



Changes EITC Conditions
VITA Training Basic and Wage Earner
Tax Year 2008

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New for 2009

- Making Work Pay Credit – 2009 stimulus received in paychecks
- HOPE Credit expanded to 4 years of undergraduate and may be refundable.
- Unemployment – First \$2,400 is nontaxable.
- EITC is available for taxpayers with 3 kids.
- Energy Efficiency credit is back.

New – Part II

- Qualifying Child must be younger than the taxpayer
- Qualifying Child – if parent must file then she is the only one that may claim the child.
- Sales tax on a new vehicle is deductible even if a standard deduction.

New – Part III

- For divorced parents, divorce decrees signed in 2009 not acceptable to allow noncustodial parent to claim child. Must use Form 8332. Decrees prior to 2008 are okay.
- Additional Child Tax Credit income floor dropped to \$3,000.
- Quality Review is now part of the intake sheet.



Resources

- Pub 4491 – Student Training
- Pub 4012 – Volunteer Resource Guide
- Pub 17 “Your Federal Income Tax”



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The Intake Process

1. Taxpayer fills out Intake Sheet (4012 p. 5-8)
2. Volunteer completes Interview
3. Check Identification – ITIN vs. SSN (ITIN begins with 9) 4491 pp. 3-5 to 3-7
4. Review Documents
5. Prepare Return
6. Quality Review is part of the review sheet.



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The 1040 Tax Return

- Page 215 of 4491-W
- Laid out very systematically



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Personal & Dependent Exemptions (4012 Tab C and 4491 Chap 6)

- Claim for Taxpayer and Spouse
- If a dependent, cannot have dependents
- A dependent who files her own return claims zero exemptions – High school student who works at the grocery store is claimed by her parents.
- Great tables 4012 pp. C-4 through C-7.
- Good examples Chapter 6.
- The old method - Meet the 5 Tests for a dependent – next 5 slides.



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Household/Relationship

- Lived with Taxpayer for whole year OR
- Relative
 - Child, Stepchild or Grandchild
 - Brother/Sister or Half-Sibling
 - Parent/Grandparent, Step-Parent or In-Law
 - Aunt, Uncle, Niece or Nephew by Blood



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Citizen or Resident

- US Citizen or Resident
- or*
- Resident of Canada or Mexico aka “NAFTA Rule”
 - Must have an ID Number (ITIN). ITINs are okay for all dependents.



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Joint Return Test

- Dependent cannot file a joint return
- Exception: Joint return filed for refund claim only – no decrease in liability
- Very Rare – Young married couple living with parents



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Gross Income Test

- Dependent must have less than \$3,650 in gross income.
- Exceptions:
 - Child under 19 on 12/31/09
 - Full-time student child under 24 on 12/31/09 (in school for 5 months)



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Support Test

- Who is providing for the dependent?
- Benefit sources count (SSI, TANF etc.)
- If a disabled relative receives Social Security that pays for more than 50% of his support then he is considered as supporting himself for tax purposes and cannot be claimed! May be EITC eligible.
- Specifics:
 - Multiple Support (no one more than 50%)
 - Children of Divorced or Separated Parents



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Qualifying Child and Relative

- The newer way which is not necessarily the easier.
- Child - IRS way of linking all the credits together.
- Relative – Other dependents for whom EITC and other tax benefits cannot be claimed.
- Tables 1 and 2 p. C-4



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Qualifying Child of More than One Taxpayer

- Normally, one taxpayer claims all tax benefits for the same child.
- Tie-breaker p 15
 - Parent
 - Parent who lived longer with child
 - Parent with higher AGI if same length of time



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Three Generation Household

- Daughter, Mother and Grandmother all live together
- Both Mom and Grandma work and support the house.
- Mom should claim the daughter.
- Depending on situation, Grandma could claim granddaughter.



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Qualifying Child or Relative?

- Bobby lives with his mom Angela and mom's boyfriend Pete for the full year. Pete provides support of the house and Angela doesn't work.
- Can Pete claim Bobby?
- Is Bobby Pete's qualifying child?
- What if Angela worked?



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Divorced or Separated Parents

- Form 8332 release of claim signed by custodial parent – Needs a form 8453. Tax Wise is very stubborn.
- Divorce Decree – not for decrees signed in 2009
- Divorced parents may claim different benefits.
 - Noncustodial Dad – Exemption and Child Tax Credit
 - Custodial Mom – Head of Household and EITC and Child Care



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Exercises

- Joe, 65, lives with his son. Has a taxable pension of \$5,000. Claim?
- Paul, 20, full-time student made \$4,300. Can his parents claim him?
- Tim's Mom moves in with Phil in June. Can Phil claim Tim?
- Robert, 35, is permanent disabled and lives with his mom. He collects social security which covers his living expenses. Can his mom claim him?



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Filing Status Tab B or Chap 4

- Single
- Married Filing Jointly
- Married Filing Separately
- Head of Household
- Qualified Widow(er) with Dependent Child for 2007 or 2008 death of spouse
- Tables on B-1 and B-2.



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Married

- Jointly vs. Separately has nothing to do with love.
- If a spouse dies during 2009 still married in the IRS's eyes.
- Divorce is divorce.



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Head of Household

- Taxpayer is unmarried or meets the married person living apart test (Last 6 months)
- Taxpayer must have paid more than half the cost of the main home (6 mos) for child, grandchild, sibling, in-law, parent, blood relatives (aunt, uncle, niece and nephew)
- Parents may have own residence
- Boyfriend cannot file HOH for girlfriend's child even if claims child as qualifying relative.



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Exercises

- Laverne pays all expenses for unemployed and unrelated Shirley. Can she be HoH? How about an exemption?
- Lilly took the kids and left her husband in August. What are her options?
- Annie and Bill were married in 2007 but lived apart all of 2009. What are their options? What about if they have kids?
- Pete, Angela and Bobby example from earlier – Can Pete file HOH?



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Form W-2 (Line 7)

a. Employer's social security number		Date, accurate to month		Visit the IRS website at www.irs.gov/efile		
b. Employer identification number (EIN)		OMB No. 1545-0047		e-file		
c. Employer's name, address, and ZIP code		1. Wages, tips, and commission	2. Federal income tax withheld			
		3. Social security wages	4. Social security tax withheld			
		5. Medicare wages and tips	6. Medicare tax withheld			
d. Control number		7. Social security tax	8. Allocated tips			
		9. Advance EIC payment	10. Dependent care benefits			
e. Employer's first name and initial Last name		11. Nonqualified plans		12a. See instructions for box 12		
		13. Health, dental, vision, etc.	14. Other	12b.	12c.	
		13a. Health	13b. Dental	13c. Vision	13d. Other	12d.
		14. Other	14. Other	14. Other	14. Other	12e.
f. Employer's address and ZIP code		15. State wages, tips, etc.	16. State income tax	17. Local wages, tips, etc.	18. Local income tax	
19. Locality name		20. Locality name		21. Locality name		



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1099-R (retirement/pension)

VOID CORRECTED

1 Gross distribution 2009-01-10
 2 Taxable amount **09**
 3 Taxable amount and distribution Total distribution
 4 Capital gain included in box 2b Federal income tax withheld
 5 Employee contributions (including Roth contributions or insurance premiums) Net proceeds (including any employer's securities)
 6 Distribution (including any annuity) Other
 7 Your percentage of total distribution 8a Total employee contributions
 8b State tax withheld 9 State/Player's state tax
 10 Local tax withheld 11 Name of locality 12 State distribution
 13 Local distribution 14 Local distribution

Form 1099-R Department of the Treasury - Internal Revenue Service

- Box 7 is one to watch. "1" means an early withdrawal and a 10% penalty!
- Code 3 is EITC eligible!
- Line 16



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W-2G Gambling

3232 CORRECTED

1 Gross winnings 2 Federal income tax withheld
 3 Type of wager 4 Date won
 5 Transaction 6 Place
 7 Wins/loss from identical wagers 8 Cashier
 9 Winner's wager estimate to: 10 Winner
 11 First I.D. 12 Second I.D.
 13 State/Player's state identification no. 14 State income tax withheld

File with Form 1096
 Copy A
 For Internal Revenue Service Center

Form W-2G Cat. No. 10136V Department of the Treasury - Internal Revenue Service

- Gambling Winnings (Line 21)
- Losses don't offset winnings. Enough losses could be itemized up to winnings amount.



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Other Income

- State Tax Refunds (Line 10) – for customers who itemized in 2008 only!
- Social Security Benefits (SSA-1099) – nontaxable if $\frac{1}{2}$ SS + income < \$25,000. (Line 20)
- Jury Duty is taxable (Line 21)
- Child support and welfare benefits (TANF) are not taxable income.



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Adjustments to Income

- Student Loan Interest – like interest income may not be on a 1098 - \$2,500 maximum amount (Line 33)
- IRA Contribution – Up to \$6,000 (Line 32)
- Educator Adjustment - \$250 (Line 23)
- Alimony Paid (Line 31) but not Child Support
- Jury Duty Pay Paid to Employer (Line 34)
- If Schedule C-EZ income – (Line 27) deduct $\frac{1}{2}$ of the self-employment tax



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Standard Deductions – Schedule L

- IRS gives a minimum amount of deductions per filing status (Line 40) - \$5,700 for Single or MFS, \$11,400 for MFJ and \$8,350 for HOH.
- Over 65 and/or blind – higher standard deduction (line 39a)
- Standard deductors may add real estate or property taxes - up to \$500 (\$1,000 if MFJ)
- NEW – Standard deductors may add sales tax paid on a new car. Brand New.
- Personal Exemptions (Line 42) – Deduct \$3,650 for each exemption claimed on Line 6d



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Itemized Deductions

- Schedule A – a tougher tax return
- Expenses greater than Standard Deduction.
- Mortgage Interest and Insurance
- Taxes – City State and Property – Paid in 2007
- Charitable Contributions
- Medical Expenses above 7.5%
- Gambling Losses



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Tax Credits

- What's the difference between a credit and a deduction?
- Nonrefundable vs. Refundable.
- First group is Nonrefundable.



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Retirement Savings Credit p G-6 or 27-2

- Contribute to a 401(k) or an IRA
- Usually we will see this on the W-2 – Boxes 12a and 13.
- Make less than 27,750 (S) 41,625 (HOH) or \$55,500 (MFJ)
- Form 8880 – Line 50
- Usually 10% of the contribution.



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Child Care Credit p. G-1 or Chap 23

- Under the age of 13 or disabled
- Custodial parent in a divorce case
- Cannot file MFS
- Working or full-time student
- Cannot pay a dependent
- Overnight Camp is ineligible
- Form 2441 for 1040 – Line 48



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Education Credits p. G-3 or Chap 24

- Hope Credit – first **four** years of college
- Hope is partially refundable but not for the dependent student to file!
- Lifetime Learning Credit – any postsecondary or job skill course
- Cannot be MFS
- For taxpayer, spouse or dependent's expenses.



Form 8863 – Line 49

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CORRECTED

FILER'S name, street address, city, state, ZIP code, and telephone number \$		1 Payments received for qualified tuition and related expenses \$	OMB No. 1545-0047 2009 Form 1098-T	Tuition Statement
FILER'S federal identification no.	STUDENT'S social security number	2 Amounts billed for qualified tuition and related expenses \$	3 If this box is checked, your educational institution has changed its reporting method for 2009 <input type="checkbox"/>	Copy B For Student
STUDENT'S name		4 Adjustments made for a prior year \$	5 Scholarships or grants \$	This is important tax information and is being furnished to the Internal Revenue Service.
Street address (including apt. no.) City, state, and ZIP code		6 Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January 1 through March 31, 2009 <input type="checkbox"/>	
Service Provider/sect. No. (see text)	8 Checked if at least half-time student <input type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	10 Inc. contract reimb. refund \$	

Form 1098-T (keep for your records) Department of the Treasury - Internal Revenue Service

Watch out for grants or scholarships



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Earned Income Tax Credit Tab H or Chap 30 (Line 64)

- Must have earned income.
- What is earned income?
 - Wages and Salaries
 - Tips
 - Self –employed income – Schedule C
 - Some L/T disability on a 1099R – “3”
- Cannot file Married Filing Separately
- Taxpayers with ITINs are not eligible – Everyone must have SSNs.



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EITC

- For Taxpayer with no kids:
 - Taxpayer or Spouse must be 25 to 64
 - Cannot be claimed on another's return
 - Live in the US for more than 6 months
- Kids who work at the grocery store do not meet these tests and therefore cannot claim the EITC on their return.
- With Kids just need to meet the three tests on the next three slides.



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Relationship Test

- Child, Stepchild, Adopted Child
- Grandchild
- Brother, Sister or their descendants raised as taxpayer's own
- Eligible foster child



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Residency Test

- Child must live with taxpayer for more than half of the year
- More than half of the year together must be in the US (50 states and DC) Puerto Rico does **not** count
- If the child has an ITIN, then she is not eligible for the EITC. SSNs only!



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Age Test

- Child under the age of 19 on 12/31
- Full-time student under the age of 24 on 12/31
- Permanently and totally disabled regardless of age



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Calculating the EITC

- Table on page 185 of 4491W and EIC worksheet begins on p. 251.
- Compare EITC amount for earned income to Adjusted Gross Income.
- Example: Single Mom with 3 kids earned \$27,000 as a waitress and had \$3,000 in unemployment. What is her EITC?



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Disallowed EITC & Precertification

- If disallowed, must complete an 8862 in future years
- Precertification letter – refer client to Legal Aid



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Child Tax Credit pp. G-7 and G-8 or Chap 26

- Up to \$1,000 per Child
- Credit has limits:
 - Amount of tax (Line 51)
 - Certain portion may be refundable – Additional Child Tax Credit Form 8812 (Line 65) – this amount is higher this year



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Qualifying Child for CTC

- Under age of 17 on 12/31
- Citizen or Resident of the US
- Taxpayer's dependent
- Taxpayer's
 - Child, Stepchild or Adopted Child
 - Grandchild
 - Foster Child



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Making Work Pay Credit pp.6-4 or pp.29-4

- Schedule M and Line 63.
- Most folks should have gotten the credit in their paychecks.
- Self-employed did not.
- Retirees should have received a \$250 check
- Dependents who worked are not eligible!



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Finishing Up Federal

- Advanced EITC W-2 box 9 (Line 59)
- Federal Withholding from Box 2 of W-2 (Line 61)
- If Withholding too low, client should complete a W-4 at work.
- Remember EFIN and Site ID
- If e-filing remember the PIN and 8879
- Direct Deposit – Routing number and account number
- Client may Split Refund this year – Form 8888. Please Ask!



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Finishing Federal

- If the client owes the IRS then:
 - Pay by credit card for a fee
 - Form 9645 – Installment payments
 - Electronic withdrawal from bank account
 - 1040V payment voucher – print and mail.
 - Request a Full Pay Within 60 to 120 Days agreement
 - File an Online Payment Agreement request at www.irs.gov



Ohio 1040

- If our clients owes, please check your work!!
- Children who are dependents may claim themselves on the Ohio return
- Joint Filing Credit – each spouse must make at least \$500.
- Qualified Tuition Deduction up to \$2,500
- Retirement Income Credit
- Over 65 credit
- Child Care Credit – 25% to 100% of federal
- Under 10,000 no tax!



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Local Taxes

- CCA – use CCA form
- RITA – include w2 and they will send a bill
- Cleveland Heights, Parma Heights, Lakewood have own tax authority
- You pay tax to the city where you live and to the city where you work.
- If you work in the same city where you live then it is easy.
- Hardly *ever* see a refund if form is filled out correctly.



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Quality Review p. 7 or Chap 32

- Return to be reviewed by a 2nd volunteer.
- Complete Form 13614-C



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Working the Process

1. Intake Process
2. Prepare Federal, State, and Local
3. Quality Review
4. Print Return
5. Review Return with Client
6. Closeout the Return



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Closeout the Return

- Self-selecting PIN – 5 digit number from the taxpayer
- 1 paper copy for taxpayer
Includes: Cover sheet, Federal 1040, State 1040, local return & remaining tax documents
- Did client sign intake?
- Did client complete survey?



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Volunteer Sign Up

Visit <http://refundohio.org> to register as a volunteer and set your schedule.



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Practice Labs

- Online at home
- At CHN – Thursdays 3 PM to 7 PM
CHN is at 2999 Payne Avenue
- Online Practice Lab through IRS website.
<http://www.irs.gov/app/vita/index.jsp>
 - Password is **learntwo**
 - User ID will be created for you to use with practice problems.



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Taking the Test

- Complete the paper copy – Please complete the Form 13615 in the booklet.
- Online web site:
<http://www.irs.gov/app/vita/index.jsp>
- Please printout 13615



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Test

- Please send your completed test to Ben Nichols, Enterprise
- Address: 3500 Lorain, #300, Cleveland, OH 44113
- Fax: 216-631-0450
- Email: bnichols@enterprisecommunity.org



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