Publication 4491-X – 2008 Supplement

New Tax Legislation and Other Updates

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Table of Contents

New Tax Legislation and Other Updates **2**
- Introduction 2
- What new tax law information do I need to prepare an accurate return? 2

Pen & Ink Changes to the Printed Publications **3**
- Technical Updates 3
- Non-Technical Updates 3

Lesson 10: Income – Capital Gain or Loss **4**
- How is a cancellation of debt for a principal residence reported on the return? 4

Lesson 11: Retirement Income **18**
- How are IRA distributions reported? 18

Lesson 17: Adjustments to Income **19**
- How do I handle educator expenses? 19
- Taxpayer Example 20
- How do I handle tuition and fees? 22
- Is jury duty pay an adjustment to income? 26

Lesson 19: Standard Deduction and Tax Computation **27**
- What is the Standard Deduction? 27

Lesson 20: Itemized Deductions **28**
- How do I deduct the taxes? 28

Lesson 26: Child Tax Credit **29**
- What is the Additional Child Tax Credit? 29

Lesson 27: Miscellaneous Credits **30**
- What is the Residential Energy Efficient Property Credit? 30

Lesson 29: Payments **31**
- What is the first–time homebuyer credit? 31
- How do I calculate the Recovery Rebate Credit? 33

Appendix A: Interviewing and Screening **34**
- Obtaining Disclosure Consents 34

Appendix B: Scope of Program **36**

New Tax Legislation and Other Updates

Introduction

Mortgage forgiveness is an emerging federal tax issue for many wage and investment taxpayers. Addressed in this supplement are provisions of the Mortgage Forgiveness Debt Relief Act of 2007 and the Emergency Economic Stabilization Act of 2008 that are within the scope of the Volunteer Income Tax Assistance and Tax Counseling for the Elderly Programs (VITA/TCE).

Volunteers preparing returns that include any of the provisions in these acts must complete the supplemental training in this publication before assisting taxpayers.

In addition to instructional guidance for the new legislation, this supplement also contains pen and ink changes to the Student Training Guide (Publication 4491) and the Instructor Guide (Publication 4555). You will also find updates to the Test/Retest (Form 6744) and the Volunteer Resource Guide (Publication 4012) in this supplement.

Finally, Appendix A contains information about how a volunteer can assist in protecting each taxpayer's right to control their personal information. Your Site Coordinator or sponsor will provide additional guidance.

TIP

For more information on the Mortgage Forgiveness Debt Relief Act of 2007 and the Emergency Economic Stabilization Act of 2008, visit www.irs.gov.

What do I need?

- ☐ Approved Intake and Interview Sheet
- ☐ Volunteer Resource Guide
- ☐ Publication 17
- ☐ Publication 4491

Optional:

- ☐ Form 982
- ☐ Form 8917
- ☐ Form 1099-A
- ☐ Form 1099-C
- ☐ Schedule D
- ☐ Publication 523
- ☐ Publication 525
- ☐ Publication 544
- ☐ Publication 4681

What new tax law information do I need to prepare an accurate return?

This supplement includes tax law updates from the following acts:

- Mortgage Forgiveness Debt Relief Act of 2007
- Housing and Economic Recovery Act of 2008
- Emergency Economic Stabilization Act of 2008

Lesson	Topic	Courses	New Tax Law
10	Capital Gain or Loss		• Cancellation of debt for a principal residence
11	Retirement Income		• IRA distributions
17	Adjustments to Income		• Educator expenses • Tuition & Fees • Adjustments • Jury Duty Pay
19	Standard Deduction and Tax Computation		• Standard Deduction Worksheet
20	Itemized Deductions		• General sales tax
26	Child Tax Credit		• Additional child tax credit
27	Miscellaneous Credits		• Residential energy credit
29	Payments		• First-time homebuyer credit • Recovery Rebate Credit

Pen & Ink Changes to the Printed Publications

A special thanks to everyone for your feedback regarding the printed training material. Most of the feedback is non-technical in nature and will be considered in next year's updates to the materials. The following are responses to the technical concerns (issues that could result in an incorrect return) and critical non-technical concerns received through the first week of December. These updates should be used in conjunction with the technical updates in the training supplement.

CAUTION

Updates to the content in the comprehensive problems and exercises (Publication 4491-W) and Link & Learn Taxes (including the Software Practice Lab) will be issued in Product Alerts through mid-February (as needed). Consult your Site Coordinator for additional guidance.

Technical Updates

Product	Page	Pen and Ink Changes
Publication 4012	F-3	In step 3, 4th bullet, **change** $3400 to $3500
Publication 4012	G-6	In the second TIP, first bullet: Change $12,050 to $8,500.
Publications 4491/4555	8-7	In the last sentence, after "is" **insert** "not" before "used"

Non-Technical Updates

Product	Page	Pen and Ink Changes
Publication 4012	C-3	In the first chart, 2nd column: No. 2 (b) – **change** sentence to: "Must live with you all year as a member of your household (and your relationship must not violate local law)."
Publication 4012	13-6	After item #6 - **add** the Caution: "A taxpayer's refund may only be deposited directly into his/her own account(s)."
Publication 4012	14-3	**Replace** the charts with the chart in Appendix B on pages 36 and 37 of this guide.
Publications 4491/4555	31-2	**Add** the Caution: "A direct deposit of a taxpayer's refund is to be made to an account (or accounts) only in the taxpayer's name. Advise taxpayers their refunds may only be deposited directly into their own accounts" to this page.
Form 6744	1-11	Question 6.4 – **change** line 52 to 51

Please feel free to direct any additional content concerns with your local IRS-SPEC tax consultant or send them to the address in the Director's letter in Publication 4491.

TIP

For information about special tax benefits "temporary tax relief" for certain disaster areas in 2008, refer to "New for 2008" in Publication 17. There are special benefits for certain parts of the country similar to those for other disaster areas in the past. For specific details:

Pub 4492-A covers Kansas disasters.

Pub 4492-B covers Midwestern disaster areas.

Also visit www.irs.gov for the most up-to-date information.

How is a cancellation of debt for a principal residence reported on the return?

This topic precedes the Summary on page 10-18.

For the first time, a segment of the cancellation of debt issue is in scope for the Advanced-certified volunteer. Cancellation of various types of debt could result in a reportable item on the taxpayer's return. VITA/TCE volunteers will be limited to the type that involves the taxpayer's main, personal residence. The topic that follows will help you recognize when you will be able to help taxpayers and when you must refer them to a professional tax preparer.

Cancellation of indebtedness issues frequently involve auto loans, credit card debt, debt for medical care, professional services, installment purchases of furniture or other personal property, mortgages, and home equity loans. Generally, if a debt for which a taxpayer is personally liable is canceled or forgiven, other than as a gift or bequest, the taxpayer must include the canceled amount in income. A debt includes any indebtedness for which a taxpayer is liable or which attaches to the taxpayer's property.

Under the Mortgage Forgiveness Debt Relief Act of 2007, taxpayers may exclude certain debt forgiven or canceled on their principal residence. This exclusion is applicable to the discharge of "qualified principal residence indebtedness." If the canceled debt qualifies for exclusion from gross income, the debtor may be required to reduce tax attributes (certain credits, losses, and basis of assets) by the amount excluded.

The taxpayer may also have a reportable transaction on Schedule D if the property was foreclosed on or abandoned. When this occurs, the taxpayer will generally receive Form 1099-A, Acquisition or Abandonment of Secured Property, from the lender. Form 1099-A will have information needed to determine the gain or loss due to the foreclosure/abandonment. If the debt is canceled, the taxpayer may also receive Form 1099-C, Cancellation of Debt. If the foreclosure and cancellation of debt occur in the same calendar year, the lender has the option of filing Form 1099-C only by reporting additional information in certain boxes on the Form 1099-C. You will learn more about these forms and how to report the information on the taxpayer's return later in this lesson.

What are the exceptions and exclusions to the general rule for cancellation of debt income?

Cancellation of debt income may be eliminated by applying *exceptions* or reduced by applying *exclusions* to the general rule.

Exceptions: There are several exceptions to the inclusion of canceled debt in income. These exceptions apply before the next section on exclusions. The exceptions are:

- Amounts otherwise excluded from income (e.g., gifts and bequests)
- Certain student loans (e.g., doctors, nurses, and teachers serving in rural or low income areas)
- Deductible debt (e.g., home mortgage interest that would have been deductible on Schedule A)
- Price reduced after purchase (e.g., debt on solvent taxpayer's property is reduced by the seller; basis of property must be reduced)

Exclusions: There are several exclusions from the general rule of inclusion of canceled debt in income. Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness, is required to be filed with the taxpayer's return to show the amount of the canceled debt excluded. The exclusions are:

- Discharge of debt through bankruptcy
- Discharge of debt of insolvent taxpayer
- Discharge of qualified farm indebtedness
- Discharge of qualified real property business indebtedness
- Discharge of qualified principal residence indebtedness

The issues involved in these exclusions can be complicated and complex. *Only the exclusion for discharge of "qualified principal residence indebtedness" is within scope for the VITA/TCE program.* Use Publication 4731, Screening Sheet for Cancellation of Debt, to assist in identifying those taxpayers with cancellation of debt issues that can be assisted at VITA/TCE sites. This exclusion provision, added by the Mortgage Forgiveness Debt Relief Act of 2007, is in-scope for the volunteer program ONLY if the criteria on the screening sheet are met.

TIP

Publication 4731 is shown on the next page.

What questions are on the Screening Sheet?

VITA/TCE volunteers with Advanced certification may assist taxpayers with canceled or forgiven mortgage debt issues on a limited basis at volunteer sites. The screening sheet will assist in identifying taxpayers who fall within the scope of the volunteer program. Taxpayers with more complex issues should be referred as noted in Step 6 of the screening sheet.

Borrowers whose debt is canceled in whole or in part will receive Form 1099-C, Cancellation of Debt, from their lender. Box 2 of Form 1099-C shows the amount of debt forgiven or canceled.

The following illustrates the questions from Publication 4731, the Screening Sheet, and step-by- step guidance for the volunteer tax return preparer:

Publication 4731

Screening Sheet for Form 1099-C, Cancellation of Debt

For Volunteers with Advanced Certification Only

step 1

Did the taxpayer receive Form 1099-C, Cancellation of Debt, from their lender only in relation to a home mortgage loan and is the information shown on the form correct?

YES – Go to Step 2
NO – Go to Step 6

step 2

Did the taxpayer ever use the home in a trade or business or as rental property?

YES – Go to Step 6
NO – Go to Step 3

step 3

Was the debt canceled as a result of a bankruptcy case?

YES – Go to Step 6
NO – Go to Step 4

step 4

Ask the following questions to determine if the discharged debt is “qualified principal residence indebtedness”:

a. Was the mortgage taken out to buy, build, or substantially improve the taxpayer’s principal residence? (NOTE: A principal residence is generally the home where the taxpayer lives most of the time. A taxpayer can have only one principal residence at any one time.)

YES – Go to Step 4b
NO – Go to Step 6

b. Was the mortgage secured by the taxpayer’s principal residence?

YES – Go to Step 4c
NO – Go to Step 6

c. Was any part of the mortgage used to pay off credit cards, purchase a car, pay for tuition, pay for a vacation, pay medical/dental expenses, or used for any other purpose other than to buy, build, or substantially improve the principal residence?

YES – Go to Step 6
NO – Go to Step 4d

d. Was the mortgage amount more than $2 million ($1 million if Married Filing Separately)?

YES – Go to Step 6
NO – Go to Step 5

step 5

The discharged debt is “qualified principal residence indebtedness.”

The Mortgage Forgiveness Debt Relief Act of 2007, as extended in the Emergency Economic Stabilization Act of 2008, allows individuals to exclude from gross income any discharges of “qualified principal residence indebtedness” made after 2006 and before 2013. The volunteer should complete the applicable lines on Form 982, and file it with the taxpayer’s return. If the residence was disposed of, the taxpayer may also be required to report the disposition (sale) on Schedule D.

step 6

These tax issues are outside the scope of the volunteer program. The taxpayer may qualify to exclude all or some of the discharged debt. However, the rules involved in the mortgage debt relief exclusions are complex.

Refer the taxpayer to:

- www.irs.gov for the most up-to-date information
- An IRS Representative: 1-800-829-1040
- An IRS Taxpayer Assistance Center (TAC)
- The Taxpayer Advocate Service (TAS): 1-877-777-4778, TTY/TDD 1-800-829-4059. TAS may help if the problem cannot be resolved through normal IRS channels.
- A tax professional

Additional Resources:

- Publication 523, Selling your Home
- Publication 525, Taxable and Nontaxable Income (Canceled Debts)
- Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments
- Publication 4702, Mortgage Forgiveness PowerPoint
- Publication 4705, Overview of Mortgage Debt Forgiveness
- Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment) and Instructions

What is qualified principal residence indebtedness?

Qualified principal residence indebtedness is any debt incurred in acquiring, constructing, or substantially improving a principal residence and which is secured by the principal residence. Qualified principal residence indebtedness also includes any debt secured by the principal residence resulting from the refinancing of debt incurred to acquire, construct, or substantially improve a principal residence but only to the extent the amount of the debt does not exceed the amount of the refinanced debt.

example

Bob refinanced his personal residence and used the loan proceeds from the equity in his home to build a new master bedroom suite on the main level of his house. This debt is "qualified principal residence indebtedness."

example

Tom refinanced his personal residence and used the loan proceeds from the equity in his home to pay off credit cards and buy a car. This debt is not "qualified principal residence indebtedness."

Exclusion limit: The maximum amount that can be treated as qualified principal residence indebtedness is $2 million ($1 million if Married Filing Separately). Canceled qualified principal residence indebtedness cannot be excluded from income if the cancellation was for services performed for the lender or on account of any factor not directly related to a decline in the value of the residence or the taxpayer's financial condition.

Applicable Tax Years: The Mortgage Forgiveness Debt Relief Act of 2007 allows for the exclusion of discharged qualified principal residence indebtedness canceled in 2007, 2008, and 2009. The Emergency Economic Stabilization Act of 2008 extended the exclusion for tax years 2010 through 2012.

Criteria for VITA/TCE Program: You may assist taxpayers who meet the following requirements for excluding canceled debt from income:

- The home was never used in a business or as rental property
- The debt was not canceled because the taxpayer filed bankruptcy
- The debt must be a mortgage used *only* to buy, build, or substantially improve the taxpayer's primary residence, i.e., this money was not used to pay off credit cards, medical/dental expenses, vacations, etc.
- The mortgage was secured by the taxpayer's primary residence
- The mortgage was not more than $2,000,000 ($1,000,000 if Married Filing Separately)

If the taxpayer does not meet these requirements, they still may qualify for the exclusion. However, the issues may be complex and beyond the scope of VITA/TCE. Such taxpayers should be referred to a professional tax preparer. Use Publication 4731, Screening Sheet for Cancellation of Debt, to help you identify those taxpayers that can be assisted at a VITA/TCE site.

What is the difference between recourse and nonrecourse debt?

Debt for which a borrower is personally liable is recourse debt. All other debt is nonrecourse debt.

- **Recourse debt** holds the borrower personally liable for any amount not satisfied by the surrender of secured property. If a lender forecloses on property subject to a recourse debt and cancels the portion of the debt in excess of the fair market value (FMV) of the property, the canceled portion of the debt will be treated as ordinary income from cancellation of indebtedness and will be required to be included in gross income unless the cancellation of indebtedness qualifies for one of the exceptions or exclusions from gross income under some provision of the Internal Revenue Code. In addition to cancellation of indebtedness income, the taxpayer may realize a gain or loss on the disposition of the property. This is determined by the difference between the taxpayer's basis in the property and the FMV of the property at the time of the foreclosure.
- **Nonrecourse debt** is satisfied by the surrender of the secured property regardless of the fair market value (FMV) at the time of surrender and the borrower is not personally liable for the debt. If property subject to nonrecourse debt is abandoned, foreclosed upon, subject of a short sale, or repossessed by the lender, the circumstances will be treated as a sale of the property by the taxpayer. In determining the gain or loss on the disposition of the property, the balance of the nonrecourse debt at the time of the disposition of the property will be treated as an amount realized.

How is a foreclosure and canceled debt reported on a return?

A foreclosure or repossession is treated as a sale. Generally, you figure the gain or loss from the sale the same way as a gain or loss from any other sale. But the selling price of the home used to figure the amount of the gain or loss depends, in part, on whether the taxpayer was personally liable for repaying the debt secured by the home as shown in the following chart:

IF the taxpayer was...	THEN the taxpayer's selling price includes...
not personally liable for the debt (nonrecourse debt)	the full amount of debt canceled by the foreclosure or repossession
personally liable for the debt (recourse debt)	the amount of canceled debt up to the home's fair market value; the taxpayer may also have ordinary income

Generally, when a lender acquires a taxpayer's personal residence through abandonment or foreclosure and cancels a portion of the debt, the taxpayer has a gain or loss on the disposition/sale of the property reportable on Schedule D, Capital Gains and Losses. If the taxpayer is personally liable for the debt and the canceled debt is more than the home's fair market value, the taxpayer will have cancellation of debt income. This amount is reportable as ordinary income on line 21 of Form 1040 or on Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness, if the debt canceled qualifies as "excludible" from gross income.

CAUTION

A loss on the sale or disposition of a personal residence is not deductible. A gain may qualify for the Section 121 exclusion ($250,000 or $500,000 for Married Filing Jointly taxpayers) for a gain on the sale of a personal residence.

How do I handle the information from Form 1099-A and Form 1099-C?

When a personal residence is abandoned or foreclosed upon and the lender cancels a portion of the *recourse* debt, the taxpayer will generally receive Form 1099-A, Acquisition or Abandonment of Secured Property, and Form 1099-C, Cancellation of Debt. If in the same calendar year, the debt is canceled in connection with a foreclosure or abandonment of secured property, the lender has the option of issuing Form 1099-C only. The filing requirements of Form 1099-A are met by the lender completing box 5 (debt description) and box 7 (fair market value of property) on Form 1099-C. A *nonrecourse* debt should not result in the issuance of Form 1099-C, Cancellation of Debt, since the debt is satisfied by the surrender of the secured property.

Taxpayers often question the taxability of a foreclosure and canceled debt because they did not receive money in hand and feel that, by giving back the property alone, they are relieved from any further obligation. You will need to explain that the benefit to the taxpayer is the relief from the personally liable debt. Information in Publication 17 can assist you with the explanation. Additional resources include Publication 523, Selling Your Home, Publication 525, Taxable and Nontaxable Income, Publication 544, Sales and Dispositions of Assets, and Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments.

Form 1099-A and Schedule D: When a residence that is security for a mortgage is taken by the lender (foreclosure) or given up by the borrower (abandonment), it is treated as having been sold. This may result in a gain or loss that has to be reported on the return subject to the rules for a Sale of Residence. The reportable gain or loss is determined by comparing the taxpayer's adjusted basis with the amount considered the selling price.

Form 1099-A

☐ CORRECTED (if checked)

LENDER'S name, street address, city, state, ZIP code, and telephone no.			OMB No. 1545-0877 2008 Form 1099-A	**Acquisition or Abandonment of Secured Property**
LENDER'S federal identification number	BORROWER'S identification number	1 Date of lender's acquisition or knowledge of abandonment	2 Balance of principal outstanding $	**Copy B** **For Borrower**
BORROWER'S name Street address (including apt. no.) City, state, and ZIP code		3	4 Fair market value of property $	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 taxable income results from this transaction and the IRS determines that it has not been reported.
		5 Was borrower personally liable for repayment of the debt? ☐ Yes ☐ No		
Account number (see instructions)		6 Description of property		

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

Form 1099-A is issued by the lender. In addition to debtor information, the form reports the balance of the debt outstanding and the fair market value of the property. **Information shown on Form 1099-A should be reported on Schedule D whether it is a gain or loss. Failure to file Schedule D may result in an IRS notice to the taxpayer.** The sales price is computed based on whether the taxpayer is personally liable (recourse loan) or not personally liable (nonrecourse loan). If the taxpayer is personally liable, then the sales price is the lesser of the balance of the debt outstanding (box 2 of Form 1099-A) or fair market value (box 4 of Form 1099-A). If the taxpayer is not personally liable, then the full amount of the debt outstanding as reflected in box 2 of Form 1099-A is reported as the selling price.

Review the following examples of a partially completed Schedule D that illustrates how the information shown on Form 1099-A would be reflected on a paper return. Generally, if there is a loss on the sale of a principal residence or the entire gain is excluded under the Section 121 exclusion ($250,000 or $500,000 for Married Filing Jointly taxpayers), the sale does not have to be reported on Schedule D. However, when Form 1099-A is issued by the lender, the taxpayer must report the sale to account for the basis in the home. Failure to report the transaction on Schedule D may result in an IRS notice to the taxpayer.

Illustration of Schedule D – Foreclosure results in gain – Section 121 Exclusion for part of gain

7 Net short-term capital gain or (loss). Combine lines 1 through 6 in column ...

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-7 of the instructions)	**(e)** Cost or other basis (see page D-7 of the instructions)	**(f) Gain or (loss)** Subtract (e) from (d)
8 Main Home - Form 1099-A Foreclosure	04/20/70	11/30/08	350,000	50,000	300,000
Section 121 Exclusion					(250,000)

9	Enter your long-term totals, if any, from Schedule D-1, line 9	9	
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)	10	
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	11	
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	12	
13	Capital gain distributions. See page D-2 of the instructions	13	
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your **Capital Loss Carryover Worksheet** on page D-7 of the instructions	14	( )
15	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f). Then go to Part III on the back	15	50,000

For Paperwork Reduction Act Notice, see Form 1040 or Form 1040NR instructions. Cat. No. 11338H **Schedule D (Form 1040) 2008**

Illustration of Schedule D – Foreclosure results in gain – Section 121 Exclusion applied to total gain

7 Net short-term capital gain or (loss). Combine lines 1 through 6 in colu...

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-7 of the instructions)	**(e)** Cost or other basis (see page D-7 of the instructions)	**(f) Gain or (loss)** Subtract (e) from (d)
8 **Main Home - Form 1099-A Foreclosure**	**5/15/01**	**10/01/08**	**200,000**	**125,000**	**75,000**
Section 121 Exclusion					**(75,000)**

9	Enter your long-term totals, if any, from Schedule D-1, line 9	9	
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)	10	
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	11	
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	12	
13	Capital gain distributions. See page D-2 of the instructions	13	
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your **Capital Loss Carryover Worksheet** on page D-7 of the instructions	14	( )
15	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f). Then go to Part III on the back	15	0

For Paperwork Reduction Act Notice, see Form 1040 or Form 1040NR instructions. Cat. No. 11338H **Schedule D (Form 1040) 2008**

Illustration of Schedule D – Foreclosure results in loss (non-deductible)

7 Net short-term capital gain or (loss). Combine lines 1 through 6 in colu...

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

(a) Description of property (Example: 100 sh. XYZ Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Sales price (see page D-7 of the instructions)	**(e)** Cost or other basis (see page D-7 of the instructions)	**(f) Gain or (loss)** Subtract (e) from (d)
8 **Main Home - Form 1099-A Foreclosure**	**5/15/02**	**10/01/08**	**200,000**	**300,000**	**0**
Loss Not Deductible (Personal Residence)					

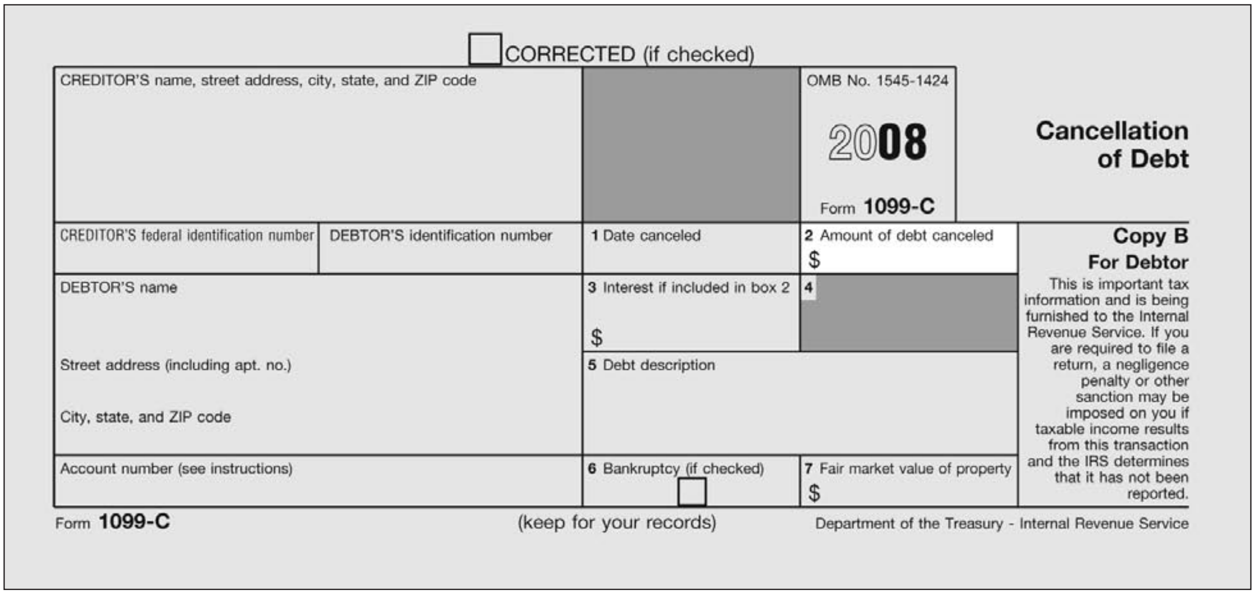
9	Enter your long-term totals, if any, from Schedule D-1, line 9	9	
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)	10	
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	11	
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	12	
13	Capital gain distributions. See page D-2 of the instructions	13	
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your **Capital Loss Carryover Worksheet** on page D-7 of the instructions	14	( )
15	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f). Then go to Part III on the back	15	0

For Paperwork Reduction Act Notice, see Form 1040 or Form 1040NR instructions. Cat. No. 11338H **Schedule D (Form 1040) 2008**

Losses on a personal residence are never deductible. Gains, all or part, may be excluded under the rules regarding the sale of a personal residence (Section 121 exclusion).

Form 1099-C and Form 982: Lenders or creditors are required to issue Form 1099-C if they cancel a debt owed to them of $600 or more. Generally, an individual taxpayer must include all canceled amounts (even if less than $600) on the “Other Income” line of Form 1040. However, if the canceled debt is related to the taxpayer’s principal residence, the taxpayer may be able to exclude all or a portion of canceled debt if it is “qualified principal residence indebtedness.” The amount excluded due to the “discharge of qualified principal residence indebtedness” is reported on Form 982.

Form 1099-C



CORRECTED (if checked)

CREDITOR'S name, street address, city, state, and ZIP code

OMB No. 1545-1424

2008

Form 1099-C

Cancellation of Debt

CREDITOR'S federal identification number | DEBTOR'S identification number | 1 Date canceled | 2 Amount of debt canceled $

Copy B For Debtor

DEBTOR'S name | 3 Interest if included in box 2 $ | 4

Street address (including apt. no.) | 5 Debt description

City, state, and ZIP code

Account number (see instructions) | 6 Bankruptcy (if checked) | 7 Fair market value of property $

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 taxable income results from this transaction and the IRS determines that it has not been reported.

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

In addition to debtor information, Form 1099-C reports the amount of debt canceled and the date canceled. If box 6 for bankruptcy is checked or if an amount is included in box 3 for interest, then the taxpayer should be referred to a professional tax preparer.

Form 982 must be filed with the taxpayer’s return to report the excluded amount of discharge indebtedness and the reduction of certain tax attributes. Taxpayers excluding only discharged debt from “qualified principal residence indebtedness” only must complete a few lines on Form 982; check box 1e and include the amount from Form 1099-C, box 2, on Form 982, line 2. If the taxpayer kept ownership of the home, complete line 10b to reflect the basis adjustment to the principal residence for the excluded canceled debt.

Form **982** (Rev. January 2009) Department of the Treasury Internal Revenue Service

Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)

▶ **Attach this form to your income tax return.**

OMB No. 1545-0046

Attachment Sequence No. **94**

Name shown on return	**Identifying number**

Part I **General Information** (see instructions)

1	Amount excluded is due to (check applicable box(es)):		
a	Discharge of indebtedness in a title 11 case		☐
b	Discharge of indebtedness to the extent insolvent (not in a title 11 case)		☐
c	Discharge of qualified farm indebtedness		☐
d	Discharge of qualified real property business indebtedness		☐
e	Discharge of qualified principal residence indebtedness		☐
f	Discharge of certain indebtedness of a qualified individual because of Midwestern disasters		☐
2	Total amount of discharged indebtedness excluded from gross income	**2**	
3	Do you elect to treat all real property described in section 1221(a)(1), relating to property held for sale to customers in the ordinary course of a trade or business, as if it were depreciable property?		☐ Yes ☐ No

Part II **Reduction of Tax Attributes.** You must attach a description of any transactions resulting in the reduction in basis under section 1017. See Regulations section 1.1017-1 for basis reduction ordering rules, and, if applicable, required partnership consent statements. (For additional information, see the instructions for Part II.)

	Enter amount excluded from gross income:		
4	For a discharge of qualified real property business indebtedness, applied to reduce the basis of depreciable real property	**4**	
5	That you elect under section 108(b)(5) to apply first to reduce the basis (under section 1017) of depreciable property	**5**	
6	Applied to reduce any net operating loss that occurred in the tax year of the discharge or carried over to the tax year of the discharge	**6**	
7	Applied to reduce any general business credit carryover to or from the tax year of the discharge	**7**	
8	Applied to reduce any minimum tax credit as of the beginning of the tax year immediately after the tax year of the discharge	**8**	
9	Applied to reduce any net capital loss for the tax year of the discharge including any capital loss carryovers to the tax year of the discharge	**9**	
10a	Applied to reduce the basis of nondepreciable and depreciable property if not reduced on line 5. *DO NOT use in the case of discharge of qualified farm indebtedness.*	**10a**	
b	Applied to reduce the basis of your principal residence. *Enter amount here ONLY if line 1e is checked*	**10b**	
11	For a discharge of qualified farm indebtedness, applied to reduce the basis of:		
a	Depreciable property used or held for use in a trade or business, or for the production of income, if		

TaxWise Hint: If the taxpayer meets all the requirements to exclude the income from the cancellation of debt, use the “Add a form” process to add Form 982.

Coordination with Form 1099-A: If a personal residence is abandoned/foreclosed and debt is canceled in the same year, the taxpayer may receive Form 1099-C *only* with the required filing information from Form 1099-A shown in boxes 5 and 7 of Form 1099-C. The sales price is the lesser of the canceled debt (Box 2 of Form 1099-C) or fair market value (Box 7 of Form 1099-C) plus any proceeds the taxpayer received from the foreclosure sale.

Mortgage Workouts and Form 1099-C: Homeowners whose mortgage debt is partly forgiven through a loan modification or "workout" which allows them to continue owning their residence, will receive Form 1099-C reporting the debt canceled in box 2. Since the taxpayer kept ownership of the home, there is no gain or loss to be reported on Schedule D. However, if the canceled debt meets the requirements of "qualified principal residence indebtedness," Form 982 must be completed to report the amount excluded from gross income and the reduction of tax attributes. Check box 1e on Form 982. The amount from Form 1099-C, box 2, should be entered on line 2. In addition, the amount on line 2 should be entered on line 10b to report the reduction to the basis of the taxpayer's home.

Taxpayers who are not personally liable for the debt (nonrecourse debt) do not have ordinary income from the cancellation of the debt unless the lender:

- Offered a discount for the early payment of the debt, or
- Agreed to a loan modification that resulted in the reduction of the principal balance of the debt

If a lender offers to discount (reduce) the principal balance of a loan that is paid off early or agrees to a loan modification ("workout") that includes a reduction in the principal balance of a loan, the amount of the discount or the amount of the principal reduction is ***canceled debt*** whether or not the taxpayer is personally liable for the debt. The amount of the canceled debt must be included in income unless the exceptions or exclusions discussed earlier apply.

Form 982 should be completed and attached to the tax return if the exclusion for "qualified principal residence indebtedness" is applicable.

Verify Information: You will need to verify with the taxpayer that the information on Form 1099-A and Form 1099-C is correct. Pay particular attention to the amount of debt forgiven and the fair market value reported. Advise the taxpayer to contact the lender immediately if any of the information is not correct.

EXERCISES

The answers follow the exercises.

Question 1: Mary purchased her main home in June 2003 for $175,000. In 2008, she lost her job and was no longer able to make her mortgage payments. In July, Mary moved out of the home to live with relatives. On July 15, 2008, the bank foreclosed on the home. On November 15, 2008, the bank discontinued its collection activity and canceled the remaining debt. The fair market value at the time of foreclosure was $100,000 because of the poor housing market, but Mary still owed $150,000 on the mortgage. None of the loan proceeds were used for any purpose other than to buy, build, or substantially improve the principal residence.

Does Mary's mortgage debt qualify for the principal residence indebtedness exclusion on Form 982?

☐ Yes ☐ No

☐ CORRECTED (if checked)

LENDER'S name, street address, city, state, ZIP code, and telephone no. First Bank Anywhere USA		OMB No. 1545-0877 2008 Form 1099-A	**Acquisition or Abandonment of Secured Property**
LENDER'S federal identification number	BORROWER'S identification number	1 Date of lender's acquisition or knowledge of abandonment 07/15/2008	2 Balance of principal outstanding $ 150,000.00
BORROWER'S name Mary		3	4 Fair market value of property $ 100,000.00
Street address (including apt. no.) Anywhere		5 Was borrower personally liable for repayment of the debt? ☑ Yes ☐ No	
City, state, and ZIP code City, State ZIP USA		6 Description of property 1111 Anywhere Street Anywhere Town, Any State	
Account number (see instructions)			

Copy B
For Borrower

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 taxable income results from this transaction and the IRS determines that it has not been reported.

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

☐ CORRECTED (if checked)

CREDITOR'S name, street address, city, state, and ZIP code First Bank Anywhere USA		OMB No. 1545-1424 2008 Form 1099-C	**Cancellation of Debt**
CREDITOR'S federal identification number	DEBTOR'S identification number	1 Date canceled 11/15/2008	2 Amount of debt canceled $ 50,000.00
DEBTOR'S name Mary		3 Interest if included in box 2 $	4
Street address (including apt. no.) Anywhere		5 Debt description Home Mortgage Loan	
City, state, and ZIP code City, State ZIP USA			
Account number (see instructions)		6 Bankruptcy (if checked) ☐	7 Fair market value of property $

Copy B
For Debtor

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 taxable income results from this transaction and the IRS determines that it has not been reported.

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

EXERCISES (continued)

Question 2: Tom and Grace were having difficulty making their mortgage payments in 2008 after Tom became ill and couldn't work full time. Rather than go through the expense of a foreclosure, the lender agreed to reduce the principal on their loan and refinance the loan with a better interest rate and lower payments. The principal balance before the 11/1/2008 workout was $130,000, and the lender reduced the loan to $110,000. None of the loan proceeds were used for any purpose other than to buy, build, or improve the principal residence.

Does Tom and Grace's debt cancellation qualify for the principal residence indebtedness exclusion on Form 982? ☐ Yes ☐ No

☐ CORRECTED (if checked)

CREDITOR'S name, street address, city, state, and ZIP code First Bank Anywhere USA	OMB No. 1545-1424 2008 Form 1099-C		**Cancellation of Debt**
CREDITOR'S federal identification number	DEBTOR'S identification number	1 Date canceled 11/01/2008	2 Amount of debt canceled $ 20,000.00
DEBTOR'S name Tom and Grace Street address (including apt. no.) Anywhere City, state, and ZIP code City, State ZIP USA	3 Interest if included in box 2 $	4	**Copy B For Debtor** 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 taxable income results from this transaction and the IRS determines that it has not been reported.
	5 Debt description Home Mortgage Loan		
Account number (see instructions)	6 Bankruptcy (if checked) ☐	7 Fair market value of property $	

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

Question 3: Fred went to his local VITA site to have his 2008 tax return prepared. The volunteer went through his records and noticed he had Form 1099-C reflecting a canceled debt of $50,000.

Using Publication 4731, Screening Sheet for Cancellation of Debt, for assisting taxpayers with Form 1099-C as a guide, the volunteer learned Fred lost his job in 2008 and could no longer make his mortgage payments. The bank foreclosed on his home. Due to the housing market slump, the value of Fred's home had declined. His mortgage balance was more than the fair market value of the home. The bank sold Fred's home and canceled the remaining debt ($50,000) not covered by the sales price.

Upon further questioning, the volunteer learned Fred had refinanced his home 2 years ago and used the equity in the home to pay off some credit cards and take a trip to Las Vegas.

Should the volunteer assist Fred with the preparation of his return at the VITA site? ☐ Yes ☐ No

EXERCISE ANSWERS

Answer 1: *Yes. The volunteer would need to complete Schedule D and Form 982. Although there is a loss, it cannot be deducted, and, per the instructions it is reported as zero on Schedule D. The mortgage debt cancellation is not included in income on the tax return because it is covered by the qualified principal residence indebtedness exclusion on Form 982.*

Answer 2: *Yes. The volunteer would complete Form 982. The $20,000 in debt cancellation is covered by qualified principal residence indebtedness exclusion on Form 982 and is not counted as income on the tax return. In addition to completing box 1e and line 2, the volunteer would also need to complete line 10b to report the reduction in the basis of the home.*

Answer 3: *No. Fred's situation is outside the scope of the volunteer program since a portion of his refinanced debt was used for purposes other than to buy, build, or substantially improve his principal residence. Fred should be referred per the guidance on the Screening Sheet.*

Notes

How are IRA distributions reported?

This topic follows How are rollovers handled? on page 11-7.

What if the distribution is used for charitable purposes?

The taxpayer can have a qualified charitable distribution (QCD) made to an organization eligible to receive tax-deductible contributions. If all requirements are met, this action will exclude any part of the distribution that would normally be taxable. Form 1099-R will be issued to the taxpayer; there is no distribution code for box 7 that identifies a QCD.

The requirements for a QCD include:

- The taxpayer must be at least 70½ years old at the time of the distribution
- Only distributions from traditional IRAs are eligible for this treatment
- The distribution must be made by the trustee directly to the eligible organization
- The amount cannot be more than $100,000 (On a joint return, the spouse is eligible for the same amount)
- The amount cannot be included with other charitable contributions on Schedule A

The taxpayer may have marked the box for “Charitable contributions” on Form 13614-C Intake/Interview Sheet and Quality Review Sheet, or approved alternative form. If there is a Form 1099-R for a traditional IRA account and the taxpayer (or spouse) is at least 70½ years old, ask if any of the funds were a direct transfer to a charitable organization.

Taxpayers should have a written acknowledgment from the recipient stating:

- The organization’s name
- The amount
- The date
- A statement indicating there was no personal benefit to the taxpayer

This amount counts toward the minimum required distribution (see topic Minimum Distributions on page 11-11).

If any part of the distribution is a return of after-tax contributions, it may require the completion of Form 8606, Nondeductible IRAs. Form 8606 requires basis information in IRAs from prior years and can be complex. If Form 8606 is required, refer the taxpayer to a professional tax preparer.

TaxWise Hint: When inputting Form 1099-R, be sure to scroll down to the Exclusion Worksheet. Record the amount of the distribution that was contributed to the eligible organization on line 2. TaxWise will display the total distribution on Form 1040, line 15a, and the taxable amount, if any, on line 15b.

If you are preparing a paper return, enter the total distribution on Form 1040, line 15a. Write “QCD” next to the amount on line 15b. This will indicate that all or part of the distribution is not taxable because it met the requirements of a QCD.

How do I handle educator expenses?

This topic precedes How do I handle self-employment tax? on page 17-2.

The deduction for educator expenses was extended through 2009 as a result of the Emergency Economic Stabilization Act of 2008.

Who is eligible?

Eligible educators can deduct up to $250 of qualified expenses paid in 2008. If the taxpayer and spouse are both eligible educators, they can deduct up to $500, but neither can deduct more than their first $250. Any excess expenses may be treated as an itemized employment-related deduction on Schedule A.

At this point in the interview, you will know if the taxpayer and/or spouse are educators. Probe a little deeper to see if they qualify for this adjustment. Ask questions such as:

- Are you or your spouse a teacher, instructor, counselor, principal, or aide in a school? (Cannot be a home school)
- What grade or grades do you teach? (Must be K-12)
- Were you employed for at least 900 hours during the school year? (Required minimum)

What expenses qualify?

If the taxpayer or spouse is an eligible educator, ask for documentation of qualified expenses. Advise taxpayers who do not have receipts with them, they must have receipts for verification if they get audited. Expenses that qualify include books, supplies, equipment (including computer equipment, software, and services), and other materials used in the classroom. Expenses that do *not* quality are home schooling, nonathletic supplies for physical education, or health courses.

example

Gloria is a 5th and 6th grade teacher who works full-time in a year-round school. She had 1800 hours of employment in 2008. She spent $262 on supplies for her students. Of that amount, $212 was for educational software. The other $50 was for pamphlets for a unit she teaches sixth graders on reproductive health. Only the $212 is a qualified expense. She can deduct $212.

example

Debbie is a part-time art teacher at an elementary school. In 2008, she spent $185 on qualified expenses for her students. Because she has only 440 hours of documented employment as an educator in 2008, she cannot deduct her educator expenses.

What other rules apply?

Continue to probe to learn if the taxpayer or spouse received reimbursement that would reduce the amount of their educator expenses. For example, ask:

- Did you receive reimbursement that is not listed on Form W-2?
- Did you redeem tax-free interest on U.S. Series EE and I Savings Bonds?
- Did you receive nontaxable earnings from a Qualified Tuition Program (QTP) or Coverdell Education Savings Account (ESA)?

Educator expenses are reduced by any of these applicable reimbursements.

example

Evelyn managed to work 1000 hours as an educator in 2008 while completing graduate studies. She spent $200 to buy qualified school supplies for her students. She covered $400 of her own educational expenses from her Coverdell ESA. She cannot take the deduction for educator expenses.

How do I report this?

Educator expenses are entered on line 23 of Form 1040. Don't forget to reduce the total educator expenses by any reimbursements, nontaxable savings bond interest, or nontaxable distributions from an ESA or QTP.

TaxWise Hint: From Form 1040, line 23, link to the new Form 1040-WKT2, Student Loan, Education Worksheet. In the Education Expenses-Elementary and Secondary section, under the proper column, enter the allowable expenses reduced by any reimbursements. The amount should not exceed $250 in the column. TaxWise will display the amount on line 23.

Taxpayer Example

Bob teaches elementary school. His wife Janet teaches high school chemistry. Here is how a volunteer helped them determine if they can take the deduction for educator expenses.

SAMPLE INTERVIEW

VOLUNTEER SAYS...	JANET & BOB RESPOND...
You've already mentioned that you both work full-time as teachers, so you may be able to deduct some of the money you spent on qualified educator expenses. Did you bring your receipts?	[Janet] Yes, all teachers keep careful records of their expenses. Here are my receipts and here are Bob's.
Can you tell me what you purchased? Janet, maybe you could go first.	Sure. Three are for quick reference cards for my chem students. And two are for special reagents the department doesn't stock.
Your receipts add up to $382. Now, we can count only the first $250 of educator expenses, but because you are married and filing jointly, we can count up to $250 for Bob. Bob, tell me about your expenses.	[Bob] These four are for art supplies – paint and brushes, as you can see – and these two are for special papers and sculpting clay.
Yours total $263. Now, did either of you receive any reimbursement that is not listed on Form W-2?	[Janet] No, we paid these expenses out of our own pockets. [Bob] Wait, now that I think about it, I got reimbursed $50 for the clay.
That would bring your total down to $213.	[Janet] Can't we apply some of my excess expense to Bob and bring his total up to $250?
No, I'm sorry, each person's expenses have to stand alone. Did either of you receive any reimbursement that is not listed on a Form W-2, from any other source?	No.
Did you redeem U.S. series EE and I Savings Bonds in 2007?	No, we didn't. What if we had?
We would complete a form to see what percentage of the tax-free interest should be applied as a reimbursement. One more thing: did you receive distributions from a qualified tuition program or a Coverdell education savings account?	[Bob] No, neither of those.
Okay, we can claim $213 for Bob and the maximum $250 for Janet. That gives you a total of $463 on your joint return. Any questions before we go on? [On the approved Intake and Interview Sheet, indicate that the taxpayers are entitled to the Educator Expense Adjustment.]	[Janet] No, I think we understand.

How do I handle tuition and fees?

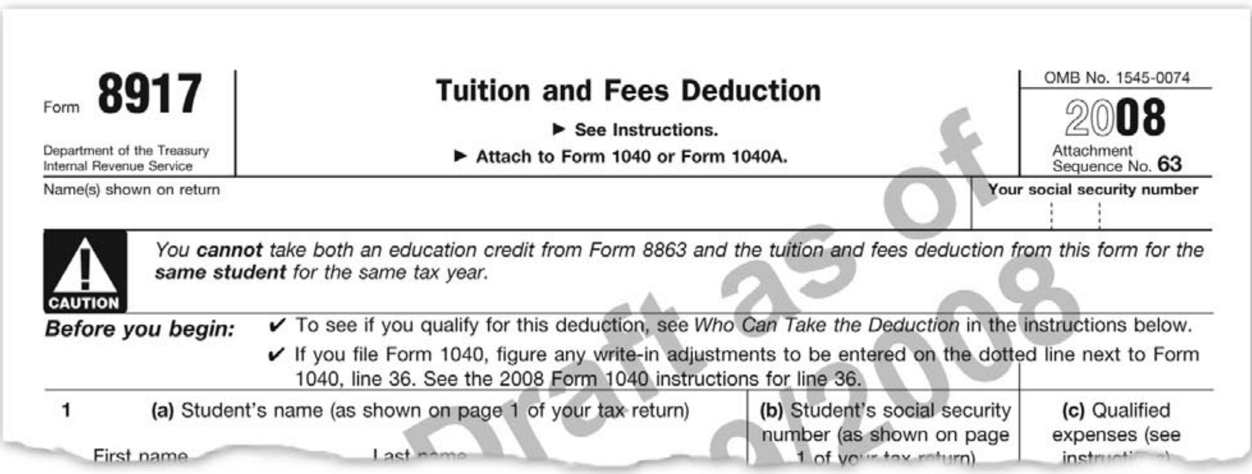
The tuition and fees deduction was extended through 2009 as a result of the Emergency Economic Stabilization Act of 2008.

What is the deduction?

Taxpayers can deduct up to $4,000 in qualified tuition and related expenses paid during the tax year. The amount of the deduction is determined by the taxpayer's filing status, MAGI, and other factors.

Effect of MAGI on maximum tuition and fees deduction		
IF you're filing status is:	**AND your MAGI is:**	**THEN your maximum tuition and fees deduction is:**
Single, Head of Household, or Qualifying Widow(er)	Not more than $65,000	$4,000
	More than $65,000, but not more than $80,000	$2,000
	More than $80,000	$0
Married Filing Jointly	Not more than $130,000	$4,000
	More than $130,000, but not more than $160,000	$2,000
	More than $160,000	$0

Form 8917, Tuition and Fees Deduction, will help you compute the taxpayer's Modified AGI for this deduction. TaxWise will complete this part of Form 8917 automatically.



Form **8917** Department of the Treasury Internal Revenue Service

Tuition and Fees Deduction

▶ **See Instructions.**

▶ **Attach to Form 1040 or Form 1040A.**

OMB No. 1545-0074

2008

Attachment Sequence No. 63

Name(s) shown on return | **Your social security number**

CAUTION *You **cannot** take both an education credit from Form 8863 and the tuition and fees deduction from this form for the **same student** for the same tax year.*

Before you begin: ✔ To see if you qualify for this deduction, see *Who Can Take the Deduction* in the instructions below.
✔ If you file Form 1040, figure any write-in adjustments to be entered on the dotted line next to Form 1040, line 36. See the 2008 Form 1040 instructions for line 36.

1 **(a)** Student's name (as shown on page 1 of your tax return) | **(b)** Student's social security number (as shown on page 1 of your tax return) | **(c)** Qualified expenses (see instructions)

First name Last name

Draft as of 9/2008

example

In 2008, Leonard, a Single taxpayer who had a total income of $24,000, meets all the requirements to take the deduction. He paid $4,427 in tuition and fees. Because his gross income is well below the MAGI limit, he will be able to deduct the maximum amount ($4,000) for his tuition and fees payments.

example

Juanita is married but uses the Married Filing Separately status. She cannot deduct tuition and fees.

Who is eligible for this deduction?

To claim the deduction, the taxpayer must have paid qualified expenses for an eligible student to attend an eligible educational institution during the tax year. The deduction can be claimed for the taxpayer, the taxpayer's spouse (if filing a joint return), and any dependent for whom the taxpayer claims a dependency exemption.

The tuition and fees deduction *cannot* be claimed by married taxpayers who file as Married Filing Separately or by an individual who is a dependent of another taxpayer.

In order to claim a deduction for expenses paid for a dependent who is the eligible student, the taxpayer must have paid the qualified expenses and claim an exemption for the dependent. If the student is eligible to be claimed as a dependent (even if not actually claimed) but paid his or her own expenses, *no one* can take the adjustment. However, a student who does not qualify as a dependency exemption on someone else's return can claim the deduction, even if tuition and fees were paid by another person. In that case, the student can treat the amounts paid for tuition and fees as a gift.

Taxpayers who are not eligible for the tuition and fees adjustment because of the dependency issue may be eligible for an education tax credit, covered in the Education Credits lesson.

example

Joseph is 30, he lives at home and is a full-time student. He earns about $5,000 each year, so his parents cannot claim him as a dependent even if they pay his education expenses. Only Joseph can take the tuition and fees adjustment.

example

Carly is 18 and claimed by her parents as a dependent. She took out student loans and paid all of her own tuition and fees. Carly cannot take the deduction because she is a dependent. Carly's parents can't claim the deduction either because they did not pay the education expenses. Carly's parents might be eligible for the education credits.

What are qualified tuition and fees expenses?

Ask probing questions to identify what the payments covered. Some expenses do not qualify.

- Qualified tuition and related expenses include tuition and fees required for enrollment or attendance at an eligible educational institution. Fees for course-related books, supplies, and equipment are *only* a qualified expense if the fees must be paid to the institution as a condition of enrollment or attendance. In most cases, books are not an allowable expense, as they are not usually required to be purchased from the institution as a condition of enrollment. For further discussion of allowable expenses, please see Publication 970, Tax Benefits for Education.
- Qualified tuition and related expenses do not include the cost of insurance, medical expenses (including student health fees), room and board, student activities, transportation or similar personal living or family expenses (even if the fees must be paid to the institution as a condition of enrollment or attendance), athletic fees, or other expenses unrelated to an individual's academic course of instruction.

Ask taxpayers if the qualified tuition and expenses were offset by distributions from qualified state tuition programs, Coverdell ESAs, or interest from savings bonds used for higher education expenses. Subtract such distributions from the total payments for tuition and fees.

Form 1098-T, Tuition Statement, which the taxpayer should have received, will help you figure the tuition and fees deduction. Generally, an eligible education institution must send Form 1098-T or a substitute to each enrolled student by January 31. However, the form only reports “amount billed” or “payments received.” You must question the taxpayer to determine the amount of qualified expenses actually paid and adjust this amount by any non-taxable items, such as scholarships or tuition program distributions.

What is an eligible educational institution?

An eligible educational institution is generally any accredited public, nonprofit, or private post-secondary institution eligible to participate in the student aid programs administered by the Department of Education. It includes virtually all accredited public, nonprofit, and privately owned profit-making post-secondary institutions. Taxpayers who do not know if an educational institution is an eligible institution should contact the school. Search for eligible institutions at www.fafsa.ed.gov by clicking “Search for School Codes.”

How do I determine the amount of the deduction?

If preparing a paper return, use Form 8917, Tuition and Fees Deduction, to figure the MAGI and the resulting deduction amount.

TaxWise Hint: TaxWise makes it easy to calculate the deduction. From line 34, link to 1040 Wkt2, Student Loan Education Worksheet. Enter the name, SSN, and qualified expenses for each student. The program calculates the deduction based on the income limits for the filing status and displays it on line 34 of Form 1040.

Which education benefit is better for the taxpayer?

If taxpayers claim the tuition and fees adjustment to income, they cannot claim the education tax credit (Form 1040, line 50). The education credits include the Hope and Lifetime Learning Credits, which are discussed in more detail in the Education Credits lesson.

However, there are exceptions. Suppose a taxpayer’s adjusted gross income (AGI) is $2,900 over the limit for fully itemizing deductions on Schedule A. That taxpayer may be better off taking the $4,000 tuition and fees adjustment to reduce the AGI. Another example may be a decrease in AGI that makes the taxpayer eligible for more earned income credit, creating a larger net refund. For many taxpayers, the tax credit is more beneficial than the adjustment.

TaxWise Hint: How do I use TaxWise to compare education benefits?

Use TaxWise to compare the benefit of the tuition and fees adjustment with the education tax credit by:

- Completing the entire tax return, including the tuition and fees adjustment, and writing down the tax due/refund or AGI (whichever is the issue for this taxpayer). If the taxpayer is filing a state return, be sure to include the state tax due/refund and net with the federal.
- Go to 1040 Wkt2 in the forms tree. Remove the amount from the section entitled Tuition and Fees as an AGI Deduction.
- Go to Form 1040, line 50, and link to 8863 - Education Credits. Complete either Part I or Part II as appropriate. Select the tab, “Close This Form.” The credit will display on line 50. Compare the numbers in the Refund Monitor with those that were calculated when the amount was used as a Tuition and Fees adjustment.

If taking the adjustment is more beneficial, delete Form 8863 (one keystroke) and re-do the tuition and fees adjustment.

Taxpayer Scenario

Glenda's Education Expenses

Here is how a volunteer helped Glenda deduct the tuition and fees she paid for a class.

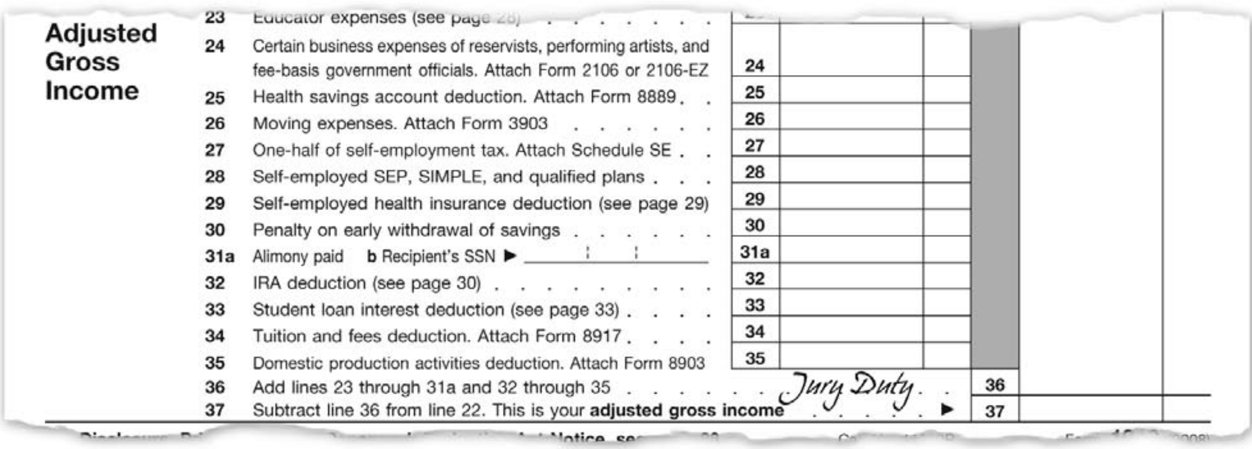
SAMPLE INTERVIEW

VOLUNTEER SAYS...	GLENDA RESPONDS...
Let's talk about your education-related expenses. Were you or someone else in your family going to school?	I took one class in the fall.
You're filing as Head of Household and your income is below the limit for taking the full deduction. Do you have a receipt for the tuition payment?	Yes, these are the receipts from City College.
I see $450 for tuition and $80 for books. Were you required to purchase the books through City College or could you have bought them elsewhere?	Those books were written specifically for the course; I had to purchase them through the school when I registered.
OK, then we can include the books. That totals $530. I just need to ask a few more questions. Did you receive any funds from an educational assistance program from your employer?	Yes, the EAP provided $100.
Did you make any tax-free withdrawals from a Coverdell educational savings account or another qualified tuition program, or from U.S. savings bonds?	No.
Did you get any other nontaxable payments, not counting gifts, bequests, or inheritances, that were specifically for educational expenses?	Well, my mom gave me $100 to help with tuition.
The $100 was a gift, so we don't count it. Your total payments were $530 and then we must subtract the $100 employer benefit. You can deduct $430 for tuition and fees. Do you have any questions about all this?	No, I'm really glad I can deduct that.
There is also a credit for people who are paying for college expenses. You can take one or the other, but not both. When we get to the end of the return, I will ask you some more questions to figure out if the credit would be better for you than this deduction. [Note on the approved Intake and Interview Sheet that you have addressed this adjustment.]	Okay, I'd appreciate that.

Is jury duty pay an adjustment to income?

This topic, Jury duty pay, is on page 17-13.

The lines in the Form 1040 Adjusted Gross Income section have been realigned since the writing of the student text. On a paper return “Jury duty pay you gave to your employer” is not reported on line 34, but is now reported as a write-in on line 36. TaxWise will continue to show it as a line item in the “Other” section under line 35.



Adjusted Gross Income	23	Educator expenses (see page 28)	23
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24
	25	Health savings account deduction. Attach Form 8889	25
	26	Moving expenses. Attach Form 3903	26
	27	One-half of self-employment tax. Attach Schedule SE	27
	28	Self-employed SEP, SIMPLE, and qualified plans	28
	29	Self-employed health insurance deduction (see page 29)	29
	30	Penalty on early withdrawal of savings	30
	31a	Alimony paid **b** Recipient’s SSN ▶	31a
	32	IRA deduction (see page 30)	32
	33	Student loan interest deduction (see page 33)	33
	34	Tuition and fees deduction. Attach Form 8917	34
	35	Domestic production activities deduction. Attach Form 8903	35
	36	Add lines 23 through 31a and 32 through 35 Jury Duty	36
	37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶	37

What is the Standard Deduction?

This topic follows the last paragraph on page 19-1.

The standard deduction is also increased by a taxpayer's net disaster loss. Refer to line 39c, Form 1040, and the standard deduction worksheet, which include this new provision in the law. Casualty and disaster losses are out of scope for the volunteer program; this information is provided for awareness only. Taxpayers who have a casualty or disaster loss should be referred to a professional tax preparer.

How do I deduct the taxes?

This topic follows Income Taxes on page 20-4.

General Sales Taxes

The option to deduct state and local general sales taxes in lieu of state and local income taxes was extended through 2009 as a result of the Emergency Economic Stabilization Act of 2008. Taxpayers can elect to deduct state and local income taxes or general sales taxes, but they cannot deduct both.

If the taxpayer elects to deduct state and local general sales taxes, check box b on line 5 of Schedule A. Use either of the following methods:

- Actual (from the taxpayer's receipts), or
- Optional State Sales Tax Tables in the Schedule A Instructions

Taxpayers using the Optional Sales Tax Tables may also add the state and local general sales tax paid on certain specified items, such as motor vehicles (purchased or leased), aircraft, boats, homes (including mobile and prefabricated homes), and home building materials.

TaxWise Hint: Link from the amount box on line 5b to the Sales Tax Worksheet. Some information will flow to this worksheet from other parts of the return. Be sure to address all other questions with the taxpayer. As a deduction, TaxWise will determine which amount (sales tax or income tax) is of greater benefit.

If preparing a paper return, use the *2008 Optional State and Certain Local Sales Tax Tables* and the *State and Local General Sales Tax Deduction Worksheet – Line 5b* which are in the Form 1040 Instructions for Schedule A. Select the correct sales tax table by using the state of residence, number of exemptions on the return, and the proper income bracket. The income bracket is determined by all the sources of income that were available to the taxpayer: all income reported on the return and certain nontaxable income such as tax-exempt interest, veteran's benefits, nontaxable combat pay, worker's compensation, public assistance payments, and the nontaxable portion of social security/railroad retirement/IRA/pension/annuity payments.

Compare the results from the worksheet with the state/local income tax withholding amount. Record the most beneficial amount on Schedule A, line 5.

Lesson 26: Child Tax Credit

What is the Additional Child Tax Credit?

This follows the topic What is the Amount of the Credit? on page 26-6.

What is the amount of the credit?

The Emergency Economic Stabilization Act of 2008 enhanced the Additional Child Tax credit by lowering the threshold of the earned income amount for purposes of computing the credit from $12,050 to $8,500. The first bullet should read:

- 15% of the taxpayer’s taxable earned income that is over **$8,500**, or

What is the Residential Energy Efficient Property Credit?

This follows What is the Residential Energy Efficient Property Credit? on page 27-8.

As a result of the Emergency Economic Stabilization Act of 2008, some changes have been made to the Residential Energy Efficient Property Credit.

The credit for nonbusiness energy property expired at the end of 2007. For that reason, the costs for items such as insulation, storm windows and doors *do not* qualify for a credit in *2008*, but this provision was reinstated for 2009.

The items available for credit in 2008 also include small wind energy property and geothermal heat pumps.

What is the first–time homebuyer credit?

This follows the paragraph under What is the first-time homebuyer credit? on page 29-6.

Which home purchases qualify for the first-time homebuyer credit?

The first-time homebuyer credit operates much like an interest-free loan. A taxpayer generally must repay it over a 15-year period. Only the purchase of a main home located in the United States qualifies and only for a limited time. A main home is where the taxpayer lives most of the time. It can be a house, houseboat, house trailer, cooperative apartment, condominium, or other type of residence. Vacation homes and rental property are not eligible. A taxpayer must buy the home after April 8, 2008, and before July 1, 2009. For a home that a taxpayer constructs, the purchase date is the first date the taxpayer occupies the home.

Taxpayers who owned a main home at any time during the three years prior to the date of purchase are not eligible for the credit. This means that first-time homebuyers and those who have not owned a home in the three years prior to a purchase can qualify for the credit.

If a taxpayer makes an eligible purchase in 2008, the taxpayer can claim the first-time homebuyer credit on his/her 2008 tax return. For an eligible purchase in 2009, taxpayers can choose to claim the credit on either their 2008 (or amended 2008 return) or 2009 return.

Form 5405, First-Time Homebuyer Credit, is used to claim this credit.

What is the amount of the credit?

Generally, the credit is the smaller of:

- $7,500 ($3,750 if Married Filing Separately), or
- 10% of the purchase price of the home

Taxpayers are allowed the full amount of the credit if their modified adjusted gross income (MAGI) is $75,000 or less ($150,000 or less if Married Filing Jointly.) The credit is reduced or eliminated if the MAGI exceeds these amounts. Refer to Publication 17 for more information.

Who is not eligible for the credit?

If any of the following describe the taxpayer, the credit cannot be taken, even if the taxpayer buys a main home:

- Taxpayer's income exceeds the phase-out range. This means joint filers with MAGI of $170,000 and above and other taxpayers with MAGI of $95,000 and above.
- Taxpayer buys home from a close relative. This includes taxpayer's spouse, parent, grandparent, child or grandchild.
- Taxpayer buys the home from a related entity. This includes a corporation or partnership in which the taxpayer directly or indirectly owns more than a 50% interest.
- Taxpayer stops using the home as a main home.

- Taxpayer sells the home before the end of the year.
- Taxpayer is a nonresident alien.
- Taxpayer is, or was, eligible to claim the District of Columbia first-time homebuyer credit for any taxable year.
- The home purchased is located outside the United States.
- Taxpayer's home financing comes from tax-exempt mortgage revenue bonds.
- Taxpayer acquired the home by gift or inheritance.
- Taxpayer owned another main home at any time during the three years prior to the date of purchase. For example, taxpayers who bought a home on July 1, 2008, cannot take the credit for that home if they owned, or had an ownership interest in, another main home at any time from July 2, 2005, through July 1, 2008.

What more should I know about this credit?

Qualified taxpayers can choose to take this credit in 2008, 2009, or not at all. Since the credit must be paid back, certain events will cause the full amount to be repaid.

The first-time homebuyer credit is similar to a 15-year interest-free loan. Normally, it is repaid in 15 equal annual installments beginning with the second tax year after the year the credit is claimed. The repayment amount is included as an additional tax on the taxpayer's income tax return for that year. For example, if taxpayers can properly claim a $7,500 first-time homebuyer credit on their 2008 return, they will begin paying it back (recapture) on their 2010 tax return. Normally, $500 will be due each year from 2010 to 2024.

If the home ceases to be the taxpayer's main home before the 15-year period is up, the taxpayer must include all remaining annual installments as additional tax on the return for the tax year this occurs. This includes situations where the taxpayer sells the home or converts it to a business or rental property. For purposes of repaying the credit, each spouse filing a joint return is treated as having been allowed half the credit.

Taxpayers may need to adjust their withholding or make quarterly estimated tax payments to ensure they are not under-withheld.

However, some exceptions apply to the repayment rule, which include:

- If a taxpayer dies, the rest of the credit does not have to be recaptured.
- If taxpayers sell their home, all remaining annual installments become due on the return for the year of sale. The repayment is limited to the amount of gain on the sale, if the home is sold to an unrelated taxpayer. When figuring the gain, the taxpayer must reduce the adjusted basis of the home by the amount of the credit he/she has not recaptured.
- If a taxpayer transfers the home to their spouse, or, as part of a divorce settlement, to their former spouse, that person is responsible for making all subsequent installment payments (recapture of the credit).
- If the home is destroyed, condemned, or disposed of under threat of condemnation, and the taxpayer acquires a new main home within 2 years of the event, the taxpayer continues to recapture the credit over the rest of the 15-year recapture period.

There are special rules for involuntary conversions. Taxpayers should consult a professional tax preparer to determine the tax consequences of an involuntary conversion.

How do I calculate the Recovery Rebate Credit?

This follows the section How do I calculate the Recovery Rebate Credit? on page 29-6.

This credit is figured in the same manner as the economic stimulus payment (ESP) a taxpayer may have received in 2008 except that a taxpayer's 2008 tax information is used to figure this credit. 2007 tax information was used to figure the economic stimulus payment. The recovery rebate credit (RRC) is available for eligible taxpayers on the 2008 tax return.

Go to the Volunteer Resource Guide, pages 10-14, for guidance and interview tips on the recovery rebate credit. In addition to the recovery rebate worksheet, there is a recovery rebate calculator on www.irs.gov.

For a paper return, the IRS will calculate the recovery rebate credit for taxpayers. Refer to line 70, Form 1040, in the Form 1040 Instructions for details on how to notate the tax return.

Taxpayers should be asked to provide Notice 1378, which shows the amount of the economic stimulus payment. However, if they do not have Notice 1378, the amount of the payment can be found by on www.irs.gov. All taxpayers will need to provide the ESP amount received as part of tax return preparation. **In order to complete the Recovery Rebate Credit worksheet, the amount of the ESP must be entered on the form.**

What about taxpayers who are not required to file a tax return?

If taxpayers are not required to file a return but are filing only to get the recovery rebate credit, be sure to fill in lines 7, 20a, and 70 of Form 1040.

Who may be eligible for this credit?

Taxpayers may be able to take this credit only if:

- They did not get an economic stimulus payment, or
- Their economic stimulus payment was less than $600 ($1,200 if Married Filing Jointly for 2007) plus $300 for each qualifying child they had for 2008

Who is not eligible for this credit?

Taxpayers do not qualify for the credit if all the following apply:

- The taxpayer received an economic stimulus payment of $300 ($600 if Married Filing Jointly for 2007) before any offset
- The taxpayer's 2008 tax on Form 1040, line 46, is $300 or less ($600 or less if Married Filing Jointly for 2008)
- The taxpayer's 2008 filing status is the same as the filing status in 2007, and
- The taxpayer does not have any qualifying children

Refer to Publication 17 and Form 1040 Instructions for more information on the recovery rebate credit.

Obtaining Disclosure Consents

IRS Policy: *All volunteer sites using tax preparation software to prepare taxpayer returns* ***must*** *solicit consent from each taxpayer for disclosure and for the use of their information during the return preparation process.* This policy decision is intended to create a simplified and consistent site process to ensure taxpayers' rights are observed and protected. This policy is applicable beginning **January 1, 2009**.

Volunteer Procedures

It is recommended that, during the intake and interview process, volunteers explain the policy and solicit the taxpayer's consent for disclosure and for the use of their information. The consent ***must*** be secured prior to preparation of the tax return. Services will be provided regardless of the taxpayer's decision as to whether they agree to the use and disclosure of their information.

Procedures for sites using tax preparation software

Taxpayer grants consent:

If the taxpayer signs both the consent to use and consent to disclose forms, follow these steps:

1. The volunteer prints and explains the consent forms during the intake and interview process
2. The taxpayer signs both consent to use and consent to disclose forms; paper copies will be retained by the partner
3. The volunteer inputs the appropriate consent to use and consent to disclose form from the Find a Form menu
4. The volunteer asks the taxpayer to provide a PIN for an electronic signature (if Married Filing Jointly, both taxpayers must provide an electronic PIN)
5. The volunteer prepares the tax return using tax preparation software and prints the tax return, with copies of the electronic consent forms
6. The completed return is Quality Reviewed
7. The volunteer provides the taxpayer with the completed return and electronic consent forms
8. The consent forms must be maintained for a period of 3 years (same process as electronic signature document Form 8879)
9. The return is electronically filed

Taxpayer does *not* grant consent:

Refusal by taxpayers to give their consent will not be a reason to deny tax preparation services. For taxpayers who will not sign the consent to use and consent to disclose forms, follow these steps:

1. The volunteer prints and explains the consent forms during the intake and interview process
2. The taxpayer signs *consent denied* on both the use and disclose forms; paper copy will be retained by the partner
3. The volunteer inputs the appropriate consent to use and consent to disclose forms from the Find a Form menu
4. The volunteer solicits a PIN from taxpayer for electronic signature (if Married Filing Jointly, both taxpayers must provide an electronic PIN)
5. The volunteer prepares the tax return using tax preparation software and prints the tax return, with copies of electronic consent forms
6. The completed return is Quality Reviewed
7. The non-consent forms must be maintained for a period of 3 years (same process as electronic signature document Form 8879)
8. The return is electronically filed; *see exception below*

Exception: If no consent was given and the site is supported by a partner operating multiple sites and listed as a **Relational EFIN**, the tax return *cannot* be electronically filed. In this case, the return must be prepared as a paper return.

Procedures for sites that prepare paper returns only

Volunteer sites that process paper returns *only* and subsequently maintain any taxpayer information that could be used in a report *must solicit consent.*

If no data is compiled, used, or disclosed, other than the number of paper returns prepared, consents are *not required.* In this situation, follow normal processing procedures.

For more information on this requirement, contact your Site Coordinator/Sponsor or your IRS contact.

Lesson	2008 1040 Line #	Description	✔=in scope, no check=out of scope					Notes
1		Course Introduction	✔	✔	✔	✔	✔	
2		Screening and Interviewing	✔	✔	✔	✔	✔	
3	Label	Filing Basics	✔	✔	✔	✔	✔	
	Filing Status							
4	1	Single	✔	✔	✔	✔	✔	
4, 7	2	Married filing jointly	✔	✔	✔	✔	✔	Lesson 7 for Miltary & International only
4	3	Married filing separately	✔	✔	✔	✔	✔	Some community property issues may be out of scope
4, 7	4	Head of household	✔	✔	✔	✔	✔	Lesson 7 for Miltary & International only
4	5	Qualifying widow(er)	✔	✔	✔	✔	✔	
	Exemptions							
5, 6, 7	6a - d	Exemptions	✔	✔	✔	✔	✔	Lesson 7 for Miltary & International only
	Income							
8, 16	7	Wages, salaries, tips, etc.	✔	✔	✔	✔	✔	Lesson 16 for Miltary & International only
8	8a - b	Taxable interest, tax-exempt interest	✔	✔	✔	✔	✔	
8	9a - b	Ordinary dividends, qualified dividends	✔	✔	✔	✔	✔	
8	10	Taxable refunds, etc.		✔	✔	✔	✔	
8	11	Alimony received		✔	✔	✔	✔	
9	12	Business income or (loss)		✔	✔	✔	✔	Schedule C-EZ only. Schedule C is out of scope
10	13	Capital gain or (loss)		✔	✔	✔	✔	Complicated & advanced schedule Ds should be referred. See Pub 4491-X Supplement for additional information.
n/a	14	Other gains or (losses)						
11	15a - b	IRA distributions, taxable amount		✔	✔	✔	✔	Intermediate only if taxable amount determined. See Pub 4491-X Supplement for additional information
11	16a - b	Pensions and annuities, taxable amt		✔	✔	✔	✔	Intermediate only if taxable amount determined
12	17	Rental real estate, royalties, etc.				✔	✔	Military & International levels only
n/a	18	Farm income or (loss)						
13	19	Unemployment compensation	✔	✔	✔	✔	✔	
14	20a - b	Social security benefits, taxable amt		✔	✔	✔	✔	
15	21	Other income	✔	✔	✔	✔	✔	Some issues outside scope for certain levels, worldwide income & foreign earned income exclusion are International topics only
	Adjusted Gross Income							
17	23	Educator Expenses		✔	✔	✔	✔	See Pub 4491-X Supplement for additional information
21	24	Certain bus exp of reservists, etc.				✔		Reservists can take as an adjustment
n/a	25	Health savings account deduction						
18	26	Moving expenses				✔		Military only
17	27	One-half of self-employment tax		✔	✔	✔	✔	
n/a	28	Self-employed SEP, SIMPLE, etc.						
n/a	29	Self-employed health ins deduction						
17	30	Penalty on early withdrawal of savings		✔	✔	✔	✔	
17	31a - b	Alimony paid, recipient's SSN		✔	✔	✔	✔	
17	32	IRA deduction		✔	✔	✔	✔	If Form 8606 required, out of scope
17	33	Student loan interest deduction		✔	✔	✔	✔	
17	34	Tuition and fees deduction		✔	✔	✔	✔	See Pub 4491-X Supplement for additional information
n/a	35	Domestic production activities deduct						
	Tax and Credits							
19	39a	Check if:/Total boxes checked	✔	✔	✔	✔	✔	
19	39b	If spouse itemizes on separate return		✔	✔	✔	✔	
19	39c	If you are deducting real estate taxes	✔	✔	✔	✔	✔	
20, 21 22	40	Itemized Deductions or standard deduction	✔	✔	✔	✔	✔	Basic - standard deduction; all others - some out of scope issues: investment interest, donations requiring Form 8283, casualty and theft losses. Military only - employee business expenses - Form 2106. See Pub 4491-X Supplement for add'l info

Lesson	2008 1040 Line #	Description	✔=in scope, no check=out of scope					Notes
20	41-44	Exemptions, Taxable Income & Tax Computation	✔	✔	✔	✔	✔	
n/a	44a	Form(s) 8814						Exception for Alaska for Permanent Fund Dividend
n/a	44b	Form 4972						
n/a	45	Alternative minimum tax						
25	47	Foreign tax credit		✔	✔	✔	✔	International only trained on Form 1116
23	48	Credit for child and dependent care	✔	✔	✔	✔	✔	
27	49	Credit for the elderly or the disabled	✔	✔	✔	✔	✔	
24	50	Education credits		✔	✔	✔	✔	
27	51	Retirement savings contributions credit	✔	✔	✔	✔	✔	
26	52	Child tax credit	✔	✔	✔	✔	✔	See Pub 4491-X Supplement for additional information
n/a	53a	Mortgage interest credit						
n/a	53b	Adoption credit						
27	53c	Residential energy credits		✔	✔	✔	✔	See Pub 4491-X Supplement for additional information
n/a	54a-c	General business credit, etc						
	Other Taxes							
28	57	Self-employment tax	✔	✔	✔	✔	✔	
28	58a	Unreported social security and Medicare tax - 4137	✔	✔	✔	✔	✔	
n/a	58b	Unreported social security and Medicare tax - 8919						
28	59	Additional tax on IRAs, etc		✔	✔	✔	✔	If Form 5329 required, out of scope
28	60a	Advance EIC payments	✔	✔	✔	✔	✔	
n/a	60b	Household employment taxes						
	Payments							
29	62	Federal income tax withheld from	✔	✔	✔	✔	✔	
29	63	2008 estimated tax payments, etc	✔	✔	✔	✔	✔	
30	64a	Earned income credit (EIC)	✔	✔	✔	✔	✔	
30	64b	Nontaxable combat pay election	✔	✔	✔	✔	✔	Can affect other deductions & credits as well as EIC
29	65	Excess social security & tier 1 RRTA	✔	✔	✔	✔	✔	
26	66	Additional child tax credit	✔	✔	✔	✔	✔	
29	67	Amount paid with request for extension	✔	✔	✔	✔	✔	
n/a	68a - d	Payments: 2439, 4136, 8801, 8885						
29	69	First-time homebuyer credit		✔	✔	✔	✔	
18	70	Recovery rebate credit	✔	✔	✔	✔	✔	
	Refund							
31	72	…amount you overpaid	✔	✔	✔	✔	✔	
31	73a	Amount … You want refunded	✔	✔	✔	✔	✔	
31	73b - d	Bank account information	✔	✔	✔	✔	✔	
31	74	… applied to … 2009 estimated tax	✔	✔	✔	✔	✔	
	Amount You Owe							
31	75	Amount you owe	✔	✔	✔	✔	✔	
31	76	Estimated tax penalty						Let IRS figure this penalty if it applies
31	3rd Party		✔	✔	✔	✔	✔	
32	Sign Here		✔	✔	✔	✔	✔	
32	Paid Preparer's		✔	✔	✔	✔	✔	
33		Concluding the Interview	✔	✔	✔	✔	✔	
34		Military Finishing and Filing the Return				✔	✔	
35		Amended Returns (Optional)	✔	✔	✔	✔	✔	Tax Year 2008 returns only

Department of the Treasury – Internal Revenue Service

Volunteer Agreement

Standards of Conduct – VITA/TCE Programs

The mission of the VITA/TCE Program is to provide free basic tax return preparation for eligible taxpayers. Volunteers are the program's most valuable resource. To establish the greatest degree of public trust, Volunteers have a responsibility to provide high quality service and uphold the highest of ethical standards.

As a participant in the VITA/TCE Program, I agree to the following standards of conduct:

- I will treat all taxpayers professionally, with courtesy and respect.
- I will safeguard the confidentiality of taxpayer information.
- I will apply the tax laws equitably and accurately to the best of my ability.
- I will only prepare returns for which I am certified. (Basic, Advanced, etc.)
- I will exercise reasonable care in the use and protection of equipment and supplies.
- I will not solicit business from taxpayers I assist or use the knowledge I have gained about them for any direct or indirect personal benefit for me or any other specific individual.
- I will not accept payment from taxpayers for the services I provide. I may receive compensation as an employee of a program sponsor.

Confidentiality Statement

All tax information received from taxpayers in your volunteer capacity is strictly confidential and should not, under any circumstances, be disclosed to unauthorized individuals and should be properly safeguarded.

All persons, scenarios and addresses appearing in this product are fictitious. Any resemblance to persons living or dead is purely coincidental.