



It's yours, file free & keep it

earned income tax credit

Cuyahoga EITC Coalition

**2010 Volunteer Tax Training
Basic Tax Law**

Resources

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



5

The Intake Process

1. Taxpayer fills out Intake Sheet (4012 p. 6-8)
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.



6

Form 1040

Department of the Treasury—Internal Revenue Service

U.S. Individual Income Tax Return 2009

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

Label
(See instructions on page 14.) Use the IRB label. Otherwise, please print or type.

For the year Jan. 1—Dec. 31, 2009, or other tax year beginning , 2009, and ending , 20

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 14. Apt. no.

City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.

OMB No. 1545-0074

Your social security number

Spouse's social security number

You must enter your SSN(s) above.

Checking a box below will not change your tax or refund.

Presidential Election Campaign

Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 14) You Spouse

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. Qualifying widow(er) with dependent child (see page 16)
- 4 Head of household (with qualifying person). (See page 15.) If the qualifying person is a child but not your dependent, enter the child's name here.

Exemptions

If more than four dependents, see page 17 and check here

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

b Spouse

c Dependents:		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input type="checkbox"/> if qualifying child for child tax credit (see page 17)
(1) First name	Last name			
				<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 are lived with you and did not live with you due to divorce or separation (see page 16)
Dependents on 6c not entered above
Add numbers on lines above

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 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	Ordinary dividends. Attach Schedule B if required	9a	
b	Qualified dividends (see page 22)	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 24)	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 in excess of \$2,400 per recipient (see page 27)	19	
20a	Social security benefits	20a	
b	Taxable amount (see page 27)	20b	
21	Other income. List type and amount (see page 29)	21	
22	Add the amounts in the far right column for lines 7 through 21. This is your total income	22	

Adjusted Gross Income

23	Educator expenses (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	Health savings account deduction. Attach Form 8889	25	
26	Moving expenses. Attach Form 3903	26	
27	One-half of self-employment tax. Attach Schedule SE	27	
28	Self-employed SEP, SIMPLE, and qualified plans	28	
29	Self-employed health insurance deduction (see page 30)	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid b Recipient's SSN <input type="text"/>	31a	
32	IRA deduction (see page 31)	32	
33	Student loan interest deduction (see page 34)	33	
34	Tuition and fees deduction. Attach Form 8917	34	
35	Domestic production activities deduction. Attach Form 8903	35	
36	Add lines 23 through 31a and 32 through 35	36	
37	Subtract line 36 from line 22. This is your adjusted gross income	37	

Tax and Credits

Standard Deduction for—

• People who check any box on line 39a, 39b, or 40b or who can be claimed as a dependent, see page 35.

• All others: Single or Married filing separately, \$5,700

Married filing jointly or Qualifying widow(er), \$11,400

Head of household, \$6,350

38 Amount from line 37 (adjusted gross income)
39a Check [] You were born before January 2, 1945, [] Blind. Total boxes checked
39b If your spouse itemizes on a separate return or you were a dual-status alien, see page 35 and check here
40a Itemized deductions (from Schedule A) or your standard deduction (see left margin)
40b If you are increasing your standard deduction by certain real estate taxes, new motor vehicle taxes, or a net disaster loss, attach Schedule L and check here (see page 35)
41 Subtract line 40a from line 38
42 Exemptions. If line 38 is \$125,100 or less and you did not provide housing to a Midwestern displaced individual, multiply \$3,650 by the number on line 6d. Otherwise, see page 37
43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-
44 Tax (see page 37). Check if any tax is from: a [] Form(s) 8814 b [] Form 4972.
45 Alternative minimum tax (see page 40). Attach Form 6251
46 Add lines 44 and 45
47 Foreign tax credit. Attach Form 1116 if required
48 Credit for child and dependent care expenses. Attach Form 2441
49 Education credits from Form 8863, line 29
50 Retirement savings contributions credit. Attach Form 8880
51 Child tax credit (see page 42)
52 Credits from Form: a [] 8396 b [] 8839 c [] 5895
53 Other credits from Form: a [] 3800 b [] 8801 c []
54 Add lines 47 through 53. These are your total credits
55 Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-

Other Taxes

56 Self-employment tax. Attach Schedule SE
57 Unreported social security and Medicare tax from Form: a [] 4137 b [] 8919
58 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required
59 Additional taxes: a [] AEIC payments b [] Household employment taxes. Attach Schedule H
60 Add lines 55 through 59. This is your total tax

Payments

If you have a qualifying child, attach Schedule EIC.

61 Federal income tax withheld from Forms W-2 and 1099
62 2009 estimated tax payments and amount applied from 2008 return
63 Making work pay and government retiree credits. Attach Schedule M
64a Earned income credit (EIC)
64b Nontaxable combat pay election
65 Additional child tax credit. Attach Form 8812
66 Refundable education credit from Form 8863, line 16
67 First-time homebuyer credit. Attach Form 5405
68 Amount paid with request for extension to file (see page 72)
69 Excess social security and tier 1 RRTA tax withheld (see page 72)
70 Credits from Form: a [] 2439 b [] 4136 c [] 8801 d [] 8885
71 Add lines 61, 62, 63, 64a, and 65 through 70. These are your total payments

Refund

Direct deposit? See page 73 and fill in 73b, 73c, and 73d, or Form 8888.

72 If line 71 is more than line 60, subtract line 60 from line 71. This is the amount you overpaid
73a Amount of line 72 you want refunded to you. If Form 8888 is attached, check here
73b Routing number
73c Type: [] Checking [] Savings
73d Account number
74 Amount of line 72 you want applied to your 2010 estimated tax

Amount You Owe

75 Amount you owe. Subtract line 71 from line 60. For details on how to pay, see page 74
76 Estimated tax penalty (see page 74)

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 75)? [] Yes. Complete the following. [] No
Designee's name
Phone no.
Personal identification number (PIN)

Sign Here

Joint return? See page 15. 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 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.

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 works at the grocery store is claimed by her parents.
- Mom should claim kids unless she need not file or only files for a refund of withholding
- Tables 4012 pp. C-3 through C-6. Good but can be tricky.
- The old method - Meet the 5 Tests for a dependent – next 5 slides.



8

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.



10

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



11

Gross Income Test

- Dependent must have less than \$3,650 in gross income.
- Exceptions:
 - Child under 19 on 12/31/10
 - Full-time student child under 24 on 12/31/10 (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



14

Watch out—the IRS throws around the qualifying child term in the test and in the materials. The definition of qualifying child has changed some from the IRS's original intent. You may be better off using the definitions laid out by the credit. For instance, a mother who lives with her disabled adult son who receives his own Social Security that pays his support, is still eligible for the Earned Income

Qualifying Child of More than One Taxpayer

- Normally, one taxpayer claims all tax benefits for the same child.
- Tie-breaker p C-3
 - Parent
 - Parent who lived longer with child
 - Parent with higher AGI if same length of time



15

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.



16

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?



17

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 after 2008
- 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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Exercises

- Terry pays all the costs for Emily and her daughter Alex who both lived with Terry all year. Terry and Emily are not related. Emily did not work. Can Terry claim Alex, Emily or both?
- Page 6-7 examples



19

Filing Status Tab B or Chap 4

- Single
- Married Filing Jointly
- Married Filing Separately
- Head of Household
- Qualified Widow(er) with Dependent Child for 2008 or 2009 death of spouse
- Tables on B-1 and B-2.



20

Married

- Jointly vs. Separately has nothing to do with love.
- If a spouse dies during 2010 still married in the IRS's eyes.
- Divorce is divorce.
- If married cannot file single.



21

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.
- Third Example on Page 4-6

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 2010. What are their options? What about if they have kids?
- Pete, Angela and Bobby example from earlier – Can Pete file HOH?

22222		a Employee's social security number		OMB No. 1545-0008	
b Employer identification number (EIN)			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 Control number			9 Advance EIC payment		10 Dependent care benefits
e Employee's first name and initial		Last name	Suff.	11 Nonqualified plans	12a
				13 Statutory employee <input type="checkbox"/>	12b
				Retirement plan <input type="checkbox"/>	12c
				Third-party sick pay <input type="checkbox"/>	12d
				14 Other	
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

2010

Department of the Treasury—Internal Revenue Service

Watch out for these two numbers. They get mixed up when input into the software. A top reason for e-file rejections.

Some taxpayers receive a portion of the EITC in their paychecks. This will reduce the amount they receive in their refund check.

Don't forget this number for the Ohio return. Our clients usually get a refund!

Did taxpayer make a contribution to a retirement account? May be eligible for the Retirement Savings Credit.

Sometimes when a taxpayer owes or a refund is small, it's because the withholding is not enough. A taxpayer can have more taxes taken out of her check by completing at W-4 at her employer.

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		Payer's RTN (optional)	OMB No. 1545-0112	
		1 Interest income \$	2010 Interest Income Form 1099-INT	
		2 Early withdrawal penalty \$		
PAYER'S federal identification number	RECIPIENT'S identification number	3 Interest on U.S. Savings Bonds and Treas. obligations \$		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		4 Federal income tax withheld \$	5 Investment expenses \$	
		6 Foreign tax paid \$	7 Foreign country or U.S. possession	
Street address (including apt. no.)		8 Tax-exempt interest \$	9 Specified private activity bond interest \$	
City, state, and ZIP code		10 Tax-exempt bond CUSIP no. (see instructions)		
Account number (see instructions)				

Form 1099-INT

(keep for your records)

Department of the Treasury - Internal Revenue Service

- May not be on this Form!
- Line 8
- Municipal Bond Interest is tax free
- Watch Box 2 – Early withdrawal penalty – Line 30

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1a Total ordinary dividends	OMB No. 1545-0110	Dividends and Distributions
		\$	2010	
		1b Qualified dividends		
PAYER'S federal identification number		2a Total capital gain distr.	2b Unrecap. Sec. 1250 gain	Copy B For Recipient
		\$	\$	
RECIPIENT'S identification number		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.
RECIPIENT'S name		\$	\$	
		3 Nondividend distributions	4 Federal income tax withheld	
Street address (including apt. no.)		\$	\$	
		5 Investment expenses	6 Foreign tax paid	
City, state, and ZIP code		\$	7 Foreign country or U.S. possession	
		8 Cash liquidation distributions	9 Noncash liquidation distributions	
Account number (see instructions)		\$	\$	

Form **1099-DIV**

(keep for your records)

Department of the Treasury - Internal Revenue Service

- Line 9 – Box 1
- Capital Gains – Box 2a goes on Line 13 or a Long-term gain on Schedule D

VOID CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1 Rents \$	OMB No. 1545-0115 2010 Form 1099-MISC		Miscellaneous Income
		2 Royalties \$			
		3 Other income \$	4 Federal income tax withheld \$	Copy 1 For State Tax Department	
PAYER'S federal identification number	RECIPIENT'S identification number	5 Fishing boat proceeds \$	6 Medical and health care payments \$		
RECIPIENT'S name Street address (including apt. no.) City, state, and ZIP code		7 Nonemployee compensation \$	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		
Account number (see instructions)		13 Excess golden parachute payments \$	14 Gross proceeds paid to an attorney \$		
15a Section 409A deferrals \$	15b Section 409A income \$	16 State tax withheld \$	17 State/Payer's state no.	18 State income \$	

Form 1099-MISC

Department of the Treasury - Internal Revenue Service

Box 7 is the one we see the most. This means the taxpayer is self-employed and must complete a Schedule C. These clients usually owe taxes since they must pay both employer and employee portions of Social Security taxes. Most of these clients owe money to the IRS!

Box 1 may pop up for a few clients. This is usually the case when our clients own a rental property. This is an advanced return!

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1 Unemployment compensation	OMB No. 1545-0120		2010 Form 1099-G	Certain Government Payments
		\$	2 State or local income tax refunds, credits, or offsets			
		\$				
PAYER'S federal identification number	RECIPIENT'S identification number	3 Box 2 amount is for tax year	4 Federal income tax withheld		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		5 ATAA payments	6 Taxable energy grants			
Street address (including apt. no.)		\$	\$			
City, state, and ZIP code		7 Agriculture payments	8 Check if box 2 is trade or business income <input type="checkbox"/>			
		\$				
Account number (see instructions)		9 Market gain				
		\$				
		10a State	10b State identification no.	11 State income tax withheld		

Form **1099-G**

(keep for your records)

Department of the Treasury - Internal Revenue Service

Unemployment goes on Line 19.

Once again, all unemployment is taxable. Last year, \$2,400 was exempt.

Box 4 is Federal Tax Withheld. Clients may receive these dollars as their refund.

VOID CORRECTED

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. Copy 1 For State, City, or Local Tax Department
		\$		2010 Form 1099-R		
PAYER'S federal identification number		2a Taxable amount				
		\$		3 Capital gain (included in box 2a) <input type="checkbox"/>		
PAYER'S identification number		4 Federal income tax withheld		\$		5 Employee contributions / Designated Roth contributions or insurance premiums \$
RECIPIENT'S name		6 Net unrealized appreciation in employer's securities		\$		
Street address (including apt. no.)		7 Distribution code(s)		8 Other		9a Your percentage of total distribution %
City, state, and ZIP code		IRA/SEP/SIMPLE <input type="checkbox"/>		\$ %		
1st year of desig. Roth contrib.		10 State tax withheld		11 State/Payer's state no.		9b Total employee contributions \$
\$		\$		\$		
Account number (see instructions)		13 Local tax withheld		14 Name of locality		12 State distribution \$
\$		\$		\$		

Form **1099-R**

Department of the Treasury - Internal Revenue Service

Box 7 Codes are the most important:
 Code 1—is an early distribution and may be subject to a 10% penalty! This penalty goes on Line 58.
 Code 7—is a normal retirement distribution
 Code 3—is EITC eligible!

Box 2a being blank and Box 9b with a number may signal a more advanced return.

W-2G Gambling

3232 <input type="checkbox"/> CORRECTED			
PAYER'S name		1 Gross winnings	2 Federal income tax withheld
Street address		3 Type of wager	4 Date won
City, state, and ZIP code		5 Transaction	6 Race
Federal identification number	Telephone number	7 Winnings from identical wagers	8 Cashier
WINNER'S name		9 Winner's taxpayer identification no.	10 Window
Street address (including apt. no.)		11 First I.D.	12 Second I.D.
City, state, and ZIP code		13 State/Payer's state identification no.	14 State income tax withheld
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
2010
Form W-2G
Certain Gambling Winnings
 For Privacy Act and Paperwork Reduction Act Notice, see the **2010 General Instructions for Certain Information Returns.**
File with Form 1096.
Copy A
For Internal Revenue Service Center

Form **W-2G** Cat. No. 10138V 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)
- 4491-W p. 280 if taking the test by hand.
- Child support and welfare benefits (TANF) are not taxable income.



31

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?
- Alimony Paid (Line 31) but not Child Support
- If Schedule C income – (Line 27) deduct $\frac{1}{2}$ of the self-employment tax

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 \$8,400 for HOH.
- Over 65 and/or blind – higher standard deduction (line 39a) p. F-2 of 4012
- EXPIRED – property tax deduction for standard deductors
- May still add sales tax paid on a new car bought in 2009 but paid in 2010. Brand New.
- Personal Exemptions (Line 42) – Deduct \$3,650 for each exemption claimed on Line 6d



33

Example: A single mom who lives with her three kids buys a new car in 2009 for \$12,600 and pays \$650 in sales tax. In 2010 What is her standard deduction?

Head of Household	\$8,400
Sales Tax on New Car	\$650
Total Standard Deduction	\$9,050

Itemized Deductions

- Schedule A – a tougher tax return
- Expenses greater than Standard Deduction.
- Mortgage Interest and Insurance
- Taxes – City State and Property – Paid in 2010
- Charitable Contributions
- Medical Expenses above 7.5%
- Gambling Losses

Tax Credits

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



35

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.



36

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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Example:

Our client is a single mother of three children. Client has \$27,500 in wages and received \$4,000 in unemployment. The client paid \$1,200 for the two younger child's after school daycare program. How much is her child care credit?

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 2010 for the person listed in column (a)
First	Last		
First	Child		600
Second	Child		600

3 Add the amounts in column (c) of line 2. **Do not** 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 31

3	1200
----------	-------------

4 Enter your **earned income**. See instructions

4	27500
----------	--------------

5 If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions); **all others**, enter the amount from line 4

5	27500
----------	--------------

6 Enter the **smallest** of line 3, 4, or 5

6	1200
----------	-------------

7 Enter the amount from Form 1040, line 38; Form 1040A, line 22; or Form 1040NR, line 37.

7	31500
----------	--------------

8 Enter on line 8 the decimal amount shown below that applies to the amount on line 7

If line 7 is:

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

If line 7 is:

Over	But not over	Decimal amount is
\$29,000—31,000		.27
31,000—33,000		.26
33,000—35,000		.25
35,000—37,000		.24
37,000—39,000		.23
39,000—41,000		.22
41,000—43,000		.21
43,000—No limit		.20

8	X . 26
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9 Multiply line 6 by the decimal amount on line 8. If you paid 2009 expenses in 2010, see the instructions

9	312
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10 Tax liability limit. Enter the amount from the Credit Limit Worksheet in the instructions.

10	
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11 **Credit for child and dependent care expenses.** Enter the **smaller** of line 9 or line 10 here and on Form 1040, line 48; Form 1040A, line 29; or Form 1040NR, line 46

11	312
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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. 1545-1574 2010 Form 1098-T	Tuition Statement
		2 Amounts billed for qualified tuition and related expenses \$		
FILER'S federal identification no.	STUDENT'S social security number	3 If this box is checked, your educational institution has changed its reporting method for 2010 <input type="checkbox"/>		Copy B For Student This is important tax information and is being furnished to the Internal Revenue Service.
STUDENT'S name		4 Adjustments made for a prior year \$	5 Scholarships or grants \$	
Street address (including apt. no.)		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 - March 2011 <input type="checkbox"/>	
City, state, and ZIP code		8 Checked if at least half-time student <input type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)		10 Ins. contract reimb./refund \$		

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

Watch out for grants or scholarships



It's yours, file free & keep it

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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 – live not support
- 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



Calculating the EITC

- Table on page 199 of 4491W and EIC worksheet begins on p. 270.
- Compare EITC amount for earned income to Adjusted Gross Income.
- Example: Single Mom with 3 kids earned \$27,500 as a waitress and had \$4,000 in unemployment. What is her EITC?



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Example:

What is single mom's earned income?

What is her adjusted gross income?

What is the EITC amount for her earned income?

What is the EITC amount for her adjusted gross income?

EITC is the lower of the two.

Disallowed EITC & Precertification

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

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 p.9 or p.29-4

- Schedule M and Line 63.
- Most folks should have gotten the credit in their paychecks.
- Self-employed did not.
- In 2009, most retirees received a \$250 check. If they got this in 2010 then that amount should be deducted from the credit.
- Dependents who worked are not eligible!



Finishing Up Federal

- Advanced EITC W-2 box 9 (Line 59)
 - By the way, eliminated for 2011!
- 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. 8 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?



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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