Publication 4491

VITA/TCE **Training Guide**

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

Volume 14 of 16

2023 RETURNS

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What are the rules for a qualifying child of more than one person?

Sometimes a child meets the tests to be a qualifying child of more than one person. A child who meets the conditions to be a qualifying child of more than one person can only be claimed by one taxpayer for the EIC. Please see the example below.

Robyn is 25 years old. She and her 2-year-old son, Aiden, lived with Robyn's mother all year. Aiden has a valid Social Security number.

Using the EIC With a Qualifying Child Chart from the Volunteer Resource Guide, Tab I, Earned Income Credit, based on what we have learned so far about Robyn and her family:

Step 1 is YES

Step 2 is YES

Step 3 is YES

Step 4 is NO

Step 5 is YES

For Step 6, check to see if Aiden can be anyone else's qualifying child, for EIC purposes.

Who else lived in the house that is related to Aiden? Robyn's mother also lives with them. Go through the steps to see if Aiden can be a qualifying child for Robyn's mother.

If the taxpayer can't claim the EIC because the qualifying child is treated under the tiebreaker rules as the qualifying child of another person, the taxpayer may be able to take the EIC using a different qualifying child, or take the EIC if they qualify using the rules for people who don't have a qualifying child. See the Qualifying Child of More than One Person rules in the Volunteer Resource Guide, Tab I, Earned Income Credit.

What are the rules for taxpayers without qualifying children?

Taxpayers can claim the EIC without a qualifying child if they satisfy all the conditions and rules for all taxpayers. Review the rules in the Volunteer Resource Guide, Tab I, Earned Income Credit, under Part C, Rules If You Don’t Have a Qualifying Child.

EXAMPLE

Tom and Martha are a married couple. Tom is 66 and Martha is 58 years old. If all other rules are met, they would qualify for the EIC.

For a couple filing a joint return, only one taxpayer has to meet the age requirement.

Taxpayers turning 25 on January 1 are considered to be of age as of December 31. Taxpayers reaching the age of 65 on January 1 are still considered 64 as of December 31. Taxpayers in either of *these situations whose return is rejected may need to file a paper return.*

Using the EIC charts in the Volunteer Resource Guide, determine if each of these taxpayers has a qualifying child or can claim the EIC. Each taxpayer and child has a valid Social Security number.

Question 3: Maureen's 20-year-old daughter, Angie, lived with her for eight months of the year. Angie is not married and is a full-time college student. Is Angie a qualifying child for the EIC?

a. Yes

b. No

Question 4: Three children live with Mira, who cares for them as her own: Twila, the 3-year-old daughter of Mira's cousin; Chez, Mira's newly adopted 2-year-old son from Europe, who has lived with Mira since November of the tax year; and Dwight, Mira's

20-year-old son, who attends community college part time. Which of them are qualifying children?

a. Twila

b. Chez

c. Dwight

d. None

Question 5: Margie's daughter, Aimee, turned 23 early in the tax year while attending college full time. Margie is filing as Head of Household. Margie has an AGI of $31,000. Assuming that she and her daughter pass all other tests, can Margie claim the EIC?

a. Yes

b. No

Question 6: Rob and Laura are divorced. Laura is the custodial parent for Dawn, who lived with her all year. Laura signed Form 8332, allowing Rob to claim Dawn as a dependent until she turns 18. Can Rob claim Dawn for the EIC?

a. Yes

b. No

Question 7: Jewel and her daughter lived with Jewel’s brother, Emmitt all year. Jewel earns $20,000 and claims her daughter as the qualifying child for the EIC. Emmitt is 25 years old and earned $8,500. Is Emmitt able to claim the EIC for a taxpayer without a qualifying child?

a. Yes

b. No

Question 8: Larry is 35 years old and unmarried. Larry lives with his brother, Jeff, who is unmarried and totally and permanently disabled. Jeff receives disability income that is used to pay for more than half of his support. Can Larry claim Jeff as a qualifying child for EIC?

a. Yes

b. No

How should I handle a taxpayer whose EIC was disallowed in a prior year?

The intake and interview sheet asks if the taxpayer was previously disallowed EIC, child tax credit or American opportunity credit in a prior year. The taxpayer would have received a letter from the IRS saying they had to complete and attach Form 8862 to claim the credit again. Refer to the Volunteer Resource Guide, Tab I, Earned Income Credit, Disallowance of Certain Credits.

The letter from the IRS specifies whether the disallowance is for 2 years or for 10 years. If the taxpayer is denied EIC for the current tax year because of IRS disallowance, you will need to indicate that so the software does not compute the credit.

How is the correct EIC amount calculated?

The software computes EIC using worksheets and the Earned Income Credit tables. The EIC worksheets can be found in the Form 1040 Instructions. The software completes Schedule EIC and EIC worksheets that can be reviewed with the taxpayer if they have questions about how EIC was computed.

When reviewing the Form 1040 Instructions, it is common to mistake the Tax Tables for the EIC tables. Double-check that the heading on the page you are using is "Earned Income Credit (EIC) Table."

Class Exercise

A taxpayer is filing Head of Household and has one qualifying child. The earned income and AGI is $19,000. How much EIC is the taxpayer entitled to?

Turn to the first page of the EIC tables. Find the amount in the “At least - But less than” column. Find the correct filing status column: Single, head of household and qualifying surviving spouse, or in a separate column, married filing jointly. There are subcolumns for the number of qualifying children.

Summary

The earned income credit computation is based on filing status, number of qualifying children, earned income, and adjusted gross income. Certain individuals with no children may also qualify.

By using the intake and interview sheet, the EIC charts in the Volunteer Resource Guide and correctly entering the taxpayer’s data in the software, most of the errors that result from incorrectly computing the EIC can be avoided.

The EIC is entered on its own line of the return.

To gain a better understanding of the tax law, complete the practice return(s) for your course of study using the Practice Lab on L&LT.

EXERCISE Answers

Answer 1: b, No. In order to claim the credit as MFS, the taxpayer must have a qualifying child.

Answer 2: a, Yes. His investment income is below the threshold amount.

Answer 3: a, Yes. Daughter Angie meets all the eligibility tests to be a qualifying child.

Answer 4: b. Chez. An adopted child is considered to have lived with the taxpayer for more than half the year if the taxpayer's main home was the child's main home for more than half the time the child was adopted or placed with the taxpayer during the tax year.

Twila does not meet the relationship test, and Dwight does not meet the age test.

Answer 5: a, Yes. Margie meets the general eligibility requirements and Aimee meets the Qualifying Child rules.

Answer 6: b, No. While Rob can claim his daughter as a dependent, the daughter did not live with him for more than half the year, so she fails the residency test. Dawn is the qualifying child of Laura.

Answer 7: a, Yes. Jewel's daughter is not the qualifying child of Emmitt, but he can claim the EIC for a taxpayer without a qualifying child.

Answer 8: a, Yes, Jeff is Larry's qualifying child for EIC. Jeff is not Larry's dependent because he provides more than half of his own support; but the support test does not apply for EIC.

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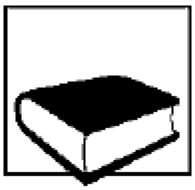
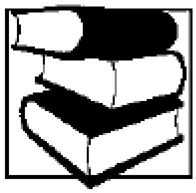
Refund and Amount of Tax Owed

Introduction

This lesson covers the Refund and Amount You Owe sections of the taxpayer’s return. After completing this lesson, you will determine if taxpayers have overpaid (a refund is due) or have underpaid (balance is due to the government) their tax. This part of the return is a summary of the tax, credits, and payments.

Taxpayers may be entitled to a refund or owe tax. In either case, they have several choices on how to get their refund or pay the amount they owe. It is important that volunteers are familiar with those choices to better help taxpayers understand their refund and payment options. This is especially true because of the increase in the number of taxpayers coming in to VITA/TCE sites who owe tax for the first time and need guidance.

Feedback results indicate volunteers are less familiar with the procedures for payment options than the procedures for refund options. Be sure to identify the payment options available to taxpayers that are outlined in this lesson and in the Volunteer Resource Guide, Tab K, Finishing the Return.

To complete these sections of the taxpayer's return, you will need to confirm answers provided on the Intake/ Interview and Quality Review Sheet, regarding direct deposit and direct debit. Also, review the Volunteer Resource Guide, Tab K, Finishing the Return, which provides guidance on refunds and balance due returns.

Objectives

At the end of this lesson, using your resource materials, you will be able to:

- Identify the applicable section and lines of Form 1040 for the refund or amount owed
- Report the correct amount of refund or amount owed
- Identify the refund options available, including the purchase of savings bonds
- Describe the different payment options for the amount owed

Explain how to adjust the amount of tax withheld or make estimated tax payments to avoid underpayment of taxes

What do I need?

- Form 13614-C
- Publication 4012
- Publication 17

- Form 1040
- Form 1040-ES
- Form 8888
- Form W-4

Optional:

- Publication 505
- Publication 594
- Publication 4134
- Publication 5381
- Form W-4P
- Form W-4V
- Form 9465
- Form W4-R
- Form W4-S

How do I know if the taxpayer is due a refund?

The taxpayer's total tax and total tax payments already made, which includes refundable credits, appear on the applicable lines of Form 1040.

If the payments made exceed the amount of tax liability, the amount of the overpayment is shown on the applicable line in the Refund section of the Form 1040. This is the amount the taxpayer has overpaid.

If the amount of the tax liability exceeds the payments made, the amount owed appear in the Amount You Owe section of the Form 1040. This is the amount the taxpayer must pay.

For taxpayers who are due a refund:

- *Advise taxpayers to check Where's My Refund? at* ***www.irs.gov/refunds*** *or* *download the IRS2Go app to check the status of their refund. The taxpayer will need their Social Security number or ITIN, filing status, and the exact refund amount for the year in question. Where's My Refund? will display the status of the refund 24 hours after e-filing a return for the current filing year, 3 or 4 days after e-filing a prior year return, or 4 weeks after mailing a paper return.*

- *Inform taxpayers of the split refund and saving bond options*

What are the options for an overpayment?

Taxpayers can choose to:

- Apply any portion of their overpayment to the following tax year
- Receive all or part of their refund using direct deposit to any financial account that has a Routing Transit Number, such as a

checking account, a savings account (including an IRA), or a prepaid debit card

- Receive all or part of their refund as a check
- Purchase Series I Savings Bonds

RALs, RACs, and Other Financial Products: You may be asked about Refund Anticipation Loans (RALs). A RAL is money borrowed by a taxpayer from a lender based on the taxpayer's anticipated income tax refund. A variation of a RAL is a Refund Anticipation Check (RAC). Financial Institutions also offer a variety of other financial products to taxpayers based on their refunds. Providers that assist taxpayers in applying for a RAL or other financial products have additional responsibilities and may be sanctioned by the IRS if they fail to adhere to the requirements. These financial products are out of scope for the VITA/TCE programs.

How do I apply part of the overpayment to the following year?

For taxpayers who want to apply a portion of the overpayment to next year's taxes, enter the amount to be applied to the following year on the applicable line. By entering an amount on this line, the taxpayer is electing to apply all or a portion of the current year's overpayment to next year's estimated tax.

The software shows the remaining amount to be refunded to the taxpayer on the amount to be refunded line.

How do I indicate that the entire refund should be sent to the taxpayer?

For taxpayers who want the entire refund sent to them, leave the line for amount applied to estimated tax blank or enter 0.

A field in the signature section of Form 1040 labeled Identity Protection PIN is designed to help *prevent refunds from being issued to an identity thief. See the Course Introduction lesson for more information.*

*Identity Theft Central (***www.irs.gov/identity-theft-central***) is an online resource that provides information on how to report identity theft, how taxpayers can protect themselves against phishing, online scams, and more.*

The tax software shows the entire refund amount on the amount to be refunded line.

What are a taxpayer's refund options?

Taxpayers may choose to have their refund deposited directly into their account at a bank, credit union, or other financial institution, into their TreasuryDirect account, or to a prepaid debit card, or to an IRA. Direct deposits are usually received within three weeks of return acceptance. Taxpayers may choose to have a refund check mailed to them. Refund checks are usually mailed within 6 to 8 weeks after the return is filed. In addition, taxpayers can request their refund be deposited directly into a TreasuryDirect online account to buy U.S. Treasury marketable securities and savings bonds. Refer to **usa.gov/3KvcP**.

The taxpayer may decide toward the end of the return preparation process to allocate some or all of the refund to their IRA. Be sure to go back into the return and enter the contribution amount – the taxpayer may get additional benefit from the contribution through a deduction and/or the retirement savings credit.

For more information on direct deposit refunds go to TreasuryDirect online accounts. Taxpayers who do not have a TreasuryDirect online account also have the option to purchase savings bonds with their federal income tax refunds. Additional details will be covered later in the lesson.

What are the benefits of direct deposit?

Encourage taxpayers to use direct deposit; direct deposit refunds are received faster than checks (usually within 10 to 21 days) and eliminate the possibility of a check being lost or stolen. Direct deposit is more convenient for the taxpayer and saves tax dollars because it costs less to process.

How do I enter the information for direct deposit?

Make sure taxpayers show you proof of their bank account and routing information, such as a check. Bank deposit slips are not a reliable source for routing numbers for direct deposit. Enter the account number from left to right, but omit spaces and symbols. The Volunteer Resource Guide, Tab K, Finishing the Return, Pointers for Direct Deposit of Refunds, includes a diagram showing where to find the Routing Transit Number (RTN) and Depositor Account Number (DAN) information on a check.

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.

Tax Software Hint: *For software entries, go to the Volunteer Resource Guide, Tab K, Finishing the Return, for software entries on direct deposit.*

If the routing and account numbers are not valid, the refund will be delayed 4–6 weeks. If the direct deposit is rejected, a check will automatically be mailed to the address on the return.

Can the refund be deposited into more than one account?

Taxpayers may choose to have their refund deposited in up to three accounts. For example, a person expecting a refund of $600 could choose to deposit $200 into a checking account, $300 into a savings account, and $100 into an IRA account.

Taxpayers’ refunds should only be deposited directly into accounts that are in their own name, a spouse’s name, or both if it’s a joint account. No more than three electronic refunds can be deposited into a single financial account or prepaid debit card. Taxpayers who exceed the limit will receive an IRS notice and a paper refund.

Use Form 8888, Allocation of Refund (Including Savings Bond Purchases), to list the RTN and account number for each deposit. Form 8888 is not required if the refund is to be deposited into a single account. Go to the Volunteer Resource Guide, Tab K, Finishing the Return, for the software entries.

What if the taxpayer makes a mistake on the return that increases the amount of the refund?

E-filing a tax returns avoids math errors and other common problems that can require adjustments to a return after it is filed. If an adjustment results in a larger refund than expected, the IRS adds the difference to the last account designated for direct deposit.

When an adjustment is made to a tax refund, the IRS sends a letter explaining any errors that resulted in the adjustment, as well as any changes made to the refund amount and the amount of each direct deposit.

What if the taxpayer makes a mistake on the return that decreases the amount of the refund?

If an adjustment results in a smaller than expected refund, the IRS uses a bottom-up rule and deducts the difference from the direct deposit amount designated for the last account shown on Form 8888. If the difference exceeds the amount designated for the last account, the IRS deducts the remainder from the amount designated to the next account, until the amount due is paid.

Joan's return shows a refund of $300 and she asks the IRS to split her refund among three accounts with $100 to each account. Due to an error, her refund is decreased by $150. The IRS will adjust her direct deposits as follows:

	Requested Direct Deposits	***Actual Direct Deposits***
Account 1	*$100*	*$100*
Account 2	*$100*	*$50*
Account 3	*$100*	*$0*

The IRS will apply this same bottom-up rule to adjust direct deposits for refund offsets for unpaid federal taxes or if the refundable credits portion of the taxpayer's refund is withheld pending further review. After the IRS review, if a refund is allowed, it will be direct-deposited in the account listed first on Form 8888.

Bill asks that his refund of $780 be deposited into three different accounts: $300 into Account 1, $300 into Account 2, and $180 into Account 3. However, Bill owes federal taxes of $290 on an earlier tax year, and after this is offset, only $490 remains to be direct deposited. Account 3 will receive $0, Account 2 will receive $190, and Account 1 will receive $300.

Melanie is due a refund of $1,000; $700 of the refund is an earned income credit (EIC). She asks that her refund be split into three different *accounts: $500 into Account 1, $300 into Account 2, and $200 into Account 3. Melanie's EIC amount of $700 was held pending a review. So, $300 went to Account 1 and $0 went to Accounts 2 and 3. Later, when the IRS allowed her EIC refund amount, it was deposited into Account 1.*

What happens if the taxpayer owes other debts like student loans or child support?

If the refund is decreased due to an offset to pay state income tax, child support, or certain federal nontax debts, such as student loans, then the decrease will be taken first from the account that appears first on the payment file received from the IRS. The IRS payment file orders accounts from the lowest to the highest routing number. If the debt exceeds the payment designated for the account that appears first on the payment file, the Treasury Department's Financial Management

Service (FMS) will reduce the payment designated for the account that appears next.

What should I watch out for?

Double-check the RTN of the financial institution and the account number before the return is transmitted. Ask the taxpayer to review and confirm the RTN and account numbers on the return.

If more than one account is selected for direct deposit, be sure that the amounts on Form 8888 equal the refund amount on Form 1040.

EXERCISES

Answers follow the lesson summary.

Question 1: Using direct deposit is one way to reduce the chance that a refund will be lost or stolen.

a. True

b. False

Question 2: When entering an account number for direct deposit, make sure to include all spaces and hyphens.

a. True

b. False

Financial institutions generally do not allow a joint refund to be deposited into an individual account. The IRS is not responsible if a financial institution refuses a direct deposit.

What do I need to know about the option to buy U.S. savings bonds with a federal tax refund?

Taxpayers have an opportunity to purchase U.S. savings bonds with their tax refunds. Volunteers should review these guidelines to promote this asset-building opportunity as part of the filing season.

Taxpayers' choices include the purchase of bonds for co-owners, such as children or grandchildren, and for beneficiaries, such as the parents of a child.

What are U.S. savings bonds?

U.S. savings bonds are savings instruments for individual savers issued by the U.S. Department of the Treasury. For purposes of this program, only Series I Savings Bonds are offered.

Series I Savings Bonds are sold at face value (a $50 bond costs $50), and grow in value for up to 30 years. The bonds can be purchased in denominations of $50, $100, $200, $500, $1,000. In any single calendar year, taxpayers can purchase up to $5,000 of paper savings bonds of any denomination through their income tax refund.

Series I Savings Bonds pay interest based on a combination of a fixed rate (which remains the same throughout the life of the savings bond) and a semiannual inflation rate, which is updated each May and November. Savings bonds accrue interest until redeemed or until they reach their final maturity in 30 years.

Savings bonds can be redeemed for principal and accrued earnings anytime after the first 12 months after date of purchase (or earlier if the taxpayer lives in an area affected by natural disaster.) Also, if a savings bond is redeemed within the first five years, the three most recent months' interest will be forfeited. After five years, no penalty will apply.

How can savings bonds be purchased at VITA/TCE sites?

Taxpayers can choose to save part or all of their refunds by requesting savings bonds on Form 8888. The specific details on how to purchase savings bonds with a federal tax refund are included in the Form 8888 Instructions.

In addition to the three direct deposits, taxpayers can allocate their refund to request up to three different savings bond registrations and receive a check. Form 8888 is divided into separate parts to reflect this.

- Part I: Complete this part for direct deposit of a portion of a refund to one or more accounts.
- Part II: Complete this part to buy paper bonds with part of a refund. In addition to making bond purchases for themselves, taxpayers can make bond purchases and add beneficiaries or co-owners, and make bond purchases for someone other than themselves.
- Part III: Complete this part if taxpayers wish to receive part of their refund by check.
- Part IV: Total allocation of refund. Add the amounts for each part together; they must equal the total refund amount.

The Form 8888 Instructions provide directions for the specific information to include on the form for the purchase of savings bonds.

Mary's tax return shows she is due a refund of $548.00. She wants to buy a $500 savings bond. Using Form 8888, Mary can purchase the savings bond and elect to deposit the remaining $48 into her checking account.

Refer to Purchase Savings Bonds in Tab K, Completing the Return of the Volunteer Resource Guide.

How does the taxpayer receive the savings bonds?

Taxpayers will receive the amount they designated by mail in the form of U.S. Series I Savings Bonds. However, if taxpayers make an error in figuring their refund, the bond request is not a multiple of $50, or the refund is offset for any reason, this option will not apply and the entire amount of the refund will be sent to taxpayers in the form of a check.

When will requested bonds not be issued?

Bonds will not be issued if any of the following apply:

- The bond request is not a multiple of $50.
- More than one name is entered on line 5b, 5c, 6b, or 6c.
- The refund is decreased because of a math error.
- The refund is offset for any reason.

Instead, the **entire** refund will be sent to the taxpayer in the form of a check.

If an error is made on the return and the amount of the refund is increased, the additional amount will be sent to the taxpayer in the form of a check.

Whom does the taxpayer contact if the savings bonds are not received?

The first step is to check the status of the refund by going to “Where’s My Refund” at **www.irs.gov/refunds** or calling 1-800-829-1954. It can take up to three weeks to send the savings bonds to the taxpayer’s mailing address after the IRS has processed the portion of the refund not used to buy savings bonds.

Taxpayers can contact the Treasury Retail Securities Site online or at 1-844-284-2676 to inquire about the status of the savings bonds.

For additional information, refer to Form 8888 or go to **www.irs.gov**.

How do I know if an amount is owed?

Taxpayers who owe money on their returns are often afraid and do not know what to do next. This is a good opportunity to advise the taxpayers of the various options for payment.

The software automatically calculates the amount that is owed when the payment total is less than the amount of tax.

Explain to taxpayers that the tax return will be filed now and that they should submit their payment of taxes due no later than April 15 (or the next business day if April 15 falls on Saturday, Sunday, or a legal holiday). Remind taxpayers that filing an extension of time to file does not extend the time for payment.

To avoid a failure-to-file penalty, taxpayers with an amount owed must file their return by the due date even if they cannot pay the full amount with the return.

What forms of payment are acceptable?

The payment options are:

- Check or money order submitted with Form 1040-V, Payment Voucher
- Electronic funds withdrawal
- Credit card (fees apply)
- Electronic Federal Tax Payment System (EFTPS)
- IRS Direct Pay
- Cash at a retail partner

Taxpayers should not mail cash with their returns. They must go to a retail partner such as Dollar General, Family Dollar, CVS Pharmacy, Walgreens, Pilot Travel Centers, 7-Eleven, Speedway, Kum & Go, Royal Farms, Go Mart and Kwik Trip. Refer to ***www.irs.gov/payments/pay-with-cash-***

at-a- retail-partner *for additional information.*

Form 1040-V includes instructions and a table of IRS addresses if the taxpayer wants to mail a check or money order.

Go to the Volunteer Resource Guide, Tab K, Finishing the Return, to review the information on balance due returns. Be sure to read this reference and refer to it when preparing a return that has an amount owed.

Taxpayers can check the balance owed on their account by creating an account on IRS.gov or by requesting an account transcript at ***www.irs.gov/payments/view-your-tax-account****.*

Taxpayers can use the IRS2Go app on their mobile device to access their account and make a payment.

What if the taxpayer cannot pay?

If taxpayers state that they cannot pay, first advise them to file the return and pay as much as they can with the return. This will reduce penalty and interest charges. Once they receive a notice, they can pay the remaining amount in full or choose another payment option if more time is needed.

Taxpayers who cannot pay the full amount owed, shown on Form 1040 in the Amount You Owe section, may use one of the following options:

- Request a short-term payment plan of up to 180 days using the Online Payment Agreement Application (OPA) or calling. No fee is charged, but interest and penalties are charged on payments after the April due date.

- Monthly installment payments (established online using OPA or file Form 9465, Installment Agreement Request). A fee is charged for this option, in addition to interest and penalties. The fee is less with OPA. Taxpayers may qualify for waiver or reimbursement.
- Referral to Low-Income Taxpayer Clinics (LITC). Services are offered for free or a small fee.

Any amount of tax owed that is not paid by the April due date is subject to penalties and interest. Taxpayers who cannot pay should choose the option that is the least costly. For example, the 180- day short-term plan option has no user fee. Print extra vouchers for taxpayers who need to send in multiple payments or they can make their payments using DirectPay on IRS.gov or the IRS2Go app.

Taxpayers who can show they will have a substantial financial difficulty if they pay their tax on the due date are considered to have an undue hardship. Such taxpayers can request an extension of time to pay by filing Form 1127, Application for Extension of Time for Payment of Tax Due to Undue Hardship, by the due date of the return. Remember, undue hardship is more than an inconvenience.

How do I handle Form 9465, Installment Agreement Request?

The following outlines key information related to an installment agreement.

- Taxpayers who owe can immediately establish an installment agreement online, using the Online Payment Agreement Application (OPA). Taxpayers can also use OPA to agree to a short-term payment plan up to 180 days. With OPA, there is no need to complete Form 9465. For more information, go to **www.irs.gov/payments/online-payment-agreement-application**.

- If the return is being filed electronically, Form 9465 can also be included with the e-filed return. Refer to the Volunteer Resource Guide, Tab K, Finishing the Return.
- When filing a paper return, Form 9465 should be completed and attached to the front of the return before mailing. The processing fee charged is higher if Form 9465 is used.
- If taxpayers already have an installment agreement with the IRS, they may be able to add the current year's amount owed to the same agreement. Taxpayers in this situation should contact the IRS directly at 1-800-829-1040 or complete Form 9465 reflecting the balance of all amounts (prior and current year amounts) and indicate

the new total monthly payment. Submit Form 9465 electronically with the return.

- If the request is granted, the taxpayers must pay an installment agreement user fee. The amount of the fee varies depending on whether the agreement was setup online or the taxpayer agreed to pay by
- direct debit. If the taxpayers' income is below certain limits, they may qualify for a reduced or waived fee. Taxpayers can also request a reduced user fee by completing Form 13844, Application for Reduced User Fee for Installment Agreement. Taxpayers can obtain Form 13844 at irs.gov or by calling the IRS forms number at 1-800-829-3676. The fee for establishing an installment agreement using OPA is lower.
- If the IRS approves the agreement, a notice is issued that provides details of the

agreement and requests the user fee at that time.

- If the total amount due is more than $25,000, there are additional requirements. Refer to Form 9465 instructions.

Some low-income taxpayers may qualify for a modification of user fee requirements. The IRS will waive or reimburse user fees associated with installment agreements for taxpayers who earn less than 250% of the federal poverty rate. For details, see User fee waivers and refunds on IRS.gov.

What is an Offer in Compromise?

An offer in compromise (OIC) allows taxpayers to settle tax debt for less than the full amount owed. It may be an option for taxpayers who cannot pay their full tax liability or doing so creates a financial hardship.

There is a nonrefundable application fee, however it may be waived for taxpayers whose AGI is at or below 250% of the federal poverty level. Assisting taxpayers with an OIC is out of scope for VITA/TCE.

What if the taxpayer can't pay and needs additional assistance?

LITCs are a potential resource for taxpayers who need additional assistance with arranging payments or collection alternatives such as installment agreements, currently not collectible status, or offers in compromise. More information about LITCs and how to locate a local LITC is found in the Course Introduction and in the index of Publication 4012, VITA/TCE Volunteer Resource Guide.

Question 3: For which of the following will the taxpayer be charged a convenience fee?

a. Direct deposit of a refund

b. Electronic funds withdrawal of a tax payment

c. Using a credit card to make a tax payment

d. Using a personal check to make a tax payment

Taxpayer Interview and Tax Law Application

Seymour's Form 1040 shows his total tax is $450. His tax payments come to just $200. Therefore, Seymour owes $250.

Sample Interview

Volunteer Says...	Seymour Responds...
The amount of tax you owe is $250. You can either mail in a check or money order with	Hmm. How does electronic funds withdrawal work? Does

the payment voucher, use electronic funds withdrawal, IRS Direct Pay, use cash at a retail partner, or call in a credit card payment. You'll have to pay an additional convenience fee for using a credit card.	it come out of my account right away?
No, we can designate the date that the debit will occur, any time up to April 15. I would just need to see proof of account to verify your bank account information so I can include the routing and account numbers	And there's no charge?

in your electronic return.	
Right. And it saves you the trouble of mailing in the voucher with your payment.	Sounds good to me. But I don’t have my checking account information with me. Maybe I should just mail in my payment.
You can do that too. Here’s Form 1040-V, which has been completed for you. Make your check or money order payable to “United States Treasury.” If it’s not already printed on the check, make sure it shows your name, address and daytime phone number. Also,	That doesn’t seem too hard.

print your Social Security number and "[year] Form 1040" on the front of your check. Then mail the payment with the voucher. I'll get the mailing address for you.	
Just make sure it gets postmarked by the due date. I can e-file your tax return right now, but it's up to you to make sure you send in your payment on time. Or, you can just go to IRS.gov and use DirectPay -- you'll need to enter your routing number and account number. It's	Thank you for your help. I will make sure the payment is made on time.

safer and quicker than mailing a check.	

What is the Estimated Tax Penalty?

Generally, taxpayers may owe a penalty for underpayment of estimated tax if they did not pay enough tax, either through withholding or by making estimated tax payments.

In most cases, taxpayers must make estimated tax payments if they expect to owe at least $1,000 in tax (after subtracting withholding and credits) and their withholding and credits will be less than the smaller of:

- 90 percent of the tax shown on the current tax return or
- 100 percent of the tax shown on the prior year's tax return (110 percent for certain higher-income taxpayers; see Form 1040-ES)

An estimated tax penalty may apply if the taxpayer does not make estimated tax payments as required.

There are special situations when a taxpayer will not have to pay a penalty. See Form 2210 Instructions or Publication 17 for more information.

Mark's total tax is $1,657 for the current tax year. His withholding is $417. He owes $1,240. His prior year's tax was $2,000. Mark will probably be charged an estimated tax penalty because the amount he owes is over $1,000 and his withholding and credits are less than 90 percent of his current year tax or 100 percent of his prior year tax.

Do I have to calculate the estimated tax penalty?

Because Form 2210 is complicated, leave the estimated tax penalty line blank on Form 1040. This will not prevent the IRS from calculating the penalty if it is due. Let the taxpayer know that a penalty may be owed, and if so, the IRS will send a notice.

Form 2210 is no longer included with the estimated tax penalty notice. Refer taxpayers who need assistance with Form 2210 to a professional tax preparer.

Question 4: Dion's total tax liability is $1,044. After withholding, she owes $640. This means Dion might have to pay a penalty for underpayment of estimated tax.

a. True

b. False

How can taxpayers make sure the correct amount of tax is withheld?

There are several ways to pay taxes during the year to avoid having a balance due when the return is filed.

Depending on the taxpayer’s situation, here are some suggestions:

- Taxpayers whose income is mostly from wages, pensions, unemployment, or some investment income (such as interest on U.S. bonds) can adjust their withholding
- Taxpayers whose income is mostly from self-employment or investments can make or increase their estimated tax payments
- A combination of increased withholding and estimated tax payments may work best for some taxpayers

Recipients of wages, annuity, pension, or certain other deferred compensation payments use these forms to tell payers the correct amount of federal income tax to withhold: Form W-4, Employee’s Withholding Certificate, and if applicable, Form W-4P, Withholding Certificate for Periodic Pension or Annuity Payments, Form W-4R, Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions, or Form W-4V, Voluntary Withholding Request. Each form includes the following types of information the payer uses to figure the taxpayer's correct withholding:

- Marital status (married taxpayers may request the payer to withhold at a higher rate to avoid underwithholding)
- Qualifying children or other dependents
- Other income, deductions and any additional amount to be withheld
- Qualification of exempt status

The amount of tax the employer withholds from the taxpayer's wages depends on:

- The amount of pay the taxpayer earns
- How often the taxpayer is paid
- The taxpayer's information entered on Form W-4

When should taxpayers submit a revised Form W-4 to their employer?

The taxpayers may submit a new Form W-4 whenever they want to increase or decrease the withholding amount.

Life events such as a change in marital status, birth of a child, or purchase of a home will change adjustments, deductions, and credits on the tax return. These taxpayers should submit a revised Form W-4 to their employer.

Refer to Form W-4 instructions to see the applicable lines a taxpayer must complete to revise Form W-4.

In some situations, getting the right amount withheld is difficult if:

- The taxpayers are married and both work
- The taxpayers have more than one job
- The tax law regarding deductions or credits changes

Publication 17, Tax Withholding and Estimated Tax chapter, has more information on this topic. Taxpayers can go to the **Tax Withholding Estimator** to help calculate the correct withholding.

EXAMPLE *Mary claimed her son as a dependent on this year's return. Mary will not be able to claim her son as a dependent on next year's return. Due to the change in Mary's tax situation, she uses the Tax Withholding Estimator to help determine the appropriate amount of withholding and submits an updated Form W-4 to her employer.*

EXAMPLE *John works two full-time jobs. He reviews his withholding and realizes he will not have enough tax withheld. He gives his employer a revised Form W-4 to increase his withholding so he will not owe money when he files his return.*

How do taxpayers request an increase or decrease in withholding for other income payments?

Taxpayers can use the following withholding forms to request a change in their withholding on other types of income.

- Form W-4P, Withholding Certificate for Periodic Pension or Annuity Payments
- Form W-4S, Request for Federal Income Tax Withholding from Sick Pay
- Form W-4V, Voluntary Withholding Request (generally used for certain government payments, including Social Security benefits)
- Form W-4R, Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions

Refer to the Volunteer Resource Guide, Tab K, Finishing the Return, for guidance on helping taxpayers *avoid a balance due. Advise taxpayers to use the* ***Tax Withholding Estimator*** *to check their withholding for next year. If they need to adjust the amount withheld, suggest they submit a revised Form W-4, and if appropriate, help them complete the revised Form W-4.*

When should the taxpayer make estimated tax payments?

Estimated tax is the amount a taxpayer expects to owe for the tax year after deducting any tax credits or federal withholding. Taxpayers with significant income that is not subject to withholding (such as interest, dividends, capital gains, or self-employment income) will often find they need to make estimated tax payments.

The decision tree in Publication 17, Your Federal Income Tax for Individuals, and Publication 505, Tax Withholding and Estimated Taxes, can help determine if the taxpayer should make estimated tax payments. See the Payments and Miscellaneous Refundable Credits lesson for more information.

Maria is retired, and her only income is from a pension and some investments. She had no withholding and is not eligible for any tax credits. When you complete her return this year, she has a balance due of $1,300. Maria should begin making estimated payments, since her balance due next year will be more than $1,000, and she has no withholding. If Maria does not want to make estimated payments, she could submit Form W-4P to request withholding from her pension instead.

How is estimated tax figured?

Use Form 1040-ES, Estimated Tax for Individuals, to compute the amount of estimated tax that should be paid over the year. This form includes worksheets to help taxpayers estimate their income and tax liability for the year. The current year's tax return can be used as a starting point, but any anticipated changes should also be taken into account. Taxpayers may also have to adjust their payments during the tax year if a change in income or the tax law will affect their tax liability.

For additional information on estimated tax payments, refer to the Volunteer Resource Guide, Tab K, Finishing the Return.

How can I avoid common errors?

Double and triple-check the routing number and account number for direct deposit and electronic funds withdrawal. Have the taxpayers compare the numbers entered on the return to their checks or other account information. If an error is made in the bank information, taxpayers must work with the bank to resolve any misdirected funds.

Summary

Refunds

If the payments made exceed the amount of tax, then the amount of the overpayment is entered on the overpaid line in the Refund section of Form 1040.

Taxpayers can choose to apply any portion of their overpayment to the following tax year or receive their refund as a check or direct deposit. Direct deposits can be split among as many as three different accounts by using Form 8888.

For direct deposit of the refund, select Direct Deposit as the Federal Return type on the e-File page. Enter the Routing Transit Number (RTN) and Depositor Account Number (DAN) in the Taxpayer Bank Account Information section of the e-File page. Use a check as proof of account.

Taxpayers can use their federal tax refund to buy U.S. savings bonds for themselves or others, such as children or grandchildren. They do not need to have a bank account or an existing account with the Treasury Department.

Amount Owed

If the payment total is less than the amount of tax owed, then the balance due amount is shown on the applicable line in the Amount You Owe section of Form 1040. A copy of Form 1040-V, which is used for mail- in tax payments, will also be prepared if the direct debit option is not selected.

Taxpayers are often very anxious if they owe tax on their return. Take the time to provide the various payment options to taxpayers in this situation.

Explain to taxpayers that the tax return can be electronically filed now but that they should submit their payment of taxes by the due date of the return. They can pay with electronic funds withdrawal on the return, Direct Pay, credit card, check or money order with Form 1040-V, or cash at a retail partner. They can also download the IRS2Go app to make payments through a mobile device.

Taxpayers who are unable to pay may request an additional 180 days to pay, or complete Form 9465 for an installment agreement. This request can be made with an e-filed return, or by using the Online Payment Agreement feature on IRS.gov.

Interest and penalties are charged on amounts not paid by the due date of the return. There are fees associated with certain payment options.

Estimated Tax Penalty

If it appears taxpayers may owe an estimated tax penalty, let them know the IRS will calculate the penalty and send a bill. Completion of Form 2210 is out of scope.

Refer taxpayers who need assistance with Form 2210 to a professional tax preparer.

Adjusting Tax Withholding

Advise taxpayers who did not have enough tax withheld to submit a revised Form W-4 (to their employer), Form W-4P or Form W-4R (to a pension or IRA payer), Form W-4S (to a sick-pay payer), or Form W-4V (to certain governmental payers). Use the **Tax Withholding Estimator** to calculate the correct withholding amount.

Taxpayers with significant income that is not subject to withholding (such as interest, dividends, capital gains, or self-employment income) may find they need to make estimated tax payments. Use Form 1040-ES, Estimated Tax for Individuals, to compute the amount of estimated tax that should be paid over the year.

What situations are out of scope for the VITA/TCE programs?

The following is out of scope for this lesson. While this list may not be all inclusive, it is provided for your awareness only.

- Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts
- Offers in Compromise

To gain a better understanding of the tax law, complete the practice return(s) for your course of study using the Practice Lab on L&LT.

EXERCISE Answers

Answer 1: a, True. Direct deposit is safer since there is no check to be lost or stolen.

Answer 2: b, False. Enter the account number from left to right, leaving out all spaces and special characters.

Answer 3: c. The credit card processor covers its costs by assessing a “convenience fee” to taxpayers using this system. Taxpayers will be advised of the amount of this fee when they call the interactive voice response system.

Answer 4: b, False. The tax Dion owes is less than $1,000, so she does not have to pay a penalty.