

# EZ-Tax Online

## Tax Training Manual

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## INTRODUCTION

Welcome to the EZ-Tax Online tax training course and congratulations on taking the first step towards having the knowledge to make your tax preparation business grow. The rules and regulations needed to complete basic Federal individual income tax returns for the general taxpaying public will be covered. Upon completion of the course, students should be able to answer taxpayer's questions and prepare basic income tax returns. As always, our technical and customer support lines are available and should be used each and every time you need them.

The EZ-Tax Online tax training manual is the basic textbook for this course. It contains an overview of the tax laws, review questions and learning activities. IRS Publication 17, *Your Federal Income Tax*, should be used to supplement this course and should be kept in your office in addition to this manual. This publication is reprinted each year with the most up to date information.

The activities at the end of key chapters can be used in a class-room setting, one-on-one training, or as a self-directed learning course. Your company can use the chapter review exams as rewards to your employees or to evaluate their potential as a tax preparer. Most importantly, use the Tax Training Manual and the Instructor Guide as a method of holding your employees accountable to the commitment of making the tax portion of your business a success.

By studying the Tax Training Manual, performing the activities in the book and implementing the software training, your company is better prepared for a successful income tax preparation business. The advertising suggestions should be customized to your organization. Implementing the training practices and marketing tools are a must. ***Your Success Equals Our Success.***

Upon completion of the Tax Training Manual, students should be able to complete a variety of income tax returns with most of the situations you will confront in your office.

The tax laws covered in the course and the tax forms used are for the 2009 tax year. As the laws and forms will not be finalized until after this course is completed, all the updates will be available at our customer support center, in the new Publication 17 or on the web at [www.irs.gov](http://www.irs.gov). You should become familiar with and use all these resources.

All numbers are rounded to the nearest dollar. Pennies should never be used in preparing tax returns electronically.

# CHAPTER 1

## FILING STATUS

## FILING STATUS

Filing status at first glance appears to be very simple to determine. Upon closer look however factors may enter the picture to possibly cloud exactly which status to use. Publication 17 can be referenced to further clarify the proper filing status.

Marital status for the purpose of choosing a filing status is determined by the taxpayer's situation on December 31.

We will examine each status carefully.

Single, if taxpayer on December 31:

- i Is unmarried
- i Is legally separated by divorce or separate maintenance decree and
- i Does not qualify for another filing status

Married Filing Jointly, if taxpayers on December 31:

- i Are married and spouses are filing a joint return, even if only one had income
- i Are living together in a common law marriage that is recognized in the state where the taxpayers now live, or in the state where the common law marriage began.
- i Are married and living apart, but not legally separated under a decree of divorce or separate maintenance agreement.
- i Spouse died during the tax year and taxpayer did not remarry before the end of the year

Married Filing Separately, if on December 31:

- i Taxpayer may choose this status if he is married (living together or apart)
- i He wants to be responsible for only his tax
- i He may choose this status if it results in less tax than he would owe filing jointly
- i He must realize this filing status has items that cannot be claimed
  - 1- Must itemize if their spouse itemizes
  - 2- Cannot deduct student loan interest
  - 3- Does not qualify for earned income credit
  - 4- Cannot take credit for child and dependent care expenses (in most cases)
  - 5- Cannot take education credits

Publication 17 addresses this in greater detail

Head of Household, if taxpayer on December 31:

On the last day of the tax year is unmarried or considered unmarried (must meet all of the following)

- 1- Spouse did not live in the home at all during the last six months of the tax year
- 2- For more than six months the taxpayer's home was the main home of a qualifying child, stepchild, adopted child, or relative who can be claimed as a dependent.
- 3- Paid more than half the cost of keeping up the home for the tax year

Costs to maintain a household include such expenses as rent, mortgage interest payments, real estate taxes, insurance on the home, utilities, clothing, medical treatment, repairs.

### Head of Household Qualifying Child Table

Taxpayer must meet all of the above requirements to claim Head of Household.

If the person is your ≈	AND ≈	THEN that person is ≈
Qualifying child (such as a son, daughter or grandchild who lived with you more than half the year and meets certain other tests.	He or she is single	A qualifying person, whether or not you can claim an exemption for the person
	He or she is married and you can claim an exemption for him or her	A qualifying person
	He or she is married and you cannot claim an exemption for him or her	Not a qualifying person
Qualifying relative who is your father or mother	You can claim an exemption for him or her	A qualifying person
	You cannot claim an exemption for him or her	Not a qualifying person
Qualifying relative other than your father or mother (such as a grandparent, brother or sister who meets certain tests	He or she did not live with you more than half the year	Not a qualifying person
	He or she is not related to you in one of the ways listed in Publ. 17, Ch 3, and is your qualifying relative only because they lived with you all year as a member of your household	Not a qualifying person
	You cannot claim an exemption for him or her	Not a qualifying person

Qualifying Widow(er) with Dependent Child, if taxpayer:

- i Was entitled to file a joint return with spouse for the tax year in which the spouse died (whether or not a taxpayer actually filed a joint return)
- i Did not remarry before the end of the tax year
- i Has a child who qualifies as the taxpayer's dependent for the tax year
- i Paid more than half the cost of keeping up a home that was the main home for the taxpayer and that child for the entire year
- i For the tax year in which the spouse died, the taxpayer can file Married Filing Jointly. For each of the next two years, if the taxpayer continues to qualify, he may elect to file as a Qualifying Widow(er). After this two year period, the status will change to Head of Household.



# Chapter 1

## Filing Status

### Review Questions

Your Name:

---

Your Company's Name:

---

Circle True/False for the following:

- |      |       |  |
|------|-------|--|
| TRUE | FALSE | 1. Under certain circumstances, a client could legally qualify for more than one filing status.            |
| TRUE | FALSE | 2. Someone's filing status is always the same as their marital status.                                     |
| TRUE | FALSE | 3. People who choose the filing status Married Filing Separate will not receive Earned Income Credit.      |
| TRUE | FALSE | 4. If your client is married, they can file Head of House if they separated on December 31 <sup>st</sup> . |
| TRUE | FALSE | 5. The only filing status that qualifies for EIC is Head of House.   |
| TRUE | FALSE | 6. Married taxpayers must always file Married Filing Joint or Married Filing Separate.                     |
| TRUE | FALSE | 7. Two people, unmarried, at the same address can each claim Head of House.                                |
| TRUE | FALSE | 8. A married woman could have Single as her filing status.   |
| TRUE | FALSE | 9. In order to file Head of House, the taxpayer must pay more than half of the cost of household expenses. |
| TRUE | FALSE | 10. If the taxpayer's spouse died during the current tax year, have them file as Qualifying Widow/Widower. |

**Chapter 1**  
**Filing Status**  
**Small Group Discussion**

**Your Name:**

\_\_\_\_\_

**Your Company's Name**

\_\_\_\_\_

Divide the class into four groups. One group is assigned Single, one is Married Filing Joint, one is Married Filing Separate; the last group is assigned Head of House. Give each group the five case scenarios described below. Each group is to make up a real-life situation to qualify the taxpayer for their assigned filing status.

1. Annette Williams has two children. She states that she is married.
2. Todd and Carolyn Robinson are married and have two children. They separated in May.
3. Debra Ross lives with her two children and their kid's father. They never legally married.
4. Susan Thomas lives with her daughter in her mother's house. Her mother pays all bills except formula and diapers, which Susan buys.
5. Will your assigned filing status allow your taxpayer to receive EIC?

# CHAPTER 2

# STANDARD DEDUCTION

# STANDARD DEDUCTION

There are two types of deductions available for taxpayers to claim, the standard deduction and the itemized deduction (itemized deductions will be discussed in a later section).

The standard deduction is a fixed amount eliminating the need for the taxpayer to keep a lot of records or receipts for their deductible expenses. Most taxpayers can choose which option to file that will result in the lowest tax liability.

It should be noted here that more than two thirds of taxpayers use the standard deduction because they do not have enough other allowable expenses to exceed this amount. Your customers will rarely have enough expenses to itemize deductions.

## Standard Deduction Amount

The standard deduction amount is directly related to the filing status. Other factors which determine the amount of the allowable standard deduction are:

- 1- Whether or not the taxpayer is considered age 65 or older
- 2- Whether or not the taxpayer is blind

The standard deductions for tax year 2009 are

Single or Married filing separately	\$ 5,700.00
Married filing jointly or Qualifying widow(er) with dependent Child	\$ 11,400.00
Head of household	\$ 8,350.00

## Additional Standard Deductions for 2009

Even if the taxpayer's total dollar amount of itemized deductions is less than the standard deduction amount listed above, certain line items *can increase the standard deduction*. These are:

1. The amount of real estate taxes paid
2. Certain new vehicles purchased after 2/16/2009
3. Casualty and theft losses that exceed \$500.00 (per casualty/loss)

(note: when tax payers have such deductions, always include these amounts on the Schedule A. Have the taxpayer complete the Itemized Deduction Checklist and include all items, whether or not they reach the standard deduction threshold listed above. Certain state tax returns have more generous deductions than the federal allows.)

CHAPTER 3

EXMPTIONS /  
DEPENDENTS  
AND  
CREDITS

## EXEMPTIONS / DEPENDENTS

An exemption is an amount that most taxpayers are entitled to deduct from their income before computing their tax liability. An exemption can be claimed for the taxpayer, the taxpayers spouse and any qualifying dependents. The amount of the exemption for tax year 2009 is \$3,650.

When filing a joint return, both the taxpayer and spouse qualify for an exemption even if only one had income. The taxpayer can claim an exemption for each dependent he is allowed to claim on his tax return.

The taxpayer cannot claim any dependents if he, or his spouse if filing jointly, could be claimed as a dependent by another taxpayer.

There are certain rules established to determine if a person can be claimed as a dependent on the taxpayers return. The term dependent means a **qualifying child** or **qualified relative**. The definitions of these terms are illustrated in the following table:

Tests to be a Qualified Child	Tests to be a Qualified Relative
<ol style="list-style-type: none"> <li>1. The child must be your son, daughter, stepchild foster child, brother, sister, half brother, half sister, or a descendant of any of them.</li> <li>2. The child must be (a) under age 19 at the end of the year, (b) under age 24 at the end of the year and a full-time student, or (c) any age if permanently and totally disabled.</li> <li>3. The child must have lived with you for more than half of the year.</li> <li>4. The child must not have provided more than half of his or her own support for the year.</li> <li>5. If the child meets the rules to be a qualifying child of more than one person, you must be the person entitled to claim the child as a qualifying child.</li> <li>6. The child must be younger than the taxpayer. (disabled child is the exception)</li> </ol>	<ol style="list-style-type: none"> <li>1. The person cannot be your qualifying child or the qualifying child of any other taxpayer.</li> <li>2. The person either (a) must be related to you in one of the ways listed under Relatives Who Do Not Have To Live With You, or (b) must live with you all year as a member of your household.</li> <li>3. The person's gross income for the year must be less than \$3650.</li> <li>4. You must provide more than half of the person's total support for the year.</li> </ol>

## CREDITS

There are two types of credit the IRS allows on the form 1040:

- i **Tax credits** serve to reduce the taxpayer's tax liability and can only reduce that to zero. If the credit is more than the tax liability, the excess is not refunded. Types of tax credits include Child Tax Credit, Child Care Credit and Education Credit.
  
- i **Income credits** are treated as tax payments and can generate a tax refund regardless if a tax liability has been reduced to zero. Types of income credits include Earned Income Credit (EITC), Additional Child Tax Credit, Making Work Pay Credit, and American Opportunity Credit.

The Chart on the following page illustrates the difference between certain credits, filing status rules and dependency exemptions. This chart is also found in the "Cheat Sheets" section of the Help at your Fingertips button on the Training website:

## Child Related Tax Benefits Comparison

	<b>Age</b>	<b>Relationship</b>	<b>Residency</b>	<b>Special Rules</b>
<b>Earned Income Tax Credit</b>	Child must be under 19 at end of year; under age 24 if a full time student; any age if disabled	Child must be taxpayer's son, daughter, brother, sister, niece, nephew or foster child. The foster child must be placed by an authorized agency.	Child must live in the U.S. with the taxpayer for more than half the tax year. Some temporary absences count as time lived at home	Both the taxpayer and the child must have a valid social security number.
<b>Dependency Exemption</b>	Child must be under 19 at end of year; under age 24 if a full time student; any age if disabled	Child must be taxpayer's son, daughter, brother, sister, niece, nephew or foster child. The foster child must be placed by an authorized agency.	Child must live with the taxpayer for more than half the tax year. Some temporary absences count as time lived at home.	Child must live in the United States Mexico or Puerto Rico  ITIN # or SS# required. Our office will apply for ITIN at no cost.
<b>Child Tax Credit</b>	Child must be under age 17 at the end of the year. No exception for disabled children.	Child must be taxpayer's son, daughter, brother, sister, niece, nephew or foster child. The foster child must be placed by an authorized agency.	Child must live with the taxpayer for more than half the tax year. Some temporary absences count as time lived at home.	Child must live with the taxpayer all year.  ITIN # or SS# required. Our office will apply for ITIN at no cost.
<b>Head of Household</b>	Child must be under 19 at end of year; under age 24 if a full time student; any age if disabled	Child must be taxpayer's son, daughter, brother, sister, niece, nephew or foster child. The foster child must be placed by an authorized agency.	Child must live with the taxpayer for more than half the tax year. Some temporary absences count as time lived at home.	Child must live with the taxpayer all year.  ITIN # or SS# required. Our office will apply for ITIN at no cost.
<b>Child Care Credit</b>	Child must be under age 13 or disabled at the time of the child care.	Child must be taxpayer's son, daughter, brother, sister, niece, nephew or foster child. The foster child must be placed by an authorized agency.	Child must live with the taxpayer for more than half the tax year. Some temporary absences count as time lived at home.	Child must live with the taxpayer all year.  ITIN # or SS# required. Our office will apply for ITIN at no cost.
<b>Warning! This chart is just a summary. For more detailed information and resource materials, please contact EZ-Tax Online technical support..</b>				



## CHILD CARE CREDIT (Form 2441)

### Tax Credit

A credit of up to 35% of the actual expenses the taxpayer paid for child care credit is allowed when the expense is work related. Expenses are limited to \$3,000 for one child and \$6,000 for two or more children.

The following rules must be met in order to claim the Child Care Credit:

- i All taxpayers listed on the return must have earned income
- i Must have provider's SSN or EIN as well as name and address
- i All taxpayers listed on the return must pay more than half the cost of keeping up a home in which the qualifying person lived
- i Expenses can only be deducted if the taxpayer(s) work or are looking for work
- i Filing status cannot be Married Filing Separate
- i The provider cannot be a dependent, spouse or the taxpayer's child under age 19
- i Dependent must be under the age of 13 or in the case of a spouse must be physically or mentally unable to care for himself and lived with the taxpayer for more than half the year

Below is a sample of the Child Care Credit Worksheet. This is a downloadable form found on the EZ-Tax Online website. Have the customer complete this form, sign and date:

## CHILD CARE CREDIT WORKSHEET FORM 2441

Qualifying persons are children under age 13 or disabled dependents

List qualifying Persons and the expenses for each			
First Name	Last Name	SSN	Total Expenses for the year for that child
			\$
			\$
			\$
			\$

Did your employer pay any of these expenses or reimburse you for day care expenses:    YES    NO

CARE PROVIDER #1			
Name of Day Care Center or Individual		SSN or EIN	
Address			
City/ST/Zip		Total Amount Paid	\$

CARE PROVIDER #2			
Name of Day Care Center or Individual		SSN or EIN	
Address			
City/ST/Zip		Total Amount Paid	\$

With my signature below I am verifying the tax information given to prepare my taxes is true. I release the owners and employees of my tax preparation office from having any knowledge of fraudulent tax claims.

SIGNATURE \_\_\_\_\_ DATE \_\_\_\_\_

# Child and Dependent Care Expenses

Department of the Treasury  
Internal Revenue Service (99)

▶ **Attach to Form 1040 or Form 1040NR.**  
▶ **See separate instructions.**

**2008**

Attachment  
Sequence No. **21**

Name(s) shown on return

Your social security number

**Part I Persons or Organizations Who Provided the Care** — You **must** complete this part.  
(If you have more than two care providers, see the instructions.)

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 page 2.

**Caution.** If the care was provided in your home, you may owe employment taxes. See the instructions for Form 1040, line 60, or Form 1040NR, line 56.

**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 & paid in 2008 for the person listed in col. (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 35 . . . . .	<b>3</b>																															
<b>4</b> Enter your <b>earned income</b> . See instructions . . . . .	<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 38, or Form 1040NR, line 36 . . . . .	<b>7</b>																															
<b>8</b> Enter on line 8 the decimal amount shown below that applies to the amount on line 7																																
<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="text-align: center;"><b>Over</b></td> <td style="text-align: center;"><b>But not over</b></td> <td style="text-align: center;"><b>Decimal amount is</b></td> </tr> <tr> <td style="text-align: center;">\$0 - 15,000</td> <td style="text-align: center;">15,000 - 17,000</td> <td style="text-align: center;">.35</td> </tr> <tr> <td style="text-align: center;">15,000 - 17,000</td> <td style="text-align: center;">17,000 - 19,000</td> <td style="text-align: center;">.34</td> </tr> <tr> <td style="text-align: center;">17,000 - 19,000</td> <td style="text-align: center;">19,000 - 21,000</td> <td style="text-align: center;">.33</td> </tr> <tr> <td style="text-align: center;">19,000 - 21,000</td> <td style="text-align: center;">21,000 - 23,000</td> <td style="text-align: center;">.32</td> </tr> <tr> <td style="text-align: center;">21,000 - 23,000</td> <td style="text-align: center;">23,000 - 25,000</td> <td style="text-align: center;">.31</td> </tr> <tr> <td style="text-align: center;">23,000 - 25,000</td> <td style="text-align: center;">25,000 - 27,000</td> <td style="text-align: center;">.30</td> </tr> <tr> <td style="text-align: center;">25,000 - 27,000</td> <td style="text-align: center;">27,000 - 29,000</td> <td style="text-align: center;">.29</td> </tr> <tr> <td style="text-align: center;">27,000 - 29,000</td> <td style="text-align: center;">29,000 - 31,000</td> <td style="text-align: center;">.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	15,000 - 17,000	.35	15,000 - 17,000	17,000 - 19,000	.34	17,000 - 19,000	19,000 - 21,000	.33	19,000 - 21,000	21,000 - 23,000	.32	21,000 - 23,000	23,000 - 25,000	.31	23,000 - 25,000	25,000 - 27,000	.30	25,000 - 27,000	27,000 - 29,000	.29	27,000 - 29,000	29,000 - 31,000	.28		
<b>If line 7 is:</b>	<b>If line 7 is:</b>																															
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\$0 - 15,000	15,000 - 17,000	.35																														
15,000 - 17,000	17,000 - 19,000	.34																														
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21,000 - 23,000	23,000 - 25,000	.31																														
23,000 - 25,000	25,000 - 27,000	.30																														
25,000 - 27,000	27,000 - 29,000	.29																														
27,000 - 29,000	29,000 - 31,000	.28																														
<b>9</b> Multiply line 6 by the decimal amount on line 8. If you paid 2007 expenses in 2008, see the instructions . . . . .	<b>9</b>																															
<b>10</b> Enter the amount from Form 1040, line 46 or Form 1040NR, line 43 . . . . .	<b>10</b>																															
<b>11</b> Enter the amount from Form 1040, line 47, or Form 1040NR, line 44 . . . . .	<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 48, or Form 1040NR, line 45 . . . . .	<b>13</b>	X																														

## CHILD TAX CREDIT

### Tax Credit

The child tax credit is a credit given for each of your children who are under age 17 on December 31 of the tax year. The amount of the credit is \$1,000 per qualifying child. If the taxpayer is unable to claim the full amount of the credit, he may be eligible for an additional child tax credit (discussed later). The child tax credit is limited by the tax liability and modified AGI of the taxpayer.

### Phase-outs

If the amount of tax due is zero you cannot take this credit because there is no tax to reduce. (See additional child tax credit mentioned later)

The taxpayer's modified adjusted income cannot exceed the amount listed

Married Filing Jointly	\$110,000
Single, HOH or Qualifying Widow(er)	\$75,000
Married Filing Separately	\$55,000

NOTE: This credit is figured automatically by the software.

## ADDITIONAL CHILD TAX CREDIT

### Income Credit

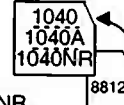
The additional child tax credit is for taxpayers who have qualifying children and who are not able to claim the full child tax credit.

The taxpayer should use Form 8812 to see if he qualifies for this credit. Example: The taxpayer only owes \$400 in tax and therefore only gets \$400 in child tax credit. They may be eligible for a \$600 additional child tax credit to get the full \$1000.

NOTE: Both of the above credits and forms will be calculated and filled out by the software.

For tax year 2009, the income threshold required to claim this credit has been reduced. The minimum income required to claim the Additional Child Tax Credit is \$3000.00. Because of this, more taxpayers will qualify for both the Child Tax Credit (a tax credit) and the Additional Child Tax Credit (an income credit).

# Additional Child Tax Credit



2008

Department of the Treasury  
Internal Revenue Service (99)

Complete and attach to Form 1040, Form 1040A, or Form 1040NR.

Attachment  
Sequence No. **47**

Name(s) shown on return

Your social security number

## Part I All Filers

<b>1</b> Enter the amount from line 1 of your Child Tax Credit Worksheet on page 43 of the Form 1040 instructions, page 38 of the Form 1040A instructions, or page 19 of the Form 1040NR instructions. If you used Pub. 972, enter the amount from line 8 of the worksheet on page 4 of the publication . . . . .	<b>1</b>	
<b>2</b> Enter the amount from Form 1040, line 52, Form 1040A, line 33, or Form 1040NR, line 47 . . . . .	<b>2</b>	
<b>3</b> Subtract line 2 from line 1. If zero, <b>stop</b> ; you cannot take this credit . . . . .	<b>3</b>	
<b>4a</b> Earned income (see instructions on side 2). If your main home was in a Midwestern disaster area when the disaster occurred, and you are electing to use 2007 earned income, check here <input type="checkbox"/>	<b>4a</b>	
<b>b</b> Nontaxable combat pay (see instructions on side 2) . . . . . <input type="checkbox"/>	<b>4b</b>	
<b>5</b> Is the amount on line 4a more than \$8,500? <input type="checkbox"/> <b>No.</b> Leave line 5 blank and enter -0- on line 6. <input type="checkbox"/> <b>Yes.</b> Subtract \$8,500 from the amount on line 4a. Enter the result . . . . .	<b>5</b>	
<b>6</b> Multiply the amount on line 5 by 15% (.15) 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, stop; 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.	<b>6</b>	

## Part II Certain Filers Who Have Three or More Qualifying Children

<b>7</b> 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 side 2 . . . . .	<b>7</b>	
<b>8 1040 filers:</b> Enter the total of the amounts from Form 1040, lines 27 and 58, plus any taxes that you identified using code "UT" and entered on the dotted line next to line 61.  <b>1040A filers:</b> Enter -0-  <b>1040NR filers:</b> Enter the total of the amounts from Form 1040NR, line 53, plus any taxes that you identified using code "UT" and entered on the dotted line next to line 57.	<b>8</b>	
<b>9</b> Add lines 7 and 8 . . . . .	<b>9</b>	
<b>10 1040 filers:</b> Enter the total of the amounts from Form 1040, lines 64a and 65.  <b>1040A filers:</b> Enter the total of the amount from Form 1040A, line 40a, plus any excess social security & tier 1 RRTA taxes withheld that you entered to the left of line 43 (see instructions).  <b>1040NR filers:</b> Enter the amount from Form 1040NR, line 60.	<b>10</b>	
<b>11</b> Subtract line 10 from line 9. If zero or less, enter -0- . . . . .	<b>11</b>	
<b>12</b> Enter the <b>larger</b> of line 6 or line 11 . . . . . <b>Next,</b> enter the <b>smaller</b> of line 3 or line 12 on line 13.	<b>12</b>	

## Part III Additional Child Tax Credit

<b>13</b> This is your additional child tax credit . . . . .	<b>13</b>	
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Enter this amount on Form 1040, line 66, Form 1040A, line 41, or Form 1040NR, line 61.





To be a qualifying child for the child tax credit, the child must be **under age 17** at the end of 2008 and meet the other requirements listed on page 2.



**Part 1**

1. Number of qualifying children: \_\_\_\_\_ × \$1,000. Enter the result. 

1	
---	--

2. Enter the amount from Form 1040, line 38;  
Form 1040A, line 22; or Form 1040NR, line 36. 

2	
---	--

3. **1040 Filers.** Enter the total of any—  
 • Exclusion of income from Puerto Rico, and  
 • Amounts from Form 2555, lines 45 and 50;  
 Form 2555-EZ, line 18; and  
 Form 4563, line 15. } 

3	
---	--

  
**1040A and 1040NR Filers.** Enter -0-.

4. Add lines 2 and 3. Enter the total. 

4	
---	--

5. Enter 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 } 

5	
---	--

6. Is the amount on line 4 more than the amount on line 5?  
 **No.** Leave line 6 blank. Enter -0- on line 7.  
 **Yes.** Subtract line 5 from line 4. 

6	
---	--

  
 If the result is not a multiple of \$1,000,  
 increase it to the next multiple of \$1,000.  
 For example, increase \$425 to \$1,000,  
 increase \$1,025 to \$2,000, etc.

7. Multiply the amount on line 6 by 5% (.05). Enter the result. 

7	
---	--

8. Is the amount on line 1 more than the amount on line 7?  
 **No.** You cannot take the child tax credit on Form 1040, line 52;  
 Form 1040A, line 33; or Form 1040NR, line 47. You also cannot take  
 the additional child tax credit on Form 1040, line 66; Form 1040A,  
 line 41; or Form 1040NR, line 61. Complete the rest of your  
 Form 1040, 1040A, or Form 1040NR.  
 **Yes.** Subtract line 7 from line 1. Enter the result. 

8	
---	--

  
 Go to Part 2 on the next page.

## EARNED INCOME TAX CREDIT

### Income Credit

Earned Income Tax Credit is available to taxpayers with and without children. EITC is a tax benefit for taxpayers who worked, had earned income and meet all requirements for receiving the credit. The credit may give taxpayers a refund even if they do not owe any tax.

The taxpayer must have earned income to be eligible for the credit. Earned income is income the taxpayer received for working, even if it is not taxable. Income that is not considered as earned income can be found in Publication 17.

To be eligible to claim the EITC, the taxpayer must meet all of the rules listed below.

- 1- The taxpayer's AGI must be less than \$43,279 - MFJ status is \$48,279 (2009) with three children  
\$40,295 (\$45,295 MFJ) with two children  
\$35,463 (\$40,463 MFJ) with one child  
\$13,440 (\$18,440 MFJ) with no children
- 2- The taxpayer must have a valid social security number
- 3- The taxpayer's filing status cannot be Married Filing Separately
- 4- The taxpayer must be a US citizen or resident alien all year
- 5- The taxpayer cannot have foreign income
- 6- The taxpayer's investment income cannot exceed \$2,900
- 7- The taxpayer must have earned income

The taxpayer's child is a qualifying child if the child meets three tests.

**The three tests are:**

**1- Relationship**

**2- Age**

**3- Residency**

## Three EIC Test Defined

### Relationship Test

To be a qualifying child, a child must be the taxpayer's:

- i Son, daughter, brother, sister, niece, nephew, grandchild or foster child
- i A foster child must be placed with the taxpayer by an authorized placement agency.

### Age Test (For 2009, the child must be younger than the taxpayer)

The child must be:

- i Under age 19 at the end of the year Or
- i A full-time student under age 24 at the end of the year Or

A full time student is a student who is enrolled for the number of hours or courses the school considers to be full time attendance.

To qualify as a student, the child must be a full time student for some part of each of any 5 calendar months during the calendar year.

- i Permanently and totally disabled at any time during the year regardless of age

The taxpayer's child 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 doctor determines the condition has lasted or can be expected to last continuously for at least a year or can lead to death.

### Residency Test

The child must have lived with the taxpayer in the United States for more than half of the tax year.

U.S. military personnel stationed outside the United States on extended active duty are considered to live in the United States for that active duty period for the purpose of figuring EIC

Note: The EIC amount will be calculated by the software.

As a side note, the Interview Sheet and the EITC Due Diligence Questionnaire are designed to give the preparer all necessary information to determine whether or not the taxpayer's dependents qualify for EITC. If the tax preparer determines that EITC is due the client, proper completion of data in the software defaults to form 8867, Paid Preparer Worksheet. This worksheet is retained in the software program.



## EITC Due Diligence Requirements

Requirement	Description
Completion of Eligibility Checklist	<ul style="list-style-type: none"> <li>i Based on data obtained from the Interview Sheet and EITC Preparer Questionnaire, data for form 8867 will default. This form is retained in the computer.</li> <li>i Completion of this form is based on the information the customer supplied on the Interview Sheet. The interview sheet must be completed, signed and dated by the taxpayer.</li> </ul>
Computation of the Credit	The EIC Worksheet is required by the IRS. Your software automatically computes this worksheet and can be printed as needed.
Knowledge	<p>As a preparer:</p> <ul style="list-style-type: none"> <li>i You must not know or have reason to know that any information used by the preparer determining the taxpayer's eligibility for, or the amount of, the EITC is incorrect.</li> <li>i You may not ignore the implications of information furnished to you or known by you.</li> <li>i You must make reasonable inquiries if information furnished to, or known by you appears to be incorrect, inconsistent, or incomplete.</li> <li>i You are required to apply sound judgment and common sense to information provided by the clients and ask questions when needed.</li> <li>i You are required to document additional, pertinent information you may obtain from the taxpayer.</li> </ul>
Record Retention	<ul style="list-style-type: none"> <li>i Your software automatically retains form 8867 and the EIC worksheet.</li> <li>i The Interview Sheet must be signed and dated. This sheet should be completed in the taxpayer's handwriting and kept in your files.</li> <li>i You are required to make a copy of the customer's government issued ID and keep in the file.</li> <li>i These records are to be kept for three years.</li> </ul>

EZ-Tax Online has developed an Interview Sheet for your customers to complete. This sheet must be fully completed, dated and signed by each of your customers. Enter the taxpayer's personal information and dependent information exactly as they presented it to you on this form. Any changes made during the interview process must be fully documented on this form. Many questions that the IRS requires as part of Due Diligence are asked on the Interview Sheet. Be sure that your client completes both boxes near the bottom of this page.

If the information supplied appears to be incorrect, inconsistent or incomplete, you, as the preparer, must ask additional questions and fully document this inquiry. EZ-Tax Online has developed an EITC due diligence questionnaire for the tax preparer to complete. This questionnaire can be found on the Training Page, under the Preparer Due Diligence Forms button. Additional copies can be made in your office.

The IRS expects you to apply what they refer to as “REASONABLE KNOWLEDGE” when preparing the tax return. If any information seems unreasonable, you are to make additional inquiries and fully document the client responds.

## How to complete the EITC Due Diligence Questionnaire

When completing this additional documentation, remember the three “C’s”

- i Correct – did the client give you true information?
- i Complete – did the client give you enough information to validate the EITC claim?
- i Consistent – does this information provided by the client appear consistent in regards their income, age, housing, marital status, etc.?

On the EZ-Tax Online webpage, there is a button on the Training Page called Preparer Due Diligence Forms. Each time a non-standard dependent is claimed for EITC, complete this form. The questions found on this form are stated below. The following lists these questions and suggestions in obtaining information to answer.

1. If the dependent is **not** your natural child, enter documents available to prove relationship (credentials could include birth certificates, adoption records, foster care papers or marriage certificates as necessary).

If the dependent is a brother, sister, nephew, niece, grandchild or a foster child, ask the taxpayer if they can prove that relationship through birth certificates (example: if the taxpayer is claiming their brother, can he provide, if asked by the IRS, birth certificates form him and his brother showing a common parent?).

2. If the dependent is a student between the ages of 19 and 24, enter documents available to prove the dependent was enrolled full-time at a school for at least five months of the tax year.

The IRS is examining more tax returns that have students claimed for EITC. Can your taxpayer, if asked by the IRS, present school records proving the dependent is a full-time student in an acceptable institution.

3. If the dependent is disabled, list the documents from authorized medical/government sources proving disability.

NEVER ask the taxpayer to produce medical records, as this breeches privacy laws regarding medical information. However, the IRS may require the taxpayer to prove that their disabled child meets the IRS definition of “disabled”. Your responsibility is to ask the taxpayer if they could prove the disabled status of their child.

4. List documents available showing the child/children lived with the taxpayer for more than six months. (documents include school records, medical records, rent/lease contracts, or letters from a professional)

Such records must show that the address on the child's records match the address of the taxpayer.

5. In cases where there is a seemingly unreasonable age difference between the taxpayer and the dependent, explain.

You, as a tax preparer must use sound judgment when there appears to be an unreasonable age difference between your client and their dependent. Space does not allow all possible questions that should be asked in these cases.

6. If the **taxpayer** is under age 19, explain how he or she is not a qualifying child of another person.

Evaluate the client's income. Does it appear reasonable that she can support her dependents on this income? If the information does not appear reasonable, or if your sound judgment is questioned, you must make adequate inquiries to defend the integrity of the return.

# Chapter 3

## Exemptions/Dependents and Credits

Your Name

---

### Exemption Exercise

Your Company's Name

---

For the following situations, how many exemptions should be claimed?

1. A married couple comes in to file. They have no children. The husband does not work, as he is a full-time student. The wife is the sole wage-earner
2. A woman wishes to file Head of House. She has three children
3. A married couple will file Married Filing Joint. They have one child. Both work
4. A 17 year old high school student comes in with her mother. The student made \$4,500.00 working at a local fast food restaurant. Her mother made \$20,000.00 and wants to claim her daughter, as the mother wants to receive Earned Income Credit. How many exemptions should be on the student's return? How many exemptions should be on the mother's return?
5. A taxpayer lives with her two children. Additionally, her elderly mother lives with her. She will be eligible for the Earned Income Credit for both of her children.

# Chapter 3

## Exemptions/Dependents and Credits

### Review Questions

#### Child Care Credit, Child Tax Credit, EIC

Your Name

---

Your Company's Name

---

Circle True/False for the following:

- TRUE FALSE 1. Charlie works part-time during school and full-time during the summer. If his parents claim him, can he still file a return?
- TRUE FALSE 2. Sandra had her first baby last November. Because the child did not live with her for six months, she cannot claim EIC.
- TRUE FALSE 3. Sean's turned 17 on December 29<sup>th</sup>. His mother is eligible for Child Tax Credit.
- TRUE FALSE 4. Both parents must have earned income in order to claim Child Care Credit.
- TRUE FALSE 5. You cannot claim Child Care Credit if your sister was paid to watch your children.
- TRUE FALSE 6. A working mother has three children. She pays her 20 year old son to watch the 8 year old after school. She cannot claim this cost for Child Care Credit as her 20 year old still lives at home.
- TRUE FALSE 7. You prepared Tyrone's tax return. He made \$9,000, filed Head of House and received EIC for his two children. The computer did not give him the \$1000 Child Tax Credit. Re-do the return because all taxpayers are due the Child Tax Credit.
- TRUE FALSE 8. Marie retired after teaching school for thirty years. She receives a pension, which is taxed. Her young grandson lives with her. Because she earned her retirement income, she is eligible for EIC.
- TRUE FALSE 9. Paul and Sally divorced three years ago. They have two children who live with Sally. Sally has remarried and does not work. Since Paul pays his child support on time every month he is eligible to receive EIC.
- TRUE FALSE 10. In order to claim Child Care Credit, the child care provider must have a valid license and a tax ID number.

# Chapter 3

## Exemptions/Dependents and Credits

### EITC Review Questions

Your Name

---

Your Company's Name

---

There is only one best answer. Circle the correct letter.

1. Tony tells Judith, his tax preparer, that a friend who has children told him about getting a bigger refund because of earned income credit. Tony, who has no children, wants to know if this is something he is eligible to claim. Which of the following is the most accurate statement in regard to who can claim the earned income credit?
  - a) Taxpayers who have earned income with children
  - b) Taxpayers who have earned income with no children
  - c) Taxpayers who have earned income with or without children
  - d) Taxpayers who have earned income only
  
2. Judith also explains to Tony he must have earned income to be eligible and gives him some examples. Which of the following is listed *incorrectly* as earned income for purposes of the earned income credit.
  - a) Wages, salaries and tips
  - b) Net earnings from self-employment
  - c) Gross income received as a statutory employee
  - d) Unemployment compensation.
  
3. Tony asks Judith about other types of income he has received. She explains the difference between earned and unearned income. Which of the following is an example of earned income for purposes of the earned income credit?
  - a) Interest and dividends
  - b) Alimony
  - c) Retirement income
  - d) Cash income from mowing lawns
  
4. Marie, who has a 10 year old daughter, separated from her husband in November. In the past when she and her husband filed a joint return they received earned income credit. She is concerned whether or not she is still eligible for EIC. Her tax preparer explains there are many factors to determine this including her filing status. Which filing status would make Marie **ineligible** for EIC?
  - a) Head of Household
  - b) Married Filing Separate
  - c) Single
  - d) Married Filing Joint

5. Marie's tax preparer explains there are several tests involved in determining if a child is a qualifying child for purpose of EIC. Which of the following tests is *not* required to determine qualifying child eligibility?
- a) Relationship Test
  - b) Age Test
  - c) Support Test
  - d) Residency Test
6. Mrs. Miller loves children and has several living with her. She asks her preparer which if any of the children would be considered a qualifying child for purposes of earned income credit. Which of the following would be considered to be *invalid* as a qualifying child for purposes of EIC?
- a) Your roommate's child
  - b) Foster Child
  - c) Stepchild
  - d) Grandchild
7. Amber has a foster child through an authorized placement agency and cares for him like her own. In order for Amber to be able to claim her foster child for purposes of EIC, the child must have lived with her for how long?
- a) At least some part of the year.
  - b) More than the child lived with anyone else.
  - c) The entire year.
  - d) More than six months.
8. Drew, who has no children, asks his tax preparer about EIC. The preparer explains Drew must meet all of the following qualifications to be eligible for EIC in the tax year **except**:
- a) Have earned income of less than \$12,500.
  - b) Be at least 25 but under age 65 at the end of the tax year
  - c) He may not be the dependent of another person
  - d) He must be married filing a joint return.
9. All of the following taxpayers meet the income and residency tests for EIC. They do not have a qualifying child. Which taxpayer does *not* meet all the tests to qualify for EIC?
- a) A 67 year old taxpayer and his 59 year old wife
  - b) A 32 year-old single taxpayer.
  - c) A 24 year-old taxpayer and his 24 year-old wife.
  - d) A 25 year-old single taxpayer.

## Chapter 3

# Exemptions/Dependents and Credits

## EITC Due Diligence Exercises

People who prepare tax returns claiming the Earned Income Tax Credit are subject to due diligence requirements focused on accurately determining the taxpayer's eligibility for the credit. To claim EIC the qualifying child must pass three tests:

Relationship  
Residency  
Age

At first glance, passing the three tests seems sufficient. Remember, if the information supplied to you by your client *appears* to be incomplete, inconsistent or incorrect, you must ask additional questions. Discuss these situations and the additional questions that should be asked.

1. The step-father has \$10,000 in earned income. The mother made \$15,000. Her son is 7 years old. The son lived with the step-father for 7 months.
  - a) According to the EIC three tests, who can claim the child?
  - b) Is this scenario Complete, Consistent, Correct?

Do your answers change if you knew the child lived with both parents until the step-father moved out?  
Do your answers change if you knew the mother never lived with the step-father or the child?  
Does your answer change if there was a court decree related to separate maintenance?

2. A grandmother made \$10,000. Her daughter and grandson lived with her all year. The daughter is 18 years old and makes \$10,000.
  - a) According to the EIC three tests, who can claim the child?
  - b) Is this scenario Complete, Consistent, Correct?
  - c) Who can claim Head of House?
3. A step-father makes \$10,000. The mother makes \$15,000. They were together for the first six months last year, and then split up. She has a 6 year-old child.
  - a. According to the EIC three tests, who can claim the child?
  - b. Is this scenario Complete, Consistent, Correct?
4. A customer comes to your office and says they made \$10,000 as a construction worker. He has a niece who lives with him, age 15. His daughter is in college. She is 21.
  - d) According to the EIC three tests, who can claim the child?
  - e) Is this scenario Complete, Consistent, Correct?



# CHAPTER 4

## INCOME

## INCOME

### WAGES

If the taxpayer is an employee, he should receive a Form W-2 in order to properly report his income. Income from Form W-2 is reported as wages on line 7 of the 1040.

### FORM W-2

Be careful to enter the information from Form W-2 exactly as it appears on the W-2 given to you by the taxpayer. It is important to have the Employer Identification number, name and address and employee's SSN, name and address entered correctly to prevent the return from being rejected by the IRS.

Box 1 of the W-2 will show the wages, tips and other compensation the taxpayer received from his employment. Be sure to enter this amount in the software program exactly as it appears on the W-2. **YOU SHOULD ROUND THIS AMOUNT TO THE NEAREST DOLLAR. DO NOT ENTER CENTS.**

Box 2 of the W-2 shows the Federal income tax withheld. Round to the nearest dollar and enter this amount in the software exactly as it appears.

Boxes 3, 4, 5 and 6 will be figured automatically by the software and should not have to be entered manually unless the amounts are different from what is shown on line 1. In this case, be careful to enter these amounts exactly as shown on the W-2.

Boxes 7 and 8 show Social Security tips and allocated tips received. Be careful to enter these amounts in the software exactly as shown.


Box 9 will show any advance earned income credit payments that might have been made by the employer. This will be rare to see, but be very careful to enter this amount if it does appear. Failure to enter this will result in an improper tax refund for your client and cause him to owe a balance back to the IRS.

Box 12 is very important to enter correctly. There are numerous codes that you will see along with a corresponding dollar amount in one or more of the blocks in this line. According to what the entry is for (see attached w-2 and instructions) the refund amount will be affected. **MAKE SURE TO ENTER THIS AMOUNT ACCURATELY.**

Boxes 10, 11, 13 and 14 should be entered in the software as they appear on the W-2.

Be certain to notice the state information in lines 15 through 20 and enter this into the software even if you are not going to file the state return for your client.

Sample W-2 Form and the instructions found on the back of this page:

a Employee's social security number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov/efile">www.irs.gov/efile</a> .	
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 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	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

**2009**

Department of the Treasury—Internal Revenue Service

**Notice to Employee**

**Refund.** Even if you do not have to file a tax return, you should file to get a refund if box 2 shows federal income tax withheld or if you can take the earned income credit.

**Earned income credit (EIC).** You must file a tax return if any amount is shown in box 9.

You may be able to take the EIC for 2009 if (a) you do not have a qualifying child and you earned less than \$13,440 (\$16,560 if married filing jointly), (b) you have one qualifying child and you earned less than \$35,463 (\$38,583 if married filing jointly), or (c) you have more than one qualifying child and you earned less than \$40,295 (\$43,415 if married filing jointly). You and any qualifying children must have valid social security numbers (SSNs). You cannot take the EIC if your investment income is more than \$3,100. **Any EIC that is more than your tax liability is refunded to you, but only if you file a tax return.** If you have at least one qualifying child, you may get as much as \$1,826 of the EIC in advance by completing Form W-5, Earned Income Credit Advance Payment Certificate, and giving it to your employer.

**Clergy and religious workers.** If you are not subject to social security and Medicare taxes, see Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers.

**Corrections.** If your name, SSN, or address is incorrect, correct Copies B, C, and 2 and ask your employer to correct your employment record. Be sure to ask the employer to file Form W-2c, Corrected Wage and Tax Statement, with the Social Security Administration (SSA) to correct any name, SSN, or money amount error reported to the SSA on Form W-2. If your name and SSN are correct but are not the same as shown on your social security card, you should ask for a new card that displays your correct name at any SSA office or by calling 1-800-772-1213.

**Credit for excess taxes.** If you had more than one employer in 2009 and more than \$6,621.60 in social security and/or Tier I railroad retirement (RRTA) taxes were withheld, you may be able to claim a credit for the excess against your federal income tax. If you had more than one railroad employer and more than \$3,088.80 in Tier II RRTA tax was withheld, you also may be able to claim a credit. See your Form 1040 or Form 1040A instructions and Publication 505, Tax Withholding and Estimated Tax.

(Also see *Instructions for Employee* on the back of Copy C.)

## SELF EMPLOYMENT INCOME (SCHEDULE C)

Some of your clients will have income received through self-employment and will not have income tax or Social Security and Medicare tax deducted. In these cases the taxpayer will need to fill out a schedule C (Profit or Loss from Business). There are two ways your client will report this income to you. The most common way is when they receive a 1099 Misc. form which includes the amount of income they received from self employment.

However, a number of your clients may have occupations in which they receive cash for their services. These include hair dressers, house cleaners, contractors, mechanics etc. In these cases, you will have the client fill out a self employment worksheet to give you the amounts of their income and expenses. This form is available on the EZ-Tax website.

### Form 1099 Misc

In most cases the income listed on 1099 Misc will be included in box 7, Nonemployee compensation. This amount will be entered on the schedule C line 1. (Note: for additional information on where to put 1099-Misc income, refer to the training page of the website. Under Help at your Fingertips button, there is a chart that list all boxes in the 1099-misc, and where in the software to place these incomes).

If the income listed on 1099 Misc is included on box 3, other income, you will need to ask the taxpayer how the income was earned. If it is trade or business income it will be reported on schedule C line 1. Generally, all other income will be reported on line 21 of the 1040 and identify the payment.

Box 4 of the 1099 Misc shows the amount of Federal income tax withheld if any.

The other boxes on this form will not be covered in this training as you will rarely use them.

All income from 1099 Misc or from the Self Employment Worksheet should be entered on line 1 of the Schedule C, Gross receipts or sales.

If the taxpayer has no expenses or adjustments to their income that is all you have to do.

However, if the taxpayer does have deductible business expenses, they should be entered in Part II of the Schedule C. These expenses should come from the taxpayer when he fills out the Schedule C Worksheet. Expenses that are deductible are listed in this part of the Schedule C. If there are other expenses, list them in the section marked other expenses.

In section III, you will figure the cost of goods sold. This section will only be used if your client is in a business that buys and sells goods and keeps an inventory that must be calculated at the end of each year. Most of your customers do not fall into this category.

If the client used their vehicle in the course of their business, they might want to deduct the business mileage. Section IV of the Schedule C is used for this purpose. Your client will need to keep a mileage log to compute this deduction.

As part of Due Diligence, the Tax Preparer should complete the following questionnaire:

**TAX PREPARER  
SCHEDULE C /SELF EMPLOYMENT  
QUESTIONNAIRE**

Describe the type of documentation your client has for the following. Note whether or not you visualized the documentation.

Income (1099-Misc, bank records, receipts, etc.)

---

---

Expenses (receipts, bank records, credit card statements, etc.). If no expenses, what is the taxpayer's explanation?

---

---

Vehicle Mileage (log book, repair tickets, proof of gasoline purchases, oil change records, or any other documents to prove the cost of miles driven)

---

---

Basis of Depreciable Assets (ex/contracts, receipts)

---

---

Additional documentation not mentioned above

---

---

The information supplied by the taxpayer and their answers to additional inquiries appears to be correct, consistent, complete and reasonable.

Tax Preparer's signature \_\_\_\_\_ Date \_\_\_\_\_

Example of the 1099-Misc form. Recipient instructions are printed on the back of this form.

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		<b>1</b> Rents		OMB No. 1545-0115  <span style="font-size: 2em; font-weight: bold;">200</span>  Form 1099-MISC	<b>Miscellaneous Income</b>
		\$			
		<b>2</b> Royalties			
		\$		<b>Copy B For Recipient</b>	
		<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		<b>6</b> Medical and health care payments	
		\$		\$	
RECIPIENT'S name  Street address (including apt. no.)  City, state, and ZIP code		<b>7</b> Nonemployee compensation		<b>8</b> 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.
		\$		\$	
		<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	
		\$			
<b>11</b>		<b>12</b>			
		\$	\$		
Account number (see instructions)		<b>13</b> Excess golden parachute payments		<b>14</b> Gross proceeds paid to an attorney	
		\$		\$	
<b>15a</b> Section 409A deferrals	<b>15b</b> Section 409A income	<b>16</b> State tax withheld		<b>17</b> State/Payer's state no.	<b>18</b> State income
\$	\$	\$			\$

Form **1099-MISC** (keep for your records) Department of the Treasury - Internal Revenue Service

### Instructions for Recipients

**Account number.** May show an account or other unique number the payer assigned to distinguish your account.

**Amounts shown may be subject to self-employment (SE) tax.** If your net income from self-employment is \$400 or more, you must file a return and compute your SE tax on Schedule SE (Form 1040). See Pub. 334, Tax Guide for Self-Employed, for more information. If income or social security and Medicare taxes were withheld and you are still receiving these payments, see Form 1040-ES, Estimated Tax for Individuals. Individuals must report as explained for box 7 below. Corporations, fiduciaries, or partnerships report the amounts on the proper line of your tax return.

**Boxes 1 and 2** Report rents from real estate on Schedule E (Form 1040). If you provided significant services to the tenant, sold real estate as a business, or rented personal property as a business, report on Schedule C or C-EZ (Form 1040). For royalties on timber, coal, and iron ore, see Pub. 544, Sales and Other Dispositions of Assets.

**Box 3.** Generally, report this amount on the "Other income" line of Form 1040 and identify the payment. The amount shown may be payments received as the beneficiary of a deceased employee, prizes, awards, taxable damages, Indian gaming profits, payments from a former employer because you are serving in the Armed Forces or the National Guard or other taxable income. See Pub. 525, Taxable and Nontaxable Income. If it is trade or business income, report this amount on Schedule C, C-EZ, or F (Form 1040).

**Box 4.** Shows backup withholding or withholding on Indian gaming profits. Generally, a payer must backup withhold at a 28% rate if you did not furnish our taxpayer identification number. See Form W-9, Request for Taxpayer Identification Number and Certification, for more information. Report this amount on your income tax return as tax withheld.

**Box 5.** An amount in this box means the fishing boat operator considers you self-employed. Report this amount on Schedule C or C-EZ (Form 1040). See Pub. 334.

**Box 6.** For individuals, report on Schedule C or C-EZ (Form 1040).

**Box 7.** Shows nonemployee compensation. If you are in the trade or business of catching fish, box 7 may show cash you received for the sale of fish. If payments in this box are SE income, report this amount on Schedule C, C-EZ, or F (Form 1040), and complete Schedule SE (Form 1040). You received this form instead of Form W-2 because the payer did not consider you an employee and did not withhold income tax or social security and Medicare tax. Contact the payer if you believe this form is incorrect or has been issued in error. If you believe you are an employee and do not want this form corrected, report the amount from box 7 on Form 1040, line 7 (or Form 1040 NR, line 8). You must also complete and attach to your return Form 8919, Uncollected Social Security and Medicare Tax on Wages.

**Box 8.** Shows substitute payments in lieu of dividends or tax-exempt interest received by your broker on your behalf as a result of a loan of your securities. Report on the "Other income" line of Form 1040.

**Box 9.** If checked, \$5,000 or more of sales of consumer products was paid to you on a buy-sell, deposit-commission, or other basis. A dollar amount does not have to be shown. Generally, report any income from your sale of these products on Schedule C or C-EZ (Form 1040).

**Box 10.** Report this amount on line 8 of Schedule F (Form 1040).

**Box 13.** Shows your total compensation of excess golden parachute payments subject to a 20% excise tax. See the Form 1040 instructions for where to report.

**Box 14.** Shows gross proceeds paid to an attorney in connection with legal services. Report only the taxable part as income on your return.

**Box 15a.** Shows current year deferrals as a nonemployee under a nonqualified deferred compensation (NQDC) plan that is subject to the requirements of section 409A. This amount is also reported if any earnings on current and prior year deferrals are also reported.

**Box 15b.** Shows income as a nonemployee under an NQDC plan that does not meet the requirements of section 409A. This amount is also included in box 7 as nonemployee compensation. Any amount included in box 15a that is currently taxable is also included in this box. This income is also subject to a substantial additional tax to be reported on Form 1040. See "Total Tax" in the Form 1040 instructions.

**Boxes 16-18.** Shows state or local income tax withheld from the payments.

This form is downloadable and can be found in the Training portion of the EZ-Tax Online website. Customer should complete this for all self-employed income not documented on a 1099-Msc and for all business expenses, included expenses relating to 1099-Misc income. The client is to complete this form, sign and date. Retain in your customer files.

## SELF-EMPLOYMENT WORKSHEET

Rev. 12/2008

Description of Business	Employer ID number
Business Name	Year Business Started
Business Address	

Total yearly income for the business	\$
Describe the record keeping practices	

EXPENSES			
Advertising		Rent/Leases	
Commission/Fees		Repairs/Maintenance	
Contract Labor		Supplies	
Insurance		Taxes	
Legal/Professional Fees		Utilities	
Office Expenses		Wages	
Other (list separately, describe, itemize costs)			

Vehicle Expenses			
Type Vehicle		Actual Vehicle Expenses	
Date vehicle placed in service		Gas/Oil	\$
Total miles driven		Repairs/Maintenance	\$
Total business miles		Insurance	\$
Total commuting miles		If depreciating vehicle, use additional form	Yes No
Was your vehicle available for personal use during off hours	Yes No	Do you have evidence to support your deductions?	Yes No
Do you have another vehicle for personal use	Yes No	If "Yes" is this evidence written?	Yes No

**SCHEDULE C  
(Form 1040)**

**Profit or Loss From Business  
(Sole Proprietorship)**

OMB No. 1545-0074

**2008**

Department of the Treasury  
Internal Revenue Service (99)

Partnerships, joint ventures, etc., generally must file Form 1065 or 1065-B.  
Attach to Form 1040, 1040NR, or 1041. See instructions for Schedule C (Form 1040).

Attachment  
Sequence No. 09

Name of proprietor		Social security number (SSN)	
A Principal business or profession, including product or service (see instructions)		B Enter code from instructions	
C Business name. If no separate business name, leave blank.		D Employer ID no. (EIN), if any	
E Business address (including suite or room no.) City, town or post office, state, and ZIP code			
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____			
G Did you "materially participate" in the operation of this business during 2008? If "No," see instructions for limit on losses <input type="checkbox"/> Yes <input type="checkbox"/> No			
H If you started or acquired this business during 2008, check here <input type="checkbox"/>			

**Part I Income**

1 Gross receipts or sales. <b>Caution.</b> See instructions and check the box if: <ul style="list-style-type: none"> <li>• This income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, or</li> <li>• You are a member of a qualified joint venture reporting only rental real estate income not subject to self-employment tax. Also see page C-4 for limit on losses.</li> </ul>	<input type="checkbox"/>	1	
2 Returns and allowances		2	
3 Subtract line 2 from line 1		3	
4 Cost of goods sold (from line 42 on page 2)		4	
5 <b>Gross profit.</b> Subtract line 4 from line 3		5	
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		6	
7 <b>Gross income.</b> Add lines 5 and 6		7	

**Part II Expenses.** Enter expenses for business use of your home only on line 30.

8 Advertising	8		
9 Car and truck expenses (see instructions)	9		
10 Commissions and fees	10		
11 Contract labor (see instructions)	11		
12 Depletion	12		
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		
14 Employee benefit programs (other than on line 19)	14		
15 Insurance (other than health)	15		
16 Interest:			
a Mortgage (paid to banks, etc.)	16a		
b Other	16b		
17 Legal and professional services	17		
18 Office expense	18		
19 Pension and profit-sharing plans	19		
20 Rent or lease (see instructions):			
a Vehicles, machinery, and equipment	20a		
b Other business property	20b		
21 Repairs and maintenance	21		
22 Supplies (not included in Part III)	22		
23 Taxes and licenses	23		
24 Travel, meals, and entertainment:			
a Travel	24a		
b Deductible meals and entertainment (see instructions)	24b		
25 Utilities	25		
26 Wages (less employment credits)	26		
27 Other expenses (from line 48 on page 2)	27		
28 <b>Total expenses before expenses for business use of home.</b> Add lines 8 through 27		28	
29 Tentative profit or (loss). Subtract line 28 from line 7		29	
30 Expenses for business use of your home. Attach Form 8829		30	
31 <b>Net profit or (loss).</b> Subtract line 30 from line 29. <ul style="list-style-type: none"> <li>• If a profit, enter on both Form 1040, line 12, and Sch. SE, line 2, or on Form 1040NR, line 13 (if you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3.</li> <li>• If a loss, you must go to line 32.</li> </ul>		31	
32 If you have a loss, check the box that describes your investment in this activity (see instructions). <ul style="list-style-type: none"> <li>• If you checked 32a, enter the loss on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13 (if you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3.</li> <li>• If you checked 32b, you must attach Form 6198. Your loss may be limited.</li> </ul>		32a	<input type="checkbox"/> All investment is at risk.
		32b	<input type="checkbox"/> Some investment is not at risk.



Part III Cost of Goods Sold (see instructions)

33 Method(s) used to value closing inventory: a [ ] Cost b [ ] Lower of cost or market c [ ] Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation [ ] Yes [ ] No

Table with 2 columns: Description (Inventory at beginning of year, Purchases less cost of items withdrawn for personal use, Cost of labor, Materials and supplies, Other costs, Add lines 35 through 39, Inventory at end of year, Cost of goods sold) and Line Number (35-42).

Part IV Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 in the instructions to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year)
44 Of the total number of miles you drove your vehicle during 2008, enter the number of miles you used your vehicle for: a Business b Commuting (see instructions) c Other
45 Was your vehicle available for personal use during off-duty hours? [ ] Yes [ ] No
46 Do you (or your spouse) have another vehicle available for personal use? [ ] Yes [ ] No
47a Do you have evidence to support your deduction? [ ] Yes [ ] No
b If "Yes," is the evidence written? [ ] Yes [ ] No

Part V Other Expenses. List below business expenses not included on lines 8-26 or line 30.

Table with 2 columns: Description and Amount. Multiple rows for listing expenses.

48 Total other expenses. Enter here and on page 1, line 27 48

# CHAPTER 5

## IRA, PENSIONS, INTEREST AND DIVIDENDS

## IRA AND PENSION DISTRIBUTION

IRA or Pension distributions are generally reported to the taxpayer on form 1099R. Withdrawals should not be taken from a retirement fund until the taxpayers normal retirement date is reached. However, many people do decide to withdraw funds from their retirement fund for a variety of reasons. A withdrawal before age 59 ½ is considered to be early.

If a taxpayer does take an “early” withdrawal, they must then pay the tax and in most cases also pay a penalty. The form 1099 R is designed to let the taxpayer and the tax preparer know how withdrawals should be taxed.

### Form 1099 R

You should fill out the form 1099 R in the software exactly like the one given to you by your client just as you do the w2. Make sure that every block on the 1099 R that has information in it is transferred to the 1099 R in the software.

In box 1 will be listed the gross distribution. This is the amount actually withdrawn before any deductions are taken from it.

In box 2a is listed the taxable amount of the distribution. Generally this will be the same as the gross distribution, but does not have to be. This section is determined and entered by the taxpayer’s employer. If this box is left blank, this doesn’t mean that the distribution is not taxable. Many employers leave this blank in error. When this occurs, enter the same as the gross distribution in this box.

If the employer cannot determine the taxable amount, there will be a check mark in box 2a. Also, if the distribution is all the money available to be withdrawn, the block total distribution will be checked.

Box 3 will usually be blank, but if there is an amount entered, simply put the same amount in the corresponding block in the software.

In box 4 you will find the Federal Income Tax withheld. Many employers withhold not only the income tax due but also the penalty for early withdrawal if any.

Boxes 5 and 6 will usually be blank.

Box 7 is a very important entry. This is the code that will tell the client if their withdrawal is taxed as an early withdrawal, an exception or is a normal distribution.

- i Codes that are NOT subject to a penalty are 2, 3, 4, 6, 7 and 8
- i Codes ALWAYS subject to a penalty are 1 and 5.

Enter any further information that may be listed on the form for state or local taxes.

# Below is a sample 1099 R

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution		OMB No. 1545-0119		<b>200</b> Form <b>1099-R</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
		\$					
		2a Taxable amount				<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.	
		\$					
		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>		This information is being furnished to the Internal Revenue Service.	
PAYER'S federal identification number	RECIPIENT'S identification number	3 Capital gain (included in box 2a)		4 Federal income tax withheld			
		\$		\$			
RECIPIENT'S name		5 Employee contributions / Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities			
		\$		\$			
Street address (including apt. no.)		7 Distribution code(s)		IRA/SEP/SIMPLE <input type="checkbox"/>		8 Other	
						\$ %	
City, state, and ZIP code		9a Your percentage of total distribution %		9b Total employee contributions			
				\$			
		10 State tax withheld		11 State/Payer's state no.		12 State distribution	
		\$				\$	
		\$				\$	
Account number (see instructions)		13 Local tax withheld		14 Name of locality		15 Local distribution	
		\$				\$	
		\$				\$	

Form **1099-R**

Department of the Treasury - Internal Revenue Service

## INTEREST AND DIVIDEND INCOME

Income from interest and dividends is constructively received when it is credited to the taxpayer's account or made available. The taxpayer does not need to have physical possession of the money.

### INTEREST

Income from interest is taxable when earned or constructively received and is reported on Form 1099-INT. Form 1099-INT should be issued for amounts over \$10. Schedule B is required for interest incomes \$1500 or more. The software will automatically fill out schedule B when required and does not require any additional action on your part.

#### Form 1099-INT

Box 1 includes amounts that are paid to the taxpayer.

Box 2 includes early withdrawal penalty information that occurs when it is made from an account such as a savings account or Certificate of Deposit (CD) prior to maturity.

Box 3 includes interest from US Savings Bonds and Treasury obligations. This income is taxable on the federal tax return and nontaxable on state tax returns.

Box 4 includes federal taxes that are withheld. Usually, federal taxes are withheld when the taxpayer has failed to provide a taxpayer identification number to the payer.

Boxes 5 through 9 will rarely be used. However, if an amount is entered, place the amount in the corresponding box in the software.

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		Payer's RTN (optional)	OMB No. 1545-0112	<b>200</b> Interest Income
		1 Interest income \$	Form <b>1099-INT</b>	
		2 Early withdrawal penalty \$		
PAYER'S federal identification number	RECIPIENT'S identification number	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.
RECIPIENT'S name		4 Federal income tax withheld \$	5 Investment expenses \$	
Street address (including apt. no.)		6 Foreign tax paid \$	7 Foreign country or U.S. possession	
City, state, and ZIP code		8 Tax-exempt interest \$	9 Specified private activity bond interest \$	
Account number (see instructions)				

Form **1099-INT** (keep for your records) Department of the Treasury - Internal Revenue Service

# DIVIDENDS

Dividends are distributions of money, stock, or other property paid by a corporation. The taxpayer may also receive dividends through partnerships or an estate, trust or association that is taxed as a corporation. Dividends are usually fully taxable to the recipient and are reported to the taxpayer on Form 1099-DIV. Dividends over \$1500 require a Schedule B. The software will fill out Schedule B automatically when required and does not require any further action on your part.

## Form 1099-DIV

- **Box 1a** Includes ordinary dividends. Ordinary dividends are the most common type of dividends. Ordinary dividends, including mutual fund dividends, are taxed as ordinary income. Dividends received from common or preferred stock are considered ordinary dividends.
- **Box 1b** Includes qualified dividends
- Qualified dividends are the ordinary dividends received in tax years beginning after 2002 that are subject to the minimum tax that applies to net capital gains.
- **Box 2a** Includes total capital gain distributions.
- **Box 2b** Includes unrecaptured section 1250 (not covered)
- **Box 2c** Includes gain from section 1202 (not covered)
- **Box 2d** Gain from the sale of certain collectible art
- **Box 3** Includes nontaxable distributions
- **Box 4** Includes federal taxes withheld when the taxpayer does not provide a taxpayer identification number.
- **Box 5 through 9** will not be discussed here but should be entered in the software if included on form 1099-DIV.

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		<b>1a</b> Total ordinary dividends	OMB No. 1545-0110	<b>200</b> Form <b>1099-DIV</b>	<b>Dividends and Distributions</b>
		\$	<b>1b</b> Qualified dividends		
		\$			
		<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	RECIPIENT'S identification number				
RECIPIENT'S name		<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>3</b> Nondividend distributions	<b>4</b> Federal income tax withheld		
		\$	\$		
City, state, and ZIP code		<b>5</b> Investment expenses	<b>7</b> Foreign country or U.S. possession		
		\$	\$		
Account number (see instructions)		<b>6</b> Foreign tax paid	<b>9</b> Noncash liquidation distributions		
		\$	\$		

Form **1099-DIV**

(keep for your records)

Department of the Treasury - Internal Revenue Service

# CHAPTER 6

## MISCELLANEOUS INCOME

## UNEMPLOYMENT COMPENSATION

For tax year 2009, the first \$2400.00 of Unemployment Compensation will not be taxable for the **Federal 1040**. However, certain states will tax unemployment income. All unemployment compensation must be reported in the software, which will properly compute the taxable amount and the non-taxable amount. The recipient of unemployment compensation should receive a Form 1099-G in order to report this income.

The employment agency paying unemployment compensation only withholds taxes when requested to do so by the taxpayer. Taxpayers should be reminded that if they do not have withholding on unemployment that it could cause them to owe a tax liability at the end of the year.

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1 Unemployment compensation \$	OMB No. 1545-0120  <div style="font-size: 2em; font-weight: bold; text-align: center;">200</div>	<b>Certain Government Payments</b>
		2 State or local income tax refunds, credits, or offsets \$	Form 1099-G	
PAYER'S federal identification number	RECIPIENT'S identification number	3 Box 2 amount is for tax year \$	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  Street address (including apt. no.)  City, state, and ZIP code		5 ATAA payments \$	6 Taxable grants \$	
		7 Agriculture payments \$	8 Box 2 is trade or business income ► <input type="checkbox"/>	
Account number (see instructions)				

Form **1099-G** (keep for your records) Department of the Treasury - Internal Revenue Service



## SOCIAL SECURITY INCOME OR RAILROAD RETIREMENT BENEFITS

If a retired taxpayer has sufficient income, some portion (up to 85%) of his Social Security or Railroad Retirement benefits may be taxed. The taxable portion will be reported on Form 1040, line 20b. The taxpayer will receive Form SSA-1099 itemizing his social security benefits.

Every person who receives social security benefits will receive a Form SSA-1099. If the taxpayer receives benefits on more than one social security record, he may get more than one Form SSA-1099. It will contain a worksheet to help the taxpayer figure if any of his benefits are taxable.

The amount of benefit paid during the tax year is reported in box 3 with a description listed underneath.

The amount of benefits repaid by the taxpayer, if any, will be shown in box 4. Such items as overpayment or work deductions will be shown here. If no repayment was made, the word none will be printed here.

The net benefit for the tax year will be shown in box 5. This is the amount that should be used to determine the taxable amount of social security benefits.

### FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT

<b>200</b>			<ul style="list-style-type: none"> <li>• PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME.</li> <li>• SEE THE REVERSE FOR MORE INFORMATION.</li> </ul>		
Box 1. Name			Box 2. Beneficiary's Social Security Number		
Box 3. Benefits Paid in 2007		Box 4. Benefits Repaid to SSA in 2007		Box 5. Net Benefits for 2007 (Box 3 minus Box 4)	
DESCRIPTION OF AMOUNT IN BOX 3			DESCRIPTION OF AMOUNT IN BOX 4		
			Box 7. Address		
			Box 8. Claim Number (Use this number if you need to contact SSA.)		

## OTHER INCOME

Line 21 of the 1040 is used to report any other income not reported on other lines of the tax return. If necessary, statements or other documentation should be attached giving the details of the income.

Examples of other income are:

- Hobby income
- Awards
- Gambling winnings – including lottery, raffles or bingo
- Prizes
- Jury duty pay

The Internal Revenue Service has an **Automatic Under Reporting** system, whereby 100% of all reported income is compared to the recipient's 1040 tax return. Approximately 18 months after a tax return is filed, a computer program scans all income that was reported by companies, social security, casinos, and all other sources to an individual's tax return. Any discrepancy is noted, and when an increase in taxes is detected, the client is notified. A stiff penalty, interest and back-taxes are then assessed. It is important that the customer list all sources of income on the Interview Sheet (lower left-hand box) and that the preparer exercise extreme care in documenting all income on the tax return.

### Gambling Income W-2G

The taxpayer may receive documentation for many types of other income. An example of this is a W-2-G for any gambling winnings. Enter each box from the W-2-G into the software exactly as it is. You can select the W-2-G from the forms list at the bottom of the estimator.

CORRECTED (if checked)

PAYER'S name, address, ZIP code, federal identification number, and telephone number	1 Gross winnings	2 Federal income tax withheld	OMB No. 1545-0238  <b>200</b> <b>Form W-2G</b> <b>Certain</b> <b>Gambling</b> <b>Winnings</b>
	3 Type of wager	4 Date won	
	5 Transaction	6 Race	
	7 Winnings from identical wagers	8 Cashier	
WINNER'S name, address (including apt. no.), and ZIP code	9 Winner's taxpayer identification no.	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.	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.			<b>Copy B</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.
Signature ►	Date ►		

Form **W-2G** Department of the Treasury - Internal Revenue Service

# Chapters 4-6

## Income

### IRA and Pension Distribution

Your Name

---

Your Company's Name

---

## Matching Quiz

From the list at the end of these definitions, choose the word that best fits. Write that word in the space provided.

- \_\_\_\_\_ A. Box 7 on a 1099-R. The number in this box will let you know whether the 1099-R is or is not subject to a 10% penalty.
- \_\_\_\_\_ B. The business that issued the W-2 to the taxpayer.
- \_\_\_\_\_ C. Box 17 on a W-2 form.
- \_\_\_\_\_ D. The amounts of money actually withdrawn from a pension fund before any taxes or other deductions are taken out. Found on a 1099-R form
- \_\_\_\_\_ E. A form issued by the federal government to certain retired individuals. If this is issued, it should be included in the tax return. Sometimes, this form indicates federal income taxes withheld.
- \_\_\_\_\_ F. Amount of money received by working individuals from their employer.
- \_\_\_\_\_ G. One type of "other income". Should be included in the tax return, as this income is taxable. This is not "earned" income. Is usually reported on form W-2G.
- \_\_\_\_\_ H. A type of "Other Income" that should be included on the tax return.
- \_\_\_\_\_ I. Distributions of money, stock, or other property paid by a corporation. These monies are usually taxable and should be included in the tax return. Usually given to the taxpayer on a 1099-DIV. If the amount exceeds \$1500.00, report on a Schedule B.

- \_\_\_\_\_ J. Monies received by the taxpayer besides wages, retirement, or self-employment. Examples are Hobby income, gambling winnings, awards or prizes. Refer to Publication 17 for additional information.
- \_\_\_\_\_ K. Taxable income from a savings account, for example. This source of income is reported on a 1099-INT. In some cases, federal income tax is withheld and should be entered on the tax return. If the dollar amount exceeds \$1500.00 or more, report this on Schedule B of the tax return.
- \_\_\_\_\_ L. A 9-digit numeral given by the Federal Government to each American individual. Failure to enter this number, the taxpayer's last name, or the taxpayer's year of birth correctly will result in the tax return being rejected by the IRS.
- \_\_\_\_\_ M. Be sure to read Box 9 of each W-2. Some taxpayers receive part of their earned income credit throughout the year from their employer. If there is an amount in box 9, you must report this in the tax return.
- \_\_\_\_\_ N. This type of compensation is fully taxable and must be reported on the tax return. Sometimes, this is reported on a 1099-G which is mailed to the taxpayer. Occasionally, federal income tax is withheld and should be entered on the tax return.
- \_\_\_\_\_ O. When a taxpayer takes money from a qualified retirement fund, this is assessed in the form of a tax. If box 7 of the 1099-R is a 1 or a 5, this tax will be assessed.
- \_\_\_\_\_ P. Retirement income paid to the taxpayer from the federal government. Reported on form SSA-1099. This income is taxable, unearned income.
- \_\_\_\_\_ Q. A 9-digit numeral on certain federal forms (w-2, 1099-R and W-2 G, for example). If the tax preparer does not enter this numeral correctly, the tax return will be rejected by the IRS.
- \_\_\_\_\_ R. Amount of money taken from certain types of compensation. The tax preparer must take care to read every W-2, W-2 G, all types of 1099 forms, and social security benefit statements to ensure that these are reported correctly.

# **Chapters 4-6**

## **Income**

### **IRA and Pension Distribution**

#### **Matching Quiz**

#### **Matching Quiz Answer List:**

Advance EIC	Other Income
Distribution Code	Payers Name
Dividends	Social Security Benefit Statement
Early Withdrawal Penalty	Social Security Income
Employer Identification Number	Social Security Number
Unemployment	State Income Tax
Federal Income Tax Withheld	Wages
Gambling	Interest
Gross Distribution	Jury Duty

# CHAPTER 7

## ADJUSTMENT TO INCOME

## ADJUSTMENTS TO INCOME

There are several adjustments that decrease gross or total income to arrive at the adjusted gross income (AGI). These adjustments are listed on the first page of Form 1040, lines 23-25.

### Educator Expense:

If the taxpayer was an eligible educator he may deduct up to \$250 of qualified expenses. For taxpayers filing jointly and both were eligible educators, the maximum deduction is \$500.

An eligible educator is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year

Qualified expenses include ordinary and necessary expenses paid in connection with books, supplies and equipment used in the classroom.

### Student Loan Interest Deduction

Taxpayers who have education loans can deduct up to \$2,500 of education loan interest paid. The deduction is taken as an adjustment to income on line 33 of Form 1040. The deduction is allowed on qualifying loans for the benefit of the taxpayer or the taxpayer's spouse or dependent at the time the debt was incurred.

A qualified loan is any loan taken out to pay the qualified higher education expenses for the taxpayer, his spouse, or anyone who was his dependent when the loan was taken out. The proceeds of the loan must be used exclusively for qualified student expenses.

Qualified expenses are tuition, fees, room and board, books, equipment and transportation paid to attend an eligible institution.

### IRA Contributions

Taxpayers may participate in a personal savings plan that offers tax advantages to set aside money for retirement. This savings plan is known as an IRA (individual retirement arrangement). The taxpayer can contribute to an IRA anytime before he reaches age 70 ½ limited by two factors.

- 1 if the taxpayer or spouse had an employer-provided pension plan
- 2 the amount of the modified adjusted gross income

The maximum amount that can be contributed for 2008 is \$5,000 (\$10,000 if married). You may add \$1,000 to your contribution if you are over 50 for each person making the maximum \$6,000 for single or \$12,000 if married.

You can contribute the maximum if your modified AGI is \$55,000 (\$89,000 if married filing jointly) or less, partial if your modified AGI is \$55,000 but less than \$65,000 (\$89,000 but less than \$109,000 if married filing jointly).

## Alimony Paid

Alimony is a payment or series of payments to a spouse or former spouse required under a divorce or separation decree. Alimony paid should be deducted on Form 1040, line 31a (as an adjustment).

If a spouse may deduct the alimony payments as an adjustment, it is reasonable that the spouse receiving the payment claim the alimony as income. The paying spouse must report the recipient's Social Security Number on line 31b along with the amount paid.

Note: Child support payments are neither deductible nor taxable

## Tuition and Fees Deduction

The taxpayer may be able to deduct qualified tuition and related expenses paid during the year for the taxpayer, his spouse, or a dependent. The taxpayer cannot take this deduction if his filing status is MFS or if another person is entitled to claim his exemption. The tuition and expenses must be for higher education. The taxpayer may claim this deduction only if all three of the following apply.

- 1 He paid qualified education expenses of higher education
- 2 He paid the education expenses for an eligible student
- 3 The eligible student is himself, his spouse, or a dependent he claimed as an exemption on his tax return.

The taxpayer cannot claim the tuition and fees deduction if any of the following apply.

- 1 His filing status is MFS
- 2 Another person can claim an exemption for the taxpayer
- 3 The taxpayer's modified AGI is more than \$80,000 (\$160,000 if MFJ)
- 4 The taxpayer or anyone else claims a Hope or Lifetime Credit (discussed in chapter 9) in the same tax year on behalf of the student for whom the qualified expenses were paid.

The tuition and fees deduction can reduce the amount of income subject to tax by up to \$4,000. This deduction is taken as an adjustment to income. To claim this deduction, the preparer must fill out form 8917 (done automatically by the software). The taxpayer should have form 1098-T tuition statement to be able to claim the deduction.

Qualified Expenses are amounts paid in the tax year for tuition and fees required for the student's enrollment or attendance at an eligible educational institution. The fees paid in the first 3 months of the current year can also be included in figuring your credit. An eligible institution includes most colleges, universities, and certain vocational schools.

Qualified expenses do not include insurance, medical expenses, or room and board.

Qualified expenses must be reduced by tax-free part of scholarships and fellowships, Pell grants, employer provided educational assistance and any other nontaxable payments received as educational assistance.



## Moving Expenses

Another possible adjustment to income is qualified moving expenses. EZ-Tax Online has developed a worksheet to aid the customer and tax preparer in determining whether or not the costs of moving and storing household goods is an allowable adjustment. Have client complete the Moving Expense form that is found on the EZ-Tax Online Training Page, under Client/Taxpayer Worksheets. (note: the form must be signed and dated by the client)

### MOVING EXPENSES

You can deduct reasonable expenses that you had for moving your household goods from one location to another. Moving expenses are based on a change in your main place of business. Before moving expenses can be claimed, you must meet three requirements:

- i Your move is closely related to the start of work at your new job location
- i You meet the Distance Test
- i You meet the Time Test

<b>Distance Test</b>	
1.	Number of miles from you old home to your new workplace <span style="float: right;">miles</span>
2.	Number of miles from your old home to your old workplace <span style="float: right;">miles</span>
3.	Subtract line 2 from line 1
If line 3 is at least 50 miles, you have met the Distance Test	

<b>Time Test</b>
To meet the Time Test, you must work full time in the general area of the new workplace for at least 39 weeks (approximately 9 months) during the first 12 months after the move.
Based on the information above, the Time Test is met <span style="margin-left: 100px;">Yes</span> <span style="margin-left: 100px;">No</span>

<b>Moving Expenses</b>	
<b>Transportation and storage of household goods and personal effects.</b> This includes cost of packing crating and transporting your household goods and personal effects. It could include any costs of connecting or disconnecting utilities. You can deduct the cost of shipping your car and belongings. Allowable storage expenses include storing and insuring household goods and personal effects within 30 days after the day your things are moved from your former home and before they are delivered to your new home.	\$
<b>Travel and Lodging costs.</b> You can deduct expenses for only one trip to your new location. You may deduct lodging expenses you had in the area of your former home within one day after you could no longer live in your former home. You may deduct either the actual expenses of travel such as gas and oil for your car or you may deduct the standard mileage rate. Do not include costs of meals.	\$
Moving expenses reimbursed or paid for by employer	\$

# Chapter 7

## Adjustment to Income

### Crossword Puzzle

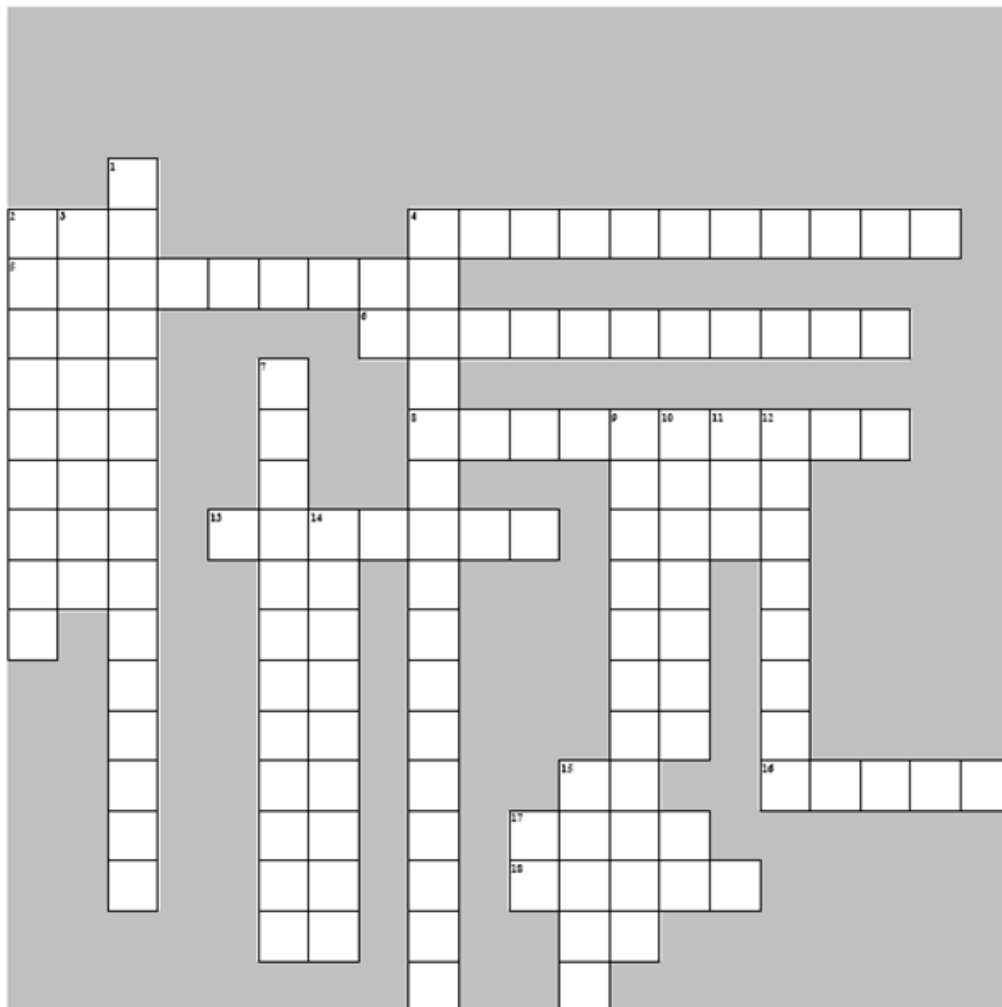
Your Name

---

Your Company's Name

---

Complete the crossword puzzle.



BOARD  
EFILE  
TUITION  
EZTAXONLINE  
IRA CONTRIBUTION  
INSURANCE  
ROOM

ADJUSTMENT  
STUDENT LOAN  
QUALIFIED  
SUPPLIES  
EQUIPMENT  
EDUCATOR EXPENSES  
ELIGIBLE

ALIMONY  
PUBLICATION  
CHILD SUPPORT  
BOOKS  
MFS

## Across

- 4 motto is: Your Success Equals Our Success
- 5 only these types of expenses can be adjusted or deducted
- 6 Number 17 is the IRS handbook for taxpreparers
- 8 decrease gross income to arrive at AGI
- 13 allowable adjustment of court decreed payments to former spouse
- 16 how your client's taxes will be submitted to the IRS
- 17 unallowable education expense
- 18 unallowable education expense

## Down

- 1 participation in psnl savings plan that offer tax adv (2 words)
- 2 allowable educator expense
- 3 allowable educator expense
- 4 allows teachers to deduct up to \$250 for qualified purchases (2 words)
- 7 Unallowable adjustment; unallowable deduction (2 words)
- 9 type of interest allowed on qualified higher education expenses (2 words)
- 10 statement reported to students on form 1098-T
- 11 only filing status that does not allow tuition and fee deductions
- 12 only type of educator allowed by IRS for Adjustments to Income
- 14 Unallowable Adjustment to Income
- 15 allowable educator expense

# CHAPTER 8

## ITEMIZED DEDUCTIONS

## ITEMIZED DEDUCTIONS

The taxpayer should always choose whichever reduces taxable income more – itemized or standard deduction (standard deduction was discussed earlier in this course). Itemized deductions are shown on the tax return using Schedule A – itemized deductions.

It is more beneficial for the taxpayer to itemize his deductions if the total of his itemized deductions exceed his standard deduction. There are three deductions that increase the Standard Deduction when the taxpayer lacks enough items to itemize in the traditional fashion. These are discussed in Chapter 2, Standard Deductions.

If the taxpayers are filing Married Filing Separate and one spouse itemizes, the other spouse must itemize, regardless of the fact that his total deductions may be less than the standard deduction to which he would otherwise be entitled.

It should be noted that itemized deductions may be limited if the taxpayer's AGI is more than \$156,400 (\$78,200 if Married Filing Separately).

### Medical Expenses

Medical expenses can be deducted if amounts are paid for the diagnosis, cure, treatment or prevention of a disease. (See publication 17 for a more detailed definition of deductible and non deductible medical expenses).

Medical expenses must be reduced by any reimbursement received for the expenses. Only that part which is more than 7.5% of the Adjusted Gross Income (Form 1040, line 37) is deductible.

Deductible medical expenses include the following as well as Hospital and doctor office visits:

- 1 Medical insurance premiums
- 2 Dental treatment
- 3 Prescription medicines
- 4 Mileage to receive medical treatment
- 5 Ambulance or cost of other transportation for treatment
- 6 Legal abortions
- 7 Acupuncture
- 8 Eye exams and expenses

### Taxes you paid

- A. Taxpayers can deduct either any state or local income tax paid during the tax year or they can choose to deduct general sales tax. If they choose the general sales tax deduction, they can either claim actual expenses or an amount figured using the optional sales tax tables (in the software).

- B. Taxpayers can deduct state or local real estate taxes paid for real estate owned by the taxpayer. Most taxpayers will have a mortgage statement showing this tax.
- C. Taxpayers can deduct personal property taxes only if it is a state or local tax that is charged on personal property, based only on the value of the personal property and charged on a yearly basis, even if it is collected more than once a year, or less than once a year.
- D. Examples of other taxes that are allowable expenses on Schedule A are foreign taxes and ad valorem taxes.

#### Interest You Paid

- A. Taxpayers can deduct home mortgage interest and points reported to them on form 1098 for a main and a second home on line 10 of the Schedule A. If they have mortgage interest not reported on form 1098, it should be deducted on line 11 of the Schedule A. If they have points not reported on form 1098 they should put those on line 12.
- B. Amounts the taxpayer paid for qualified mortgage insurance can be treated as home mortgage interest. Qualified mortgage insurance is mortgage insurance provided by the Department of Veterans Affairs, the Federal Housing Administration, or the Rural Housing Service, and private mortgage insurance.
- C. Investment interest is interest paid on money borrowed that is attributable to property held for investment. Property held for investment includes property that produces interest dividends, annuities or royalties. Investment interest expense deduction is limited to investment income.

#### Gifts to Charity

Gifts to charity must be to a legitimate non profit charitable organization. The taxpayer must keep proper records for all contributions, including cash contributions. In addition, contributions of property such as clothing to qualified organizations may be deducted. If a taxpayer makes a single contribution of more than \$250 he must have a receipt.

If non cash contributions are made with a value of more than \$500, the taxpayer is required to fill out form 8283.

## Casualty and Theft Losses

- i A casualty is the damage, destruction or loss of property resulting from an identifiable event that is sudden, unexpected or unusual. A casualty loss equals the lesser of (1) Decrease in fair market value of property as result of the event or the adjusted basis in property before casualty loss, less any insurance reimbursement.
- i All casualty losses are reduced by \$100 each and the loss must be further reduced by 10% of the AGI.
- i Losses should be reported on Form 4684.

## Job Expenses and Certain Miscellaneous Deductions

Form 2106 should be used to deduct employee business expenses. A worksheet is designed for such allowable expenses, and can be found on page 67. Examples of employee business expense that can be deducted are.

- 1 Vehicle expense (actual expenses or standard mileage)
- 2 Parking fees, tolls and transportation
- 3 Travel expenses while away from home overnight, including lodging, airplane, car rental etc.
- 4 Meals and entertainment expenses that relate to business

Any reimbursements received from an employer must be deducted from expenses unless they were reported on W2 box 1.

Unreimbursed employee expenses will transfer to Schedule A line 21.

Tax preparation fees for the tax year should be entered on Schedule A line 22.

## Other Miscellaneous Deductions

Taxpayers can deduct gambling losses on line 28 of Schedule A. He is prohibited from deducting losses that are more than his winnings.

The taxpayer must keep an accurate record of losses and winnings. The record should contain the date and type of the wager, the name and address or location of the gambling establishment, the names of other persons present with the taxpayer at the gambling establishment and the amounts won or lost.

NOTE: All expenses that are listed on the Schedule A are given to you by the taxpayer on an itemized deduction worksheet. This should be filled out in his own handwriting and signed by him. The tax preparer should complete the Itemized Deduction Questionnaire.

**The form below is a modified version of the worksheet the customers should complete when taking the Itemized Deductions (Sch A). Download this from the EZ-Tax Online Training Page, Client/Taxpayer Worksheet.**

<b>ITEMIZED EXPENSES – SCHEDULE A</b>	
<b>Medical and Dental Expenses</b>	
Number of Miles driven to Doctor/Dental visits during the year	miles
Prescription Expenses Description	
Medical Tests Description	
Health Insurance Expenses	
<b>Taxes Paid</b>	
Actual Sales Taxes paid OR Sales Tax Deduction per Optional Sales Tax Table	
Real Estate Property Taxes Paid	*
Taxes paid on NEW Vehicles purchased this tax year.	*
<b>Interest Paid</b>	
Home Mortgage Interest, from Form 1098	
Points Paid (Principle Purchase of Residence OR Qualified Refinance)	
<b>Gifts to Charity Note: If you claim any gifts to charity, you must complete the Charitable Contribution Addendum</b>	
<b>Job Expenses and Other Miscellaneous Expenses</b>	
Un-reimbursed employee expenses (ie. Union dues, uniforms, tools specific to work) All other Unreimbursed employee expenses must be filled on Form 2106	
Tax Preparation Fees	
<b>Other Miscellaneous Deductions</b>	
Gambling losses-no more than reported winnings	
<b>Other Expenses</b>	*
Casualty/Theft losses	

\* These deductions can add to the Standard Deduction, even if the taxpayer does not itemize

With my signature below I am verifying the tax information given to prepare my taxes is true. I release the owners and employees of my tax preparation office from having any knowledge of fraudulent tax claims.

SIGNATURE \_\_\_\_\_ DATE \_\_\_\_\_



## CHARITABLE CONTRIBUTION ADDENDUM

Everything related to cash and non-cash charitable contributions need to be fully substantiated. In the case of an IRS audit, you will need to provide certain documentation to the IRS. Before you can claim these deductions, however, we need to ensure that you have the proper proof. The documentation must be kept in a safe place and retained for five year.

Cash contributions include:

- i                 Coins and paper money
- i                 Check
- i                 Monetary donations put on your charge account

Non-Cash contributions are items such as clothing, furniture, or household goods given to an IRS approved charity. Vehicles, such as a boat, car, etc, are other examples of non-cash contributions.

<b>CHARITABLE CONTRIBUTION VALIDATION</b>			
Type of Contribution	Amount of contribution	<b>Documentation Requirements</b> You are required to have the necessary written requirements prior to claiming the deduction.	I have the mandatory Documentation Requirements in safe storage Answer “YES” or “NO”
Cash, check or other monetary gifts of any amount over one dollar		Bank Records and/or Written record of donation, which includes donee name, date of contribution and amount	
Unreimbursed expenses less than \$250.00		Reliable records of gifts or expenses	
Non-cash less than \$250.00		Receipt from donee or other reliable records	
Non-cash more than \$250 but less than \$500		Contemporaneous written acknowledgement	
Non-cash more than \$500 but less than \$5000		Contemporaneous written acknowledgement and complete form 8283, sec A	
Non-cash more than \$5000.00		Contemporaneous written acknowledgement and complete form 8283, sec A or B, and a qualified appraisal. Must present to our office.	
Motor vehicles between \$500 and \$5000		Donee must provide acknowledgement to the IRS. Form 8283 must be attached.	
Motor vehicles over \$5000.00		Donee must provide acknowledgement to the IRS. Form 8283 must be attached.	
Clothing and household items less than \$250.00		Must be in “good used condition” or better. Obtain receipt from donee or maintain reliable written records, which include a description of condition for each item.	
Clothing and household items more than \$250.00		Must be in “good used condition” or better. Contemporaneous written acknowledgement obtained.	

## Form 2106 Customer Worksheet

This form for use for those employees that incur necessary and business related travel and/or job-related expenses. A W-2 form is required, as this worksheet is intended to directly reflect expenses for a particular employment.

<b>Overnight Travel Expense</b>			
Transportation, lodging and meal expenses are allowed for those employees who are away from their main tax home on a temporary job assignment. A temporary assignment is one that lasts for less than one year. The IRS allows employees to use a standard meal allowance for meals and incidental expenses IF they are reimbursed for lodging while away from home due to work. If employees are not reimbursed for lodging, they may claim meals while away from home due to temporary work assignment based on the actual costs of the meals.			
Lodging		(Part I, Line 3)	\$
Transportation (other than mileage)		(Part I, Line 3)	\$
Meals/Entertainment	Actual Costs OR	Standard Allowance (line 5)	\$

If claiming Overnight Travel Expenses (above) indicate where you worked last year					
January		May		September	
February		June		October	
March		July		November	
April		August		December	

OTHER BUSINESS EXPENSES			
Do not include vehicle or travel expenses. Do not include personal expenses. Itemize on Schedule A, Line 21.			
License		Rent/Leases	
Commission/Fees Paid		Equipment Repairs	
Contract Labor		Supplies	
Education		Utilities <small>(Cell phone service, business related long distance calls, etc)</small>	
Uniform			
Other Expenses (itemize each)			

Vehicle Expenses			
Do not claim expenses for the costs of driving from your home to your regular work place.			
Type Vehicle		Actual Vehicle Expenses	
Date vehicle placed in service		Gas/Oil	\$
Total miles driven		Repairs/Maintenance	\$
Total business miles		Insurance	\$
Total commuting miles		If depreciating vehicle, use additional form	Yes No
Was your vehicle available for personal use during off hours	Yes No	Do you have evidence to support your deductions?	Yes No
Do you have another vehicle for personal use	Yes No	If "Yes" is this evidence written?	Yes No

I CERTIFY THAT THE INCOME AND THE EXPENSES I HAVE PROVIDED ARE CORRECT. With my signature below I am verifying the tax information given to prepare my tax claim is true. I release my tax preparation company from having any knowledge of fraudulent tax claims.

SIGNATURE \_\_\_\_\_ DATE \_\_\_\_\_

**ITEMIZED DEDUCTION/SCHEDULE A  
PREPARER QUESTIONNAIRE**

YES      NO      1.      Did the customer complete the Itemized Deduction/Schedule A Worksheet? (Worksheet is not complete until it is signed and dated).

YES      NO      2.      In comparing the deductions to the taxpayer's income, does each deduction appear reasonable?

YES      NO      3.      Each return that claims charitable expenses must have page two completed. If this return contains charitable contributions, either monetary or non-cash donations, is page two complete, consistent and apparently correct?

4. Explain supporting documentation for monetary (cash, check, credit card, for example) charitable contributions.

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5. Explain supporting documentation for non-cash (clothing or household goods donations, for example) charitable contributions.

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6. Explain supporting documentation for Unreimbursed Employee Expenses (found on client's worksheet "Work Related Deductions-Form 2106).

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The information supplied by the taxpayer and their answers to additional inquiries appears to be correct, consistent, complete and reasonable.

Tax Preparer's signature \_\_\_\_\_ Date \_\_\_\_\_

**SCHEDULES A&B  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Schedule A—Itemized Deductions**  
(Schedule B is on Side 2)

▶ **Attach to Form 1040.** ▶ **See instructions for Schedules A&B (Form 1040).**

OMB No. 1545-0074

**2008**

Attachment  
Sequence No. **07**

Name(s) shown on Form 1040

Your social security number

**Medical  
and Dental  
Expenses**

**Caution.** Do not include expenses reimbursed or paid by others.

- 1 Medical and dental expenses (see instructions) . . . . . **1**
- 2 Enter amt. from Form 1040, line 38 . . . . . **2**
- 3 Multiply line 2 by 7.5% (.075) . . . . . **3**
- 4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-

**Taxes You  
Paid**

- 5 State and local (check only one box):
  - a  Income taxes, or
  - b  General sales taxes
- 6 Real estate taxes (see instructions) . . . . . **6**
- 7 Personal property taxes . . . . . **7**
- 8 Other taxes. List type & amount ▶ \_\_\_\_\_ **8**
- 9 Add lines 5 through 8 . . . . . **9**

(See instructions.)

**Interest  
You Paid**

- 10 Home mortgage interest and points reported to you on Form 1098
- 11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶ \_\_\_\_\_ **11**
- 12 Points not reported to you on Form 1098. See inst. for special rules **12**
- 13 Qualified mortgage insurance premiums (see instructions) . . . . . **13**
- 14 Investment interest. Attach Form 4952 if required. (See instructions) **14**
- 15 Add lines 10 through 14 . . . . . **15**

(See instructions.)

**Note.** Personal interest is not deductible.

**Gifts to  
Charity**

- 16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions . . . . . **16**
- 17 Other than by cash or check. If any gift of \$250 or more, see instructions. You **must** attach Form 8283 if over \$500 . . . . . **17**
- 18 Carryover from prior year . . . . . **18**
- 19 Add lines 16 through 18 . . . . . **19**

If you made a gift and got a benefit for it, see instructions.

**Casualty and  
Theft Losses**

- 20 Casualty or theft loss(es). Attach Form 4684. (See instructions) . . . . . **20**

**Job Expenses  
and Certain  
Miscellaneous  
Deductions**

- 21 Unreimbursed employee expenses--job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See inst.) ▶ \_\_\_\_\_ **21**
- 22 Tax preparation fees . . . . . **22**
- 23 Other expenses--investment, safe deposit box, etc. List type and amount ▶ \_\_\_\_\_ **23**
- 24 Add lines 21 through 23 . . . . . **24**
- 25 Enter amt. from Form 1040, line 38 . . . . . **25**
- 26 Multiply line 25 by 2% (.02) . . . . . **26**
- 27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-

(See instructions.)

**Other  
Miscellaneous  
Deductions**

- 28 Other--from list in instructions. List type and amount ▶ \_\_\_\_\_ **28**

**Total  
Itemized  
Deductions**

- 29 Is Form 1040, line 38, over \$159,950 (over \$79,975 if married filing separately)?
  - No.** Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. ▶ . . . ▶ **29**
  - Yes.** Your deduction may be limited. See instructions for the amount to enter.
- 30 If you elect to itemize deductions even though they are less than your standard deduction, check here . . . . .

# Employee Business Expenses

Department of the Treasury  
Internal Revenue Service (99)

▶ See separate instructions.  
▶ Attach to Form 1040 or Form 1040NR.

**2008**

Attachment  
Sequence No. **129**

Your name	Occupation in which you incurred expenses	Social security number
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## Part I Employee Business Expenses and Reimbursements

<b>Step 1 Enter Your Expenses</b>	<b>Column A</b> Other Than Meals and Entertainment	<b>Column B</b> Meals and Entertainment
<b>1</b> Vehicle expense from line 22c or line 29. (Rural mail carriers: See instructions.) . . .	<b>1</b>	
<b>2</b> Parking fees, tolls, and transportation, including train, bus, etc., that <b>did not</b> involve overnight travel or commuting to and from work . . . . .	<b>2</b>	
<b>3</b> Travel expense while away from home overnight, including lodging, airplane, car rental, etc. <b>Do not</b> include meals and entertainment . . . . .	<b>3</b>	
<b>4</b> Business expenses not included on lines 1 through 3. <b>Do not</b> include meals and entertainment . . . . .	<b>4</b>	
<b>5</b> Meals and entertainment expenses (see instructions) . . . . .	<b>5</b>	
<b>6</b> <b>Total expenses.</b> In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5 . . . . .	<b>6</b>	

**Note:** If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.

## Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

<b>7</b> Enter reimbursements received from your employer that were <b>not</b> reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions) . . . . .	<b>7</b>	
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## Step 3 Figure Expenses To Deduct on Schedule A (Form 1040 or Form 1040NR)

<b>8</b> Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7 (or on Form 1040NR, line 8) . . . . .	<b>8</b>	
<b>Note:</b> If <b>both columns</b> of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.		
<b>9</b> In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (.80) instead of 50%. For details, see instructions.) . . . . .	<b>9</b>	
<b>10</b> Add the amounts on line 9 of both columns and enter the total here. <b>Also, enter the total on Schedule A (Form 1040), line 21 (or on Schedule A (Form 1040NR), line 9).</b> (Reservists, qualified performing artists, fee-basis state or local government officials, and individuals with disabilities: See the instructions for special rules on where to enter the total.) . . . . . ▶	<b>10</b>	

**Part II Vehicle Expenses**

**Section A-General Information** (You must complete this section if you are claiming vehicle expenses.)

		(a) Vehicle 1	(b) Vehicle 2
<b>11</b>	Enter the date the vehicle was placed in service . . . . .		
<b>12</b>	Total miles the vehicle was driven during 2008 . . . . .	miles	miles
<b>13</b>	Business miles included on line 12 . . . . .	miles	miles
<b>14</b>	Percent of business use. Divide line 13 by line 12 . . . . .	%	%
<b>15</b>	Average daily roundtrip commuting distance . . . . .	miles	miles
<b>16</b>	Commuting miles included on line 12 . . . . .	miles	miles
<b>17</b>	Other miles. Add lines 13 and 16 and subtract the total from line 12. . . . .	miles	miles
<b>18</b>	Was your vehicle available for personal use during off-duty hours? . . . . .	Yes	No
<b>19</b>	Do you (or your spouse) have another vehicle available for personal use? . . . . .	Yes	No
<b>20</b>	Do you have evidence to support your deduction? . . . . .	Yes	No
<b>21</b>	If "Yes," is the evidence written? . . . . .	Yes	No

**Section B-Standard Mileage Rate** (See the instructions for Part II to find out whether to complete this section or Section C.)

<b>22a</b>	Multiply business miles driven before July 1, 2008, by 50.5¢ (.505) . . . . .		
<b>22b</b>	b Multiply business miles driven after June 30, 2008, by 58.5¢ (.585) . . . . .		
<b>22c</b>	c Add lines 22a and 22b. Enter the result here and on line 1 . . . . .		

**Section C-Actual Expenses**

		(a) Vehicle 1	(b) Vehicle 2
<b>23</b>	Gasoline, oil, repairs, vehicle insurance, etc. . . . .		
<b>24a</b>	Vehicle rentals . . . . .		
<b>24b</b>	b Inclusion amount (see instructions) . . . . .		
<b>24c</b>	c Subtract line 24b from line 24a . . . . .		
<b>25</b>	Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2--see instructions) . . . . .		
<b>26</b>	Add lines 23, 24c, and 25 . . . . .		
<b>27</b>	Multiply line 26 by the percentage on line 14 . . . . .		
<b>28</b>	Depreciation (see instructions) . . . . .		
<b>29</b>	Add lines 27 and 28. Enter total here and on line 1 . . . . .		

**Section D-Depreciation of Vehicles** (Use this section only if you owned the vehicle and are completing Section C for the vehicle.)

		(a) Vehicle 1	(b) Vehicle 2
<b>30</b>	Enter cost or other basis (see instructions) . . . . .		
<b>31</b>	Enter section 179 deduction and special allowance (see instructions) . . . . .		
<b>32</b>	Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance) . . . . .		
<b>33</b>	Enter depreciation method and percentage (see instructions) . . . . .		
<b>34</b>	Multiply line 32 by the percentage on line 33 (see instructions) . . . . .		
<b>35</b>	Add lines 31 and 34 . . . . .		
<b>36</b>	Enter the applicable limit explained in the line 36 instructions . . . . .		
<b>37</b>	Multiply line 36 by the percentage on line 14 . . . . .		
<b>38</b>	Enter the <b>smaller</b> of line 35 or line 37. If you skipped lines 36 and 37, enter the amount from line 35. Also enter this amount on line 28 above . . . . .		

# Chapter 8

## ITEMIZED DEDUCTIONS

Your Name \_\_\_\_\_

### Activity

1. From the list below, put a check beside the items that **are** allowable deductions on an Itemized Deduction/Schedule.
2. Put a star beside the items that **add** to the Standard Deduction, even if the client does not choose to fully itemize.

Cosmetic Surgery

Mortgage Interest

Union Dues

Miles to and from the workplace

Donations to the Salvation Army

Medical Insurance Premiums

Sales tax

Check written to a church

Tools purchased necessary for work

Real Estate Taxes

Gifts of cash given to relatives

Car Insurance

Car Tax (ad valorem) taxes

Unreimbursed hotel lodging on a job related trip

Prescriptions

Damage to roof due to tornado

Sales taxes paid on a new car

Late fees charged by mortgage company

License required for job

Property taxes

Gambling Losses, no winnings

Donations to political parties

Last year's tax preparation fees

Medical tests

Veterinary costs

Home repairs/utilities/improvements

Credit Card interest

Mileage to and from the doctor

Used clothing donated to charity

Dental expenses

Theft losses

Cash to the local church

Car repairs

Raffle tickets purchased for a local charity's fundraiser

Unreimbursed uniform costs

Gas for automobile used for work commute

Over-the-counter medicine

Car note

Health club membership

Legal fees incurred due to divorce

# CHAPTER 9

## EDUCATION CREDITS



## EDUCATION CREDITS

### Tax Credits

Two tax credit education credits are available to taxpayers:

- The Hope Scholarship Credit
- The Lifetime Learning Credit

Rules that apply to both include

- 1 Credits are not available to MFS
- 2 Expenses must be paid for the taxpayer, spouse or dependents
- 3 Both credits phase out when modified AGI reaches
  - a. Married Filing Joint - \$96,000 to \$116,000
  - b. Married Filing Separate - \$0 (not allowed)
  - c. Others - \$48,000 to \$58,000
- 4 Both credits are reported on Form 8863
- 5 The taxpayer cannot claim both the Hope and Lifetime credits
- 6 Tuition payments should be reported on form 1098-T

American Opportunity Credit (formally the Hope Credit)

The Hope Credit has been modified for tax years 2009 and 2010. The credit is available for the first four years of post secondary education.

Qualified expenses include course materials as well as tuition and fees for enrollment at an eligible institution. For Tax Years 2009 and 2010, qualified expenses include certain purchases of computer technology, equipment, and Internet access and related services. Software purchases do not include those designed for games, sports and hobbies.

The student must be carrying at least half the normal full time workload for the course of study in which he is enrolled.

40% of the credit is refundable.

Lifetime Credit

The Lifetime Learning Credit is available anytime for the taxpayer, spouse or dependents, unlike the Hope Credit that is limited to the first two years.

The student does not need to be enrolled at least halftime in the course of study to be eligible for the credit. The Lifetime Credit is not based on the student's workload.

**CHAPTER 10**

**RECORD RETENTION  
AND  
BANKING REQUIREMENTS**

## RECORD RETENTION AND BANKING REQUIREMENTS

After you have completed the tax return the software program will print all IRS and banking documents for you to be in compliance with their respective requirements.

You must keep documentation of anything you enter into the tax return on behalf of your client. Most of the forms you need are on the EZ-Tax Online website. These documents may include:

- 1 – The client interview sheet
- 2 – Copies of the clients ID and any SS cards they make available to you.
- 3 – Copies of all W2's, W2 G's, 1099 etc. to verify the income reported on the tax return.
- 5 – The self employment worksheet (if applicable).
- 6 – The itemized deduction worksheet (if applicable).
- 7 – Any other forms needed to substantiate entries of income or deductions.
- 8 – Documentation of additional inquiries necessary to verify anything about the tax return that appears to be incorrect, inconsistent, or incomplete.

### IRS Forms you must retain

- i A signed copy of Form 8879 – IRS e-file Signature Authorization
- i A complete copy of the tax return (may be kept in electronic media)

### State Forms you must retain

- i A signed copy of the State Form 8453 – e-file and Signature Authorization.
- i A complete copy of the tax return (may be kept in electronic media).

### Bank Forms you must retain

- i A signed copy of the Bank Loan Application
- i A signed copy of the Loan Disclosure Form (must be shown to and discussed with your client)

All banks are now reserving the right to ask for copies of any W2's and signed loan applications and signed loan disclosure statements at any time.

Please note that all signature forms must be signed by both the tax payer and the tax preparer.

The customer should leave with a complete copy of his tax return including attachments prior to the return being e filed. In addition, the customer should get a copy of his W2's and banking documents.

All records must be maintained in your office for a period of 3 years.

# Chapter 10

## Record Retention/ Banking Requirements

### Review Question

Your Name

---

Your Company's Name

---

Circle True/False for the following:

- |      |       |   |
|------|-------|---|
| TRUE | FALSE | 1. The client only signs form 8879-IRS E-file Signature Authorization form.   |
| TRUE | FALSE | 2. A tax return should not be e-filed until the form 8879 is signed.  |
| TRUE | FALSE | 3. All tax and bank related forms must be kept for four years.  |
| TRUE | FALSE | 4. Failure to keep a copy of the W-2 form could cause trouble with the bank.  |
| TRUE | FALSE | 5. As a tax preparer, you can verify your client's ID. No copy is necessary for your file.  |
| TRUE | FALSE | 6. After your customer completes the Interview Sheet, you realized that their information appears questionable. A simple explanation cleared up all of your concerns. Always document such dialog somewhere in the customer's file.                       |
| TRUE | FALSE | 7. Before your customer leaves your office, they must have a complete copy of their tax return.   |
| TRUE | FALSE | 8. Your customer is requesting a refund anticipation loan (RAL). Because this is not a real loan, you are not required to go over the loan disclosure statement.  |
| TRUE | FALSE | 9. There are optional worksheets (Schedule A, Self-Employment worksheet, etc.) available on the EZ-Tax Online web site. Because these forms are "optional", there is no need to have these signed, even though they were used to complete the tax return. |
| TRUE | FALSE | 10. As the tax preparer, you keep all copies of the W-2 forms.  |
| TRUE | FALSE | 11. A tax return should not be transmitted until the customer completes the Interview Sheet in their own handwriting. This sheet must also be signed and dated prior to IRS e-file.   |
| TRUE | FALSE | 12. Your EZ-Tax Online software will print all required IRS and bank forms. Each copy should be signed and dated by both the customer and your staff.   |

- TRUE FALSE 13. A copy of the customer's Social Security Card is required prior to submission to the IRS.
- TRUE FALSE 14. You must save a printed copy of the tax return for your files.
- TRUE FALSE 15. All tax files must be secured.
- TRUE FALSE 16. Starting today, you should include the phrase "and tax service" when you answer the phone.
- TRUE FALSE 17. Your software will print the necessary Bank Disclosure Forms.
- TRUE FALSE 18. When a state return is transmitted in addition to the federal return, no additional forms must be signed.
- TRUE FALSE 19. Documentation supporting self-employment income must be retained in your customer's folder.
- TRUE FALSE 20. If a representative from the bank asks for information, your office is required to supply it to them.