,787	0	2,375	3,998
12,000	12,050	0	2,604	4,300	36	2,604	4,300	16,500	16,550	0	2,207	3,777	0	2,367	3,987
12,050	12,100	0	2,604	4,300	32	2,604	4,300	16,550	16,600	0	2,199	3,766	0	2,359	3,977
12,100	12,150	0	2,604	4,300	28	2,604	4,300	16,600	16,650	0	2,191	3,756	0	2,351	3,966
12,150	12,200	0	2,604	4,300	24	2,604	4,300	16,650	16,700	0	2,183	3,745	0	2,343	3,956
12,200	12,250	0	2,604	4,300	20	2,604	4,300	16,700	16,750	0	2,175	3,735	0	2,335	3,945
12,250	12,300	0	2,604	4,300	16	2,604	4,300	16,750	16,800	0	2,167	3,724	0	2,327	3,935
12,300	12,350	0	2,604	4,300	13	2,604	4,300	16,800	16,850	0	2,159	3,713	0	2,319	3,924
12,350	12,400	0	2,604	4,300	9	2,604	4,300	16,850	16,900	0	2,151	3,703	0	2,311	3,914
12,400	12,450	0	2,604	4,300	5	2,604	4,300	16,900	16,950	0	2,143	3,692	0	2,303	3,903
12,450	12,500	0	2,604	4,300	*	2,604	4,300	16,950	17,000	0	2,135	3,682	0	2,295	3,892
12,500	14,050	0	2,604	4,300	0	2,604	4,300	17,000	17,050	0	2,127	3,671	0	2,287	3,882
14,050	14,100	0	2,599	4,293	0	2,604	4,300	17,050	17,100	0	2,119	3,661	0	2,279	3,871
14,100	14,150	0	2,591	4,282	0	2,604	4,300	17,100	17,150	0	2,111	3,650	0	2,271	3,861
14,150	14,200	0	2,583	4,272	0	2,604	4,300	17,150	17,200	0	2,103	3,640	0	2,263	3,850
14,200	14,250	0	2,575	4,261	0	2,604	4,300	17,200	17,250	0	2,095	3,629	0	2,255	3,840
14,250	14,300	0	2,567	4,251	0	2,604	4,300	17,250	17,300	0	2,087	3,619	0	2,247	3,829
14,300	14,350	0	2,559	4,240	0	2,604	4,300	17,300	17,350	0	2,079	3,608	0	2,239	3,819
14,350	14,400	0	2,551	4,229	0	2,604	4,300	17,350	17,400	0	2,071	3,598	0	2,231	3,808
14,400	14,450	0	2,543	4,219	0	2,604	4,300	17,400	17,450	0	2,063	3,587	0	2,223	3,798
14,450	14,500	0	2,535	4,208	0	2,604	4,300	17,450	17,500	0	2,055	3,577	0	2,215	3,787
14,500	14,550	0	2,527	4,198	0	2,604	4,300	17,500	17,550	0	2,047	3,566	0	2,207	3,777
14,550	14,600	0	2,519	4,187	0	2,604	4,300	17,550	17,600	0	2,040	3,556	0	2,199	3,766
14,600	14,650	0	2,511	4,177	0	2,604	4,300	17,600	17,650	0	2,032	3,545	0	2,191	3,756
14,650	14,700	0	2,503	4,166	0	2,604	4,300	17,650	17,700	0	2,024	3,534	0	2,183	3,745
14,700	14,750	0	2,495	4,156	0	2,604	4,300	17,700	17,750	0	2,016	3,524	0	2,175	3,735
14,750	14,800	0	2,487	4,145	0	2,604	4,300	17,750	17,800	0	2,008	3,513	0	2,167	3,724
14,800	14,850	0	2,479	4,135	0	2,604	4,300	17,800	17,850	0	2,000	3,503	0	2,159	3,713
14,850	14,900	0	2,471	4,124	0	2,604	4,300	17,850	17,900	0	1,992	3,492	0	2,151	3,703
14,900	14,950	0	2,463	4,114	0	2,604	4,300	17,900	17,950	0	1,984	3,482	0	2,143	3,692
14,950	15,000	0	2,455	4,103	0	2,604	4,300	17,950	18,000	0	1,976	3,471	0	2,135	3,682
15,000	15,050	0	2,447	4,093	0	2,604	4,300	18,000	18,050	0	1,968	3,461	0	2,127	3,671
15,050	15,100	0	2,439	4,082	0	2,599	4,293	18,050	18,100	0	1,960	3,450	0	2,119	3,661
15,100	15,150	0	2,431	4,071	0	2,591	4,282	18,100	18,150	0	1,952	3,440	0	2,111	3,650
15,150	15,200	0	2,423	4,061	0	2,583	4,272	18,150	18,200	0	1,944	3,429	0	2,103	3,640
15,200	15,250	0	2,415	4,050	0	2,575	4,261	18,200	18,250	0	1,936	3,419	0	2,095	3,629
15,250	15,300	0	2,407	4,040	0	2,567	4,251	18,250	18,300	0	1,928	3,408	0	2,087	3,619
15,300	15,350	0	2,399	4,029	0	2,559	4,240	18,300	18,350	0	1,920	3,398	0	2,079	3,608
15,350	15,400	0	2,391	4,019	0	2,551	4,229	18,350	18,400	0	1,912	3,387	0	2,071	3,598
15,400	15,450	0	2,383	4,008	0	2,543	4,219	18,400	18,450	0	1,904	3,377	0	2,063	3,587
15,450	15,500	0	2,375	3,998	0	2,535	4,208	18,450	18,500	0	1,896	3,366	0	2,055	3,577
15,500	15,550	0	2,367	3,987	0	2,527	4,198	18,500	18,550	0	1,888	3,355	0	2,047	3,566
15,550	15,600	0	2,359	3,977	0	2,519	4,187	18,550	18,600	0	1,880	3,345	0	2,040	3,556
15,600	15,650	0	2,351	3,966	0	2,511	4,177	18,600	18,650	0	1,872	3,334	0	2,032	3,545
15,650	15,700	0	2,343	3,956	0	2,503	4,166	18,650	18,700	0	1,864	3,324	0	2,024	3,534
15,700	15,750	0	2,335	3,945	0	2,495	4,156	18,700	18,750	0	1,856	3,313	0	2,016	3,524
15,750	15,800	0	2,327	3,935	0	2,487	4,145	18,750	18,800	0	1,848	3,303	0	2,008	3,513
15,800	15,850	0	2,319	3,924	0	2,479	4,135	18,800	18,850	0	1,840	3,292	0	2,000	3,503
15,850	15,900	0	2,311	3,914	0	2,471	4,124	18,850	18,900	0	1,832	3,282	0	1,992	3,492
15,900	15,950	0	2,303	3,903	0	2,463	4,114	18,900	18,950	0	1,824	3,271	0	1,984	3,482
15,950	16,000	0	2,295	3,892	0	2,455	4,103	18,950	19,000	0	1,816	3,261	0	1,976	3,471

\*If the amount you are looking up from the worksheet is at least \$11,450 (\$12,450 if married filing jointly) but less than \$11,490 (\$12,490 if married filing jointly), your credit is \$2. Otherwise, you cannot take the credit.

(Continued on page 51)

**2004 Earned Income Credit (EIC) Table—Continued** (Caution. This is not a tax table.)

If the amount you are looking up from the worksheet is—		And your filing status is—						If the amount you are looking up from the worksheet is—		And your filing status is—					
		Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—					Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—		
		No children	One child	Two children	No children	One child	Two children			No children	One child	Two children	No children	One child	Two children
At least	But less than	Your credit is—			Your credit is—			At least	But less than	Your credit is—			Your credit is—		
19,000	19,050	0	1,808	3,250	0	1,968	3,461	22,000	22,050	0	1,328	2,618	0	1,488	2,829
19,050	19,100	0	1,800	3,240	0	1,960	3,450	22,050	22,100	0	1,320	2,608	0	1,480	2,818
19,100	19,150	0	1,792	3,229	0	1,952	3,440	22,100	22,150	0	1,312	2,597	0	1,472	2,808
19,150	19,200	0	1,784	3,219	0	1,944	3,429	22,150	22,200	0	1,304	2,587	0	1,464	2,797
19,200	19,250	0	1,776	3,208	0	1,936	3,419	22,200	22,250	0	1,296	2,576	0	1,456	2,787
19,250	19,300	0	1,768	3,198	0	1,928	3,408	22,250	22,300	0	1,288	2,566	0	1,448	2,776
19,300	19,350	0	1,760	3,187	0	1,920	3,398	22,300	22,350	0	1,280	2,555	0	1,440	2,766
19,350	19,400	0	1,752	3,176	0	1,912	3,387	22,350	22,400	0	1,272	2,545	0	1,432	2,755
19,400	19,450	0	1,744	3,166	0	1,904	3,377	22,400	22,450	0	1,264	2,534	0	1,424	2,745
19,450	19,500	0	1,736	3,155	0	1,896	3,366	22,450	22,500	0	1,256	2,524	0	1,416	2,734
19,500	19,550	0	1,728	3,145	0	1,888	3,355	22,500	22,550	0	1,248	2,513	0	1,408	2,724
19,550	19,600	0	1,720	3,134	0	1,880	3,345	22,550	22,600	0	1,241	2,503	0	1,400	2,713
19,600	19,650	0	1,712	3,124	0	1,872	3,334	22,600	22,650	0	1,233	2,492	0	1,392	2,703
19,650	19,700	0	1,704	3,113	0	1,864	3,324	22,650	22,700	0	1,225	2,481	0	1,384	2,692
19,700	19,750	0	1,696	3,103	0	1,856	3,313	22,700	22,750	0	1,217	2,471	0	1,376	2,682
19,750	19,800	0	1,688	3,092	0	1,848	3,303	22,750	22,800	0	1,209	2,460	0	1,368	2,671
19,800	19,850	0	1,680	3,082	0	1,840	3,292	22,800	22,850	0	1,201	2,450	0	1,360	2,660
19,850	19,900	0	1,672	3,071	0	1,832	3,282	22,850	22,900	0	1,193	2,439	0	1,352	2,650
19,900	19,950	0	1,664	3,061	0	1,824	3,271	22,900	22,950	0	1,185	2,429	0	1,344	2,639
19,950	20,000	0	1,656	3,050	0	1,816	3,261	22,950	23,000	0	1,177	2,418	0	1,336	2,629
20,000	20,050	0	1,648	3,040	0	1,808	3,250	23,000	23,050	0	1,169	2,408	0	1,328	2,618
20,050	20,100	0	1,640	3,029	0	1,800	3,240	23,050	23,100	0	1,161	2,397	0	1,320	2,608
20,100	20,150	0	1,632	3,018	0	1,792	3,229	23,100	23,150	0	1,153	2,387	0	1,312	2,597
20,150	20,200	0	1,624	3,008	0	1,784	3,219	23,150	23,200	0	1,145	2,376	0	1,304	2,587
20,200	20,250	0	1,616	2,997	0	1,776	3,208	23,200	23,250	0	1,137	2,366	0	1,296	2,576
20,250	20,300	0	1,608	2,987	0	1,768	3,198	23,250	23,300	0	1,129	2,355	0	1,288	2,566
20,300	20,350	0	1,600	2,976	0	1,760	3,187	23,300	23,350	0	1,121	2,345	0	1,280	2,555
20,350	20,400	0	1,592	2,966	0	1,752	3,176	23,350	23,400	0	1,113	2,334	0	1,272	2,545
20,400	20,450	0	1,584	2,955	0	1,744	3,166	23,400	23,450	0	1,105	2,324	0	1,264	2,534
20,450	20,500	0	1,576	2,945	0	1,736	3,155	23,450	23,500	0	1,097	2,313	0	1,256	2,524
20,500	20,550	0	1,568	2,934	0	1,728	3,145	23,500	23,550	0	1,089	2,302	0	1,248	2,513
20,550	20,600	0	1,560	2,924	0	1,720	3,134	23,550	23,600	0	1,081	2,292	0	1,241	2,503
20,600	20,650	0	1,552	2,913	0	1,712	3,124	23,600	23,650	0	1,073	2,281	0	1,233	2,492
20,650	20,700	0	1,544	2,903	0	1,704	3,113	23,650	23,700	0	1,065	2,271	0	1,225	2,481
20,700	20,750	0	1,536	2,892	0	1,696	3,103	23,700	23,750	0	1,057	2,260	0	1,217	2,471
20,750	20,800	0	1,528	2,882	0	1,688	3,092	23,750	23,800	0	1,049	2,250	0	1,209	2,460
20,800	20,850	0	1,520	2,871	0	1,680	3,082	23,800	23,850	0	1,041	2,239	0	1,201	2,450
20,850	20,900	0	1,512	2,861	0	1,672	3,071	23,850	23,900	0	1,033	2,229	0	1,193	2,439
20,900	20,950	0	1,504	2,850	0	1,664	3,061	23,900	23,950	0	1,025	2,218	0	1,185	2,429
20,950	21,000	0	1,496	2,839	0	1,656	3,050	23,950	24,000	0	1,017	2,208	0	1,177	2,418
21,000	21,050	0	1,488	2,829	0	1,648	3,040	24,000	24,050	0	1,009	2,197	0	1,169	2,408
21,050	21,100	0	1,480	2,818	0	1,640	3,029	24,050	24,100	0	1,001	2,187	0	1,161	2,397
21,100	21,150	0	1,472	2,808	0	1,632	3,018	24,100	24,150	0	993	2,176	0	1,153	2,387
21,150	21,200	0	1,464	2,797	0	1,624	3,008	24,150	24,200	0	985	2,166	0	1,145	2,376
21,200	21,250	0	1,456	2,787	0	1,616	2,997	24,200	24,250	0	977	2,155	0	1,137	2,366
21,250	21,300	0	1,448	2,776	0	1,608	2,987	24,250	24,300	0	969	2,145	0	1,129	2,355
21,300	21,350	0	1,440	2,766	0	1,600	2,976	24,300	24,350	0	961	2,134	0	1,121	2,345
21,350	21,400	0	1,432	2,755	0	1,592	2,966	24,350	24,400	0	953	2,123	0	1,113	2,334
21,400	21,450	0	1,424	2,745	0	1,584	2,955	24,400	24,450	0	945	2,113	0	1,105	2,324
21,450	21,500	0	1,416	2,734	0	1,576	2,945	24,450	24,500	0	937	2,102	0	1,097	2,313
21,500	21,550	0	1,408	2,724	0	1,568	2,934	24,500	24,550	0	929	2,092	0	1,089	2,302
21,550	21,600	0	1,400	2,713	0	1,560	2,924	24,550	24,600	0	921	2,081	0	1,081	2,292
21,600	21,650	0	1,392	2,703	0	1,552	2,913	24,600	24,650	0	913	2,071	0	1,073	2,281
21,650	21,700	0	1,384	2,692	0	1,544	2,903	24,650	24,700	0	905	2,060	0	1,065	2,271
21,700	21,750	0	1,376	2,682	0	1,536	2,892	24,700	24,750	0	897	2,050	0	1,057	2,260
21,750	21,800	0	1,368	2,671	0	1,528	2,882	24,750	24,800	0	889	2,039	0	1,049	2,250
21,800	21,850	0	1,360	2,660	0	1,520	2,871	24,800	24,850	0	881	2,029	0	1,041	2,239
21,850	21,900	0	1,352	2,650	0	1,512	2,861	24,850	24,900	0	873	2,018	0	1,033	2,229
21,900	21,950	0	1,344	2,639	0	1,504	2,850	24,900	24,950	0	865	2,008	0	1,025	2,218
21,950	22,000	0	1,336	2,629	0	1,496	2,839	24,950	25,000	0	857	1,997	0	1,017	2,208

(Continued on page 52)

2004 Earned Income Credit (EIC) Table—Continued

(Caution. This is not a tax table.)

If the amount you are looking up from the worksheet is—		And your filing status is—						If the amount you are looking up from the worksheet is—		And your filing status is—					
		Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—					Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—		
		No children	One child	Two children	No children	One child	Two children			No children	One child	Two children	No children	One child	Two children
At least	But less than	Your credit is—			Your credit is—			At least	But less than	Your credit is—			Your credit is—		
25,000	25,050	0	849	1,987	0	1,009	2,197	28,000	28,050	0	370	1,355	0	529	1,565
25,050	25,100	0	841	1,976	0	1,001	2,187	28,050	28,100	0	362	1,344	0	521	1,555
25,100	25,150	0	833	1,965	0	993	2,176	28,100	28,150	0	354	1,334	0	513	1,544
25,150	25,200	0	825	1,955	0	985	2,166	28,150	28,200	0	346	1,323	0	505	1,534
25,200	25,250	0	817	1,944	0	977	2,155	28,200	28,250	0	338	1,313	0	497	1,523
25,250	25,300	0	809	1,934	0	969	2,145	28,250	28,300	0	330	1,302	0	489	1,513
25,300	25,350	0	801	1,923	0	961	2,134	28,300	28,350	0	322	1,292	0	481	1,502
25,350	25,400	0	793	1,913	0	953	2,123	28,350	28,400	0	314	1,281	0	473	1,492
25,400	25,450	0	785	1,902	0	945	2,113	28,400	28,450	0	306	1,271	0	465	1,481
25,450	25,500	0	777	1,892	0	937	2,102	28,450	28,500	0	298	1,260	0	457	1,471
25,500	25,550	0	769	1,881	0	929	2,092	28,500	28,550	0	290	1,249	0	449	1,460
25,550	25,600	0	761	1,871	0	921	2,081	28,550	28,600	0	282	1,239	0	442	1,450
25,600	25,650	0	753	1,860	0	913	2,071	28,600	28,650	0	274	1,228	0	434	1,439
25,650	25,700	0	745	1,850	0	905	2,060	28,650	28,700	0	266	1,218	0	426	1,428
25,700	25,750	0	737	1,839	0	897	2,050	28,700	28,750	0	258	1,207	0	418	1,418
25,750	25,800	0	729	1,829	0	889	2,039	28,750	28,800	0	250	1,197	0	410	1,407
25,800	25,850	0	721	1,818	0	881	2,029	28,800	28,850	0	242	1,186	0	402	1,397
25,850	25,900	0	713	1,808	0	873	2,018	28,850	28,900	0	234	1,176	0	394	1,386
25,900	25,950	0	705	1,797	0	865	2,008	28,900	28,950	0	226	1,165	0	386	1,376
25,950	26,000	0	697	1,786	0	857	1,997	28,950	29,000	0	218	1,155	0	378	1,365
26,000	26,050	0	689	1,776	0	849	1,987	29,000	29,050	0	210	1,144	0	370	1,355
26,050	26,100	0	681	1,765	0	841	1,976	29,050	29,100	0	202	1,134	0	362	1,344
26,100	26,150	0	673	1,755	0	833	1,965	29,100	29,150	0	194	1,123	0	354	1,334
26,150	26,200	0	665	1,744	0	825	1,955	29,150	29,200	0	186	1,113	0	346	1,323
26,200	26,250	0	657	1,734	0	817	1,944	29,200	29,250	0	178	1,102	0	338	1,313
26,250	26,300	0	649	1,723	0	809	1,934	29,250	29,300	0	170	1,092	0	330	1,302
26,300	26,350	0	641	1,713	0	801	1,923	29,300	29,350	0	162	1,081	0	322	1,292
26,350	26,400	0	633	1,702	0	793	1,913	29,350	29,400	0	154	1,070	0	314	1,281
26,400	26,450	0	625	1,692	0	785	1,902	29,400	29,450	0	146	1,060	0	306	1,271
26,450	26,500	0	617	1,681	0	777	1,892	29,450	29,500	0	138	1,049	0	298	1,260
26,500	26,550	0	609	1,671	0	769	1,881	29,500	29,550	0	130	1,039	0	290	1,249
26,550	26,600	0	601	1,660	0	761	1,871	29,550	29,600	0	122	1,028	0	282	1,239
26,600	26,650	0	593	1,650	0	753	1,860	29,600	29,650	0	114	1,018	0	274	1,228
26,650	26,700	0	585	1,639	0	745	1,850	29,650	29,700	0	106	1,007	0	266	1,218
26,700	26,750	0	577	1,629	0	737	1,839	29,700	29,750	0	98	997	0	258	1,207
26,750	26,800	0	569	1,618	0	729	1,829	29,750	29,800	0	90	986	0	250	1,197
26,800	26,850	0	561	1,607	0	721	1,818	29,800	29,850	0	82	976	0	242	1,186
26,850	26,900	0	553	1,597	0	713	1,808	29,850	29,900	0	74	965	0	234	1,176
26,900	26,950	0	545	1,586	0	705	1,797	29,900	29,950	0	66	955	0	226	1,165
26,950	27,000	0	537	1,576	0	697	1,786	29,950	30,000	0	58	944	0	218	1,155
27,000	27,050	0	529	1,565	0	689	1,776	30,000	30,050	0	50	934	0	210	1,144
27,050	27,100	0	521	1,555	0	681	1,765	30,050	30,100	0	42	923	0	202	1,134
27,100	27,150	0	513	1,544	0	673	1,755	30,100	30,150	0	34	912	0	194	1,123
27,150	27,200	0	505	1,534	0	665	1,744	30,150	30,200	0	26	902	0	186	1,113
27,200	27,250	0	497	1,523	0	657	1,734	30,200	30,250	0	18	891	0	178	1,102
27,250	27,300	0	489	1,513	0	649	1,723	30,250	30,300	0	10	881	0	170	1,092
27,300	27,350	0	481	1,502	0	641	1,713	30,300	30,350	0	**	870	0	162	1,081
27,350	27,400	0	473	1,492	0	633	1,702	30,350	30,400	0	0	860	0	154	1,070
27,400	27,450	0	465	1,481	0	625	1,692	30,400	30,450	0	0	849	0	146	1,060
27,450	27,500	0	457	1,471	0	617	1,681	30,450	30,500	0	0	839	0	138	1,049
27,500	27,550	0	449	1,460	0	609	1,671	30,500	30,550	0	0	828	0	130	1,039
27,550	27,600	0	442	1,450	0	601	1,660	30,550	30,600	0	0	818	0	122	1,028
27,600	27,650	0	434	1,439	0	593	1,650	30,600	30,650	0	0	807	0	114	1,018
27,650	27,700	0	426	1,428	0	585	1,639	30,650	30,700	0	0	797	0	106	1,007
27,700	27,750	0	418	1,418	0	577	1,629	30,700	30,750	0	0	786	0	98	997
27,750	27,800	0	410	1,407	0	569	1,618	30,750	30,800	0	0	776	0	90	986
27,800	27,850	0	402	1,397	0	561	1,607	30,800	30,850	0	0	765	0	82	976
27,850	27,900	0	394	1,386	0	553	1,597	30,850	30,900	0	0	755	0	74	965
27,900	27,950	0	386	1,376	0	545	1,586	30,900	30,950	0	0	744	0	66	955
27,950	28,000	0	378	1,365	0	537	1,576	30,950	31,000	0	0	733	0	58	944

\*\*If the amount you are looking up from the worksheet is at least \$30,300 (\$31,300 if married filing jointly) but less than \$30,338 (\$31,338 if married filing jointly), your credit is \$3. Otherwise, you cannot take the credit.

(Continued on page 53)

**2004 Earned Income Credit (EIC) Table—Continued** (Caution. This is not a tax table.)

If the amount you are looking up from the worksheet is—		And your filing status is—						If the amount you are looking up from the worksheet is—		And your filing status is—					
		Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—					Single, head of household, or qualifying widow(er) and you have—			Married filing jointly and you have—		
		No children	One child	Two children	No children	One child	Two children			No children	One child	Two children	No children	One child	Two children
At least	But less than	Your credit is—			Your credit is—			At least	But less than	Your credit is—			Your credit is—		
31,000	31,050	0	0	723	0	50	934	33,500	33,550	0	0	196	0	0	407
31,050	31,100	0	0	712	0	42	923	33,550	33,600	0	0	186	0	0	397
31,100	31,150	0	0	702	0	34	912	33,600	33,650	0	0	175	0	0	386
31,150	31,200	0	0	691	0	26	902	33,650	33,700	0	0	165	0	0	375
31,200	31,250	0	0	681	0	18	891	33,700	33,750	0	0	154	0	0	365
31,250	31,300	0	0	670	0	10	881	33,750	33,800	0	0	144	0	0	354
31,300	31,350	0	0	660	0	**	870	33,800	33,850	0	0	133	0	0	344
31,350	31,400	0	0	649	0	0	860	33,850	33,900	0	0	123	0	0	333
31,400	31,450	0	0	639	0	0	849	33,900	33,950	0	0	112	0	0	323
31,450	31,500	0	0	628	0	0	839	33,950	34,000	0	0	102	0	0	312
31,500	31,550	0	0	618	0	0	828	34,000	34,050	0	0	91	0	0	302
31,550	31,600	0	0	607	0	0	818	34,050	34,100	0	0	81	0	0	291
31,600	31,650	0	0	597	0	0	807	34,100	34,150	0	0	70	0	0	281
31,650	31,700	0	0	586	0	0	797	34,150	34,200	0	0	60	0	0	270
31,700	31,750	0	0	576	0	0	786	34,200	34,250	0	0	49	0	0	260
31,750	31,800	0	0	565	0	0	776	34,250	34,300	0	0	39	0	0	249
31,800	31,850	0	0	554	0	0	765	34,300	34,350	0	0	28	0	0	239
31,850	31,900	0	0	544	0	0	755	34,350	34,400	0	0	17	0	0	228
31,900	31,950	0	0	533	0	0	744	34,400	34,450	0	0	7	0	0	218
31,950	32,000	0	0	523	0	0	733	34,450	34,500	0	0	***	0	0	207
32,000	32,050	0	0	512	0	0	723	34,500	34,550	0	0	0	0	0	196
32,050	32,100	0	0	502	0	0	712	34,550	34,600	0	0	0	0	0	186
32,100	32,150	0	0	491	0	0	702	34,600	34,650	0	0	0	0	0	175
32,150	32,200	0	0	481	0	0	691	34,650	34,700	0	0	0	0	0	165
32,200	32,250	0	0	470	0	0	681	34,700	34,750	0	0	0	0	0	154
32,250	32,300	0	0	460	0	0	670	34,750	34,800	0	0	0	0	0	144
32,300	32,350	0	0	449	0	0	660	34,800	34,850	0	0	0	0	0	133
32,350	32,400	0	0	439	0	0	649	34,850	34,900	0	0	0	0	0	123
32,400	32,450	0	0	428	0	0	639	34,900	34,950	0	0	0	0	0	112
32,450	32,500	0	0	418	0	0	628	34,950	35,000	0	0	0	0	0	102
32,500	32,550	0	0	407	0	0	618	35,000	35,050	0	0	0	0	0	91
32,550	32,600	0	0	397	0	0	607	35,050	35,100	0	0	0	0	0	81
32,600	32,650	0	0	386	0	0	597	35,100	35,150	0	0	0	0	0	70
32,650	32,700	0	0	375	0	0	586	35,150	35,200	0	0	0	0	0	60
32,700	32,750	0	0	365	0	0	576	35,200	35,250	0	0	0	0	0	49
32,750	32,800	0	0	354	0	0	565	35,250	35,300	0	0	0	0	0	39
32,800	32,850	0	0	344	0	0	554	35,300	35,350	0	0	0	0	0	28
32,850	32,900	0	0	333	0	0	544	35,350	35,400	0	0	0	0	0	17
32,900	32,950	0	0	323	0	0	533	35,400	35,450	0	0	0	0	0	7
32,950	33,000	0	0	312	0	0	523	35,450	35,458	0	0	0	0	0	1
33,000	33,050	0	0	302	0	0	512	35,458 or more		0	0	0	0	0	0
33,050	33,100	0	0	291	0	0	502								
33,100	33,150	0	0	281	0	0	491								
33,150	33,200	0	0	270	0	0	481								
33,200	33,250	0	0	260	0	0	470								
33,250	33,300	0	0	249	0	0	460								
33,300	33,350	0	0	239	0	0	449								
33,350	33,400	0	0	228	0	0	439								
33,400	33,450	0	0	218	0	0	428								
33,450	33,500	0	0	207	0	0	418								

\*\*If the amount you are looking up from the worksheet is at least \$30,300 (\$31,300 if married filing jointly) but less than \$30,338 (\$31,338 if married filing jointly), your credit is \$3. Otherwise, you cannot take the credit.

\*\*\*If the amount you are looking up from the worksheet is at least \$34,450 but less than \$34,458, your credit is \$1. Otherwise, you cannot take the credit.



## 2004 Tax Table

Use if your taxable income is less than \$100,000. If \$100,000 or more, use the Tax Rate Schedules.

**Example.** Mr. and Mrs. Brown are filing a joint return. Their taxable income on line 40 of Form 1040 is \$25,300. First, they find the \$25,300–25,350 income line. Next, they find the column for married filing jointly and read down the column. The amount shown where the income line and filing status column meet is \$3,099. This is the tax amount they should enter on line 41 of their Form 1040.

### Sample Table

At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
<b>Your tax is—</b>					
25,200	25,250	3,426	3,069	3,426	3,274
25,250	25,300	3,434	3,076	3,434	3,281
25,300	25,350	3,441	3,084	3,441	3,289
25,350	25,400	3,449	3,091	3,449	3,296

If line 40 (taxable income) is—		And you are—				If line 40 (taxable income) is—		And you are—				If line 40 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household	At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
<b>Your tax is—</b>		<b>Your tax is—</b>				<b>Your tax is—</b>		<b>Your tax is—</b>				<b>Your tax is—</b>		<b>Your tax is—</b>			
0	5	0	0	0	0	1,300	1,325	131	131	131	131	2,700	2,725	271	271	271	271
5	15	1	1	1	1	1,325	1,350	134	134	134	134	2,725	2,750	274	274	274	274
15	25	2	2	2	2	1,350	1,375	136	136	136	136	2,750	2,775	276	276	276	276
25	50	4	4	4	4	1,375	1,400	139	139	139	139	2,775	2,800	279	279	279	279
50	75	6	6	6	6	1,400	1,425	141	141	141	141	2,800	2,825	281	281	281	281
75	100	9	9	9	9	1,425	1,450	144	144	144	144	2,825	2,850	284	284	284	284
100	125	11	11	11	11	1,450	1,475	146	146	146	146	2,850	2,875	286	286	286	286
125	150	14	14	14	14	1,475	1,500	149	149	149	149	2,875	2,900	289	289	289	289
150	175	16	16	16	16	1,500	1,525	151	151	151	151	2,900	2,925	291	291	291	291
175	200	19	19	19	19	1,525	1,550	154	154	154	154	2,925	2,950	294	294	294	294
200	225	21	21	21	21	1,550	1,575	156	156	156	156	2,950	2,975	296	296	296	296
225	250	24	24	24	24	1,575	1,600	159	159	159	159	2,975	3,000	299	299	299	299
250	275	26	26	26	26	1,600	1,625	161	161	161	161	<b>3,000</b>					
275	300	29	29	29	29	1,625	1,650	164	164	164	164	3,000	3,050	303	303	303	303
300	325	31	31	31	31	1,650	1,675	166	166	166	166	3,050	3,100	308	308	308	308
325	350	34	34	34	34	1,675	1,700	169	169	169	169	3,100	3,150	313	313	313	313
350	375	36	36	36	36	1,700	1,725	171	171	171	171	3,150	3,200	318	318	318	318
375	400	39	39	39	39	1,725	1,750	174	174	174	174	3,200	3,250	323	323	323	323
400	425	41	41	41	41	1,750	1,775	176	176	176	176	3,250	3,300	328	328	328	328
425	450	44	44	44	44	1,775	1,800	179	179	179	179	3,300	3,350	333	333	333	333
450	475	46	46	46	46	1,800	1,825	181	181	181	181	3,350	3,400	338	338	338	338
475	500	49	49	49	49	1,825	1,850	184	184	184	184	3,400	3,450	343	343	343	343
500	525	51	51	51	51	1,850	1,875	186	186	186	186	3,450	3,500	348	348	348	348
525	550	54	54	54	54	1,875	1,900	189	189	189	189	3,500	3,550	353	353	353	353
550	575	56	56	56	56	1,900	1,925	191	191	191	191	3,550	3,600	358	358	358	358
575	600	59	59	59	59	1,925	1,950	194	194	194	194	3,600	3,650	363	363	363	363
600	625	61	61	61	61	1,950	1,975	196	196	196	196	3,650	3,700	368	368	368	368
625	650	64	64	64	64	1,975	2,000	199	199	199	199	3,700	3,750	373	373	373	373
650	675	66	66	66	66	<b>2,000</b>						3,750	3,800	378	378	378	378
675	700	69	69	69	69	2,000	2,025	201	201	201	201	3,800	3,850	383	383	383	383
700	725	71	71	71	71	2,025	2,050	204	204	204	204	3,850	3,900	388	388	388	388
725	750	74	74	74	74	2,050	2,075	206	206	206	206	3,900	3,950	393	393	393	393
750	775	76	76	76	76	2,075	2,100	209	209	209	209	3,950	4,000	398	398	398	398
775	800	79	79	79	79	2,100	2,125	211	211	211	211	<b>4,000</b>					
800	825	81	81	81	81	2,125	2,150	214	214	214	214	4,000	4,050	403	403	403	403
825	850	84	84	84	84	2,150	2,175	216	216	216	216	4,050	4,100	408	408	408	408
850	875	86	86	86	86	2,175	2,200	219	219	219	219	4,100	4,150	413	413	413	413
875	900	89	89	89	89	2,200	2,225	221	221	221	221	4,150	4,200	418	418	418	418
900	925	91	91	91	91	2,225	2,250	224	224	224	224	4,200	4,250	423	423	423	423
925	950	94	94	94	94	2,250	2,275	226	226	226	226	4,250	4,300	428	428	428	428
950	975	96	96	96	96	2,275	2,300	229	229	229	229	4,300	4,350	433	433	433	433
975	1,000	99	99	99	99	2,300	2,325	231	231	231	231	4,350	4,400	438	438	438	438
<b>1,000</b>						2,325	2,350	234	234	234	234	4,400	4,450	443	443	443	443
1,000	1,025	101	101	101	101	2,350	2,375	236	236	236	236	4,450	4,500	448	448	448	448
1,025	1,050	104	104	104	104	2,375	2,400	239	239	239	239	4,500	4,550	453	453	453	453
1,050	1,075	106	106	106	106	2,400	2,425	241	241	241	241	4,550	4,600	458	458	458	458
1,075	1,100	109	109	109	109	2,425	2,450	244	244	244	244	4,600	4,650	463	463	463	463
1,100	1,125	111	111	111	111	2,450	2,475	246	246	246	246	4,650	4,700	468	468	468	468
1,125	1,150	114	114	114	114	2,475	2,500	249	249	249	249	4,700	4,750	473	473	473	473
1,150	1,175	116	116	116	116	2,500	2,525	251	251	251	251	4,750	4,800	478	478	478	478
1,175	1,200	119	119	119	119	2,525	2,550	254	254	254	254	4,800	4,850	483	483	483	483
1,200	1,225	121	121	121	121	2,550	2,575	256	256	256	256	4,850	4,900	488	488	488	488
1,225	1,250	124	124	124	124	2,575	2,600	259	259	259	259	4,900	4,950	493	493	493	493
1,250	1,275	126	126	126	126	2,600	2,625	261	261	261	261	4,950	5,000	498	498	498	498
1,275	1,300	129	129	129	129	2,625	2,650	264	264	264	264						
						2,650	2,675	266	266	266	266						
						2,675	2,700	269	269	269	269						

(Continued on page 63)

\* This column must also be used by a qualifying widow(er).









If line 40 (taxable income) is—		And you are—				If line 40 (taxable income) is—		And you are—				If line 40 (taxable income) is—		And you are—			
		Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—						Your tax is—						Your tax is—			
<b>41,000</b>						<b>44,000</b>						<b>47,000</b>					
41,000	41,050	6,994	5,439	6,994	5,856	44,000	44,050	7,744	5,889	7,744	6,606	47,000	47,050	8,494	6,339	8,494	7,356
<b>42,000</b>						<b>45,000</b>						<b>48,000</b>					
42,000	42,050	7,244	5,589	7,244	6,106	45,000	45,050	7,994	6,039	7,994	6,856	48,000	48,050	8,744	6,489	8,744	7,606
<b>43,000</b>						<b>46,000</b>						<b>49,000</b>					
43,000	43,050	7,494	5,739	7,494	6,356	46,000	46,050	8,244	6,189	8,244	7,106	49,000	49,050	8,994	6,639	8,994	7,856
<b>44,000</b>						<b>47,000</b>						<b>50,000</b>					
44,000	44,050	7,744	5,889	7,744	6,606	47,000	47,050	8,494	6,339	8,494	7,356	50,000	50,050	9,244	6,889	9,244	8,216

\* This column must also be used by a qualifying widow(er).

(Continued on page 68)













If line 40 (taxable income) is—		And you are—				If line 40 (taxable income) is—		And you are—			
		Single	Married filing jointly *	Married filing separately	Head of a household			Single	Married filing jointly *	Married filing separately	Head of a household
At least	But less than	Your tax is—				Your tax is—					
<b>95,000</b>						<b>98,000</b>					
95,000	95,050	21,234	17,231	21,871	19,356	98,000	98,050	22,074	17,981	22,861	20,106
95,050	95,100	21,248	17,244	21,887	19,369	98,050	98,100	22,088	17,994	22,877	20,119
95,100	95,150	21,262	17,256	21,904	19,381	98,100	98,150	22,102	18,006	22,894	20,131
95,150	95,200	21,276	17,269	21,920	19,394	98,150	98,200	22,116	18,019	22,910	20,144
95,200	95,250	21,290	17,281	21,937	19,406	98,200	98,250	22,130	18,031	22,927	20,156
95,250	95,300	21,304	17,294	21,953	19,419	98,250	98,300	22,144	18,044	22,943	20,169
95,300	95,350	21,318	17,306	21,970	19,431	98,300	98,350	22,158	18,056	22,960	20,181
95,350	95,400	21,332	17,319	21,986	19,444	98,350	98,400	22,172	18,069	22,976	20,194
95,400	95,450	21,346	17,331	22,003	19,456	98,400	98,450	22,186	18,081	22,993	20,206
95,450	95,500	21,360	17,344	22,019	19,469	98,450	98,500	22,200	18,094	23,009	20,219
95,500	95,550	21,374	17,356	22,036	19,481	98,500	98,550	22,214	18,106	23,026	20,231
95,550	95,600	21,388	17,369	22,052	19,494	98,550	98,600	22,228	18,119	23,042	20,244
95,600	95,650	21,402	17,381	22,069	19,506	98,600	98,650	22,242	18,131	23,059	20,256
95,650	95,700	21,416	17,394	22,085	19,519	98,650	98,700	22,256	18,144	23,075	20,269
95,700	95,750	21,430	17,406	22,102	19,531	98,700	98,750	22,270	18,156	23,092	20,281
95,750	95,800	21,444	17,419	22,118	19,544	98,750	98,800	22,284	18,169	23,108	20,294
95,800	95,850	21,458	17,431	22,135	19,556	98,800	98,850	22,298	18,181	23,125	20,306
95,850	95,900	21,472	17,444	22,151	19,569	98,850	98,900	22,312	18,194	23,141	20,319
95,900	95,950	21,486	17,456	22,168	19,581	98,900	98,950	22,326	18,206	23,158	20,331
95,950	96,000	21,500	17,469	22,184	19,594	98,950	99,000	22,340	18,219	23,174	20,344
<b>96,000</b>						<b>99,000</b>					
96,000	96,050	21,514	17,481	22,201	19,606	99,000	99,050	22,354	18,231	23,191	20,356
96,050	96,100	21,528	17,494	22,217	19,619	99,050	99,100	22,368	18,244	23,207	20,369
96,100	96,150	21,542	17,506	22,234	19,631	99,100	99,150	22,382	18,256	23,224	20,381
96,150	96,200	21,556	17,519	22,250	19,644	99,150	99,200	22,396	18,269	23,240	20,394
96,200	96,250	21,570	17,531	22,267	19,656	99,200	99,250	22,410	18,281	23,257	20,406
96,250	96,300	21,584	17,544	22,283	19,669	99,250	99,300	22,424	18,294	23,273	20,419
96,300	96,350	21,598	17,556	22,300	19,681	99,300	99,350	22,438	18,306	23,290	20,431
96,350	96,400	21,612	17,569	22,316	19,694	99,350	99,400	22,452	18,319	23,306	20,444
96,400	96,450	21,626	17,581	22,333	19,706	99,400	99,450	22,466	18,331	23,323	20,456
96,450	96,500	21,640	17,594	22,349	19,719	99,450	99,500	22,480	18,344	23,339	20,469
96,500	96,550	21,654	17,606	22,366	19,731	99,500	99,550	22,494	18,356	23,356	20,481
96,550	96,600	21,668	17,619	22,382	19,744	99,550	99,600	22,508	18,369	23,372	20,494
96,600	96,650	21,682	17,631	22,399	19,756	99,600	99,650	22,522	18,381	23,389	20,506
96,650	96,700	21,696	17,644	22,415	19,769	99,650	99,700	22,536	18,394	23,405	20,519
96,700	96,750	21,710	17,656	22,432	19,781	99,700	99,750	22,550	18,406	23,422	20,531
96,750	96,800	21,724	17,669	22,448	19,794	99,750	99,800	22,564	18,419	23,438	20,544
96,800	96,850	21,738	17,681	22,465	19,806	99,800	99,850	22,578	18,431	23,455	20,556
96,850	96,900	21,752	17,694	22,481	19,819	99,850	99,900	22,592	18,444	23,471	20,569
96,900	96,950	21,766	17,706	22,498	19,831	99,900	99,950	22,606	18,456	23,488	20,581
96,950	97,000	21,780	17,719	22,514	19,844	99,950	100,000	22,620	18,469	23,504	20,594
<b>97,000</b>						<div style="border: 1px solid black; border-radius: 50%; padding: 20px; width: fit-content; margin: 0 auto;"> <p><b>\$100,000</b> or over — use the Tax Rate Schedules on page 74</p> </div>					
97,000	97,050	21,794	17,731	22,531	19,856						
97,050	97,100	21,808	17,744	22,547	19,869						
97,100	97,150	21,822	17,756	22,564	19,881						
97,150	97,200	21,836	17,769	22,580	19,894						
97,200	97,250	21,850	17,781	22,597	19,906						
97,250	97,300	21,864	17,794	22,613	19,919						
97,300	97,350	21,878	17,806	22,630	19,931						
97,350	97,400	21,892	17,819	22,646	19,944						
97,400	97,450	21,906	17,831	22,663	19,956						
97,450	97,500	21,920	17,844	22,679	19,969						
97,500	97,550	21,934	17,856	22,696	19,981						
97,550	97,600	21,948	17,869	22,712	19,994						
97,600	97,650	21,962	17,881	22,729	20,006						
97,650	97,700	21,976	17,894	22,745	20,019						
97,700	97,750	21,990	17,906	22,762	20,031						
97,750	97,800	22,004	17,919	22,778	20,044						
97,800	97,850	22,018	17,931	22,795	20,056						
97,850	97,900	22,032	17,944	22,811	20,069						
97,900	97,950	22,046	17,956	22,828	20,081						
97,950	98,000	22,060	17,969	22,844	20,094						

\* This column must also be used by a qualifying widow(er).

# 2004 Tax Rate Schedules



Use **only** if your taxable income (Form 1040, line 40) is \$100,000 or more. If less, use the **Tax Table**. Even though you cannot use the Tax Rate Schedules below if your taxable income is less than \$100,000, all levels of taxable income are shown so taxpayers can see the tax rate that applies to each level.

## Schedule X—Use if your filing status is **Single**

If the amount on Form 1040, line 40, is: <i>Over—</i>	<i>But not over—</i>	Enter on Form 1040, line 41	<i>of the amount over—</i>
\$0	\$7,150	..... 10%	<b>\$0</b>
7,150	29,050	<b>\$715.00 + 15%</b>	<b>7,150</b>
29,050	70,350	<b>4,000.00 + 25%</b>	<b>29,050</b>
70,350	146,750	<b>14,325.00 + 28%</b>	<b>70,350</b>
146,750	319,100	<b>35,717.00 + 33%</b>	<b>146,750</b>
319,100	.....	<b>92,592.50 + 35%</b>	<b>319,100</b>

## Schedule Y-1—Use if your filing status is **Married filing jointly** or **Qualifying widow(er)**

If the amount on Form 1040, line 40, is: <i>Over—</i>	<i>But not over—</i>	Enter on Form 1040, line 41	<i>of the amount over—</i>
\$0	\$14,300	..... 10%	<b>\$0</b>
14,300	58,100	<b>\$1,430.00 + 15%</b>	<b>14,300</b>
58,100	117,250	<b>8,000.00 + 25%</b>	<b>58,100</b>
117,250	178,650	<b>22,787.50 + 28%</b>	<b>117,250</b>
178,650	319,100	<b>39,979.50 + 33%</b>	<b>178,650</b>
319,100	.....	<b>86,328.00 + 35%</b>	<b>319,100</b>

## Schedule Y-2—Use if your filing status is **Married filing separately**

If the amount on Form 1040, line 40, is: <i>Over—</i>	<i>But not over—</i>	Enter on Form 1040, line 41	<i>of the amount over—</i>
\$0	\$7,150	..... 10%	<b>\$0</b>
7,150	29,050	<b>\$715.00 + 15%</b>	<b>7,150</b>
29,050	58,625	<b>4,000.00 + 25%</b>	<b>29,050</b>
58,625	89,325	<b>11,393.75 + 28%</b>	<b>58,625</b>
89,325	159,550	<b>19,989.75 + 33%</b>	<b>89,325</b>
159,550	.....	<b>43,164.00 + 35%</b>	<b>159,550</b>

## Schedule Z—Use if your filing status is **Head of household**

If the amount on Form 1040, line 40, is: <i>Over—</i>	<i>But not over—</i>	Enter on Form 1040, line 41	<i>of the amount over—</i>
\$0	\$10,200	..... 10%	<b>\$0</b>
10,200	38,900	<b>\$1,020.00 + 15%</b>	<b>10,200</b>
38,900	100,500	<b>5,325.00 + 25%</b>	<b>38,900</b>
100,500	162,700	<b>20,725.00 + 28%</b>	<b>100,500</b>
162,700	319,100	<b>38,141.00 + 33%</b>	<b>162,700</b>
319,100	.....	<b>89,753.00 + 35%</b>	<b>319,100</b>

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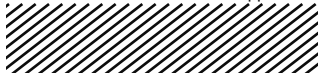
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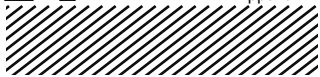
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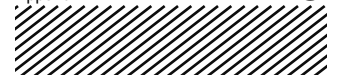
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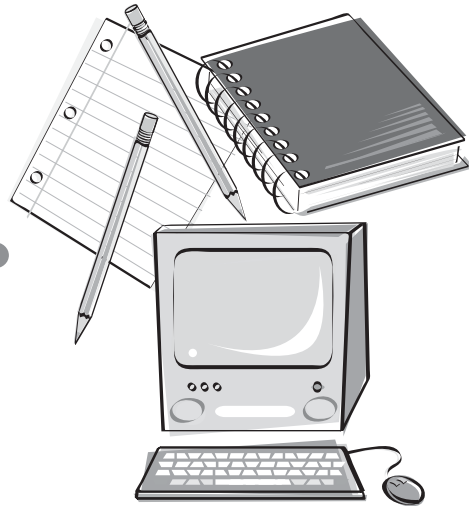
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