

## Documentation Required to Determine Eligibility for Certain Tax Benefits

### Concern

Recent legislation has changed, extended, and/or expanded the following tax benefits:

- First-Time Homebuyer Credit
- Education Credits – Qualified Expenses (books, supplies, tuition, etc.)
- Non-business Energy Property Credit – Qualified Purchases

As a result, the information and/or documentation a volunteer tax preparer must obtain to determine taxpayer eligibility and the amount of qualified expense/purchase may have changed.

### Purpose

This VTA provides guidelines regarding what documentary evidence is required for volunteer return preparers to determine taxpayer eligibility and the amount of the qualified expense/purchase for the First-Time Homebuyer Credit, Education Credits, and Non-business Energy Property Credit.

**First-Time Homebuyer Credit** (Form 5405 - *First-Time Homebuyer Credit and Repayment of the credit*) The Homebuyer Assistance and Improvement Act of 2010, enacted on July 2, 2010, extended the closing deadline from June 30, 2010 to Sept. 30, 2010 for eligible homebuyers.

In general, a taxpayer can claim the credit for first-time homebuyers if:

- The taxpayer bought his/her main home in the United States before May 1, 2010 (before October 1, 2010, if the taxpayer entered into a written binding contract before May 1, 2010, to buy the home before July 1, 2010), and
- The taxpayer (and the taxpayer's spouse, if married) did not own any other main home during the 3-year period ending on the date of purchase.

The taxpayer must provide the following documentation, which will be attached to the tax return when it is filed:

- For purchasers of conventional homes, a copy of Form HUD-1, Settlement Statement, or other settlement statement, showing all parties' names and signatures, property address, sales price, and date of purchase. In locations where signatures are not required IRS encourages the buyer to sign the settlement statement before attaching it to the tax return.
- For purchasers of mobile homes who are unable to get a settlement statement, a copy of the executed retail sales contract showing all parties' names and signatures, property address, purchase price and date of purchase.

- For a newly constructed home where a settlement statement is not available, a copy of the certificate of occupancy showing the owner's name, property address and date of the certificate.

Taxpayers qualifying for the new credit as **long-time residents** of the same main home must show that they lived in their old homes for a qualified five-consecutive-year period. The IRS recommends attaching, in addition to the documents described above, any of the following documentation for the five-consecutive-year period:

- Form 1098, Mortgage Interest Statement, or substitute mortgage interest statements,
- Property tax records or
- Homeowner's insurance records.

Taxpayers claiming the FTHB Credit on their original 2010 return must mail the return to IRS with the above attachments; it cannot be filed electronically.

Note: There are [specific benefits](#) that certain members of the military and certain other federal employees have, such as an additional year to buy a home in the United States, if they otherwise qualify for the credit. See Form 5405 and Instructions for the details.

### **Education Credits** (Form 8863)

To claim an Education Credit (American Opportunity/Hope or Lifetime Learning) or a Tuition and Fees Deduction adjustment, taxpayers must provide Form 1098-T issued by a qualified educational institution for each eligible student. Return preparers should **confirm payment of amounts shown on Forms 1098-T** with the taxpayer. Taxpayers eligible to claim the American Opportunity Credit may also claim amounts not shown on Form 1098-T that they paid for **required** course materials (books, supplies, equipment, etc.) Caution: Expenditures for a computer would qualify for the credit if the computer is needed as a condition of enrollment or attendance at the educational institution.

Possible documentary sources for these amounts include:

- Receipts
- Cancelled checks
- Credit card statements
- Bills

Volunteer return preparers **may** accept the taxpayer's oral or written statement regarding the amount of additional required course materials (for American Opportunity Credit only). Preparers should not, however, estimate the amounts for a taxpayer.

Note: If the taxpayer provides the information about additional required course materials verbally, the return preparer should note the amount on the intake and interview sheet and that the information was obtained during the taxpayer interview.

### **Non-business Energy Property Credit (Form 5695 Part I)**

The non-business energy property credit (NBEP) allows a credit of 30% of the costs paid or incurred in 2010 for any qualified energy efficiency improvements and any residential energy property. The credit is limited to a total of \$1,500 over tax years 2009 and 2010. The improvements must be made to the taxpayer's principal residence located in the United States (must be their existing home).

There are two kinds of property for this credit. Here are some key points to consider:

- *Qualified energy efficiency improvements* include insulation, exterior windows, exterior doors, and certain metal and asphalt roofs. Products must meet certain requirements. **Does not include installation costs.**
- *Qualified residential energy property* includes certain water heaters, heat pumps, air conditioners, certain natural gas, propane, oil furnaces and other items specified in the instructions to Form 5695. Products must meet certain requirements.  
**Installation costs are includable.**

Return preparers can rely on a manufacturers' certification in writing that a product is qualified residential energy property. This certification and verification of the costs must be provided by the taxpayer.

- Please note, not all ENERGY STAR qualified products qualify for a tax credit. For detailed information about qualifying improvements, visit the U.S. Department of Energy's Energy's [EnergyStar Web site](#) and the [EnergyStar Frequently Asked Questions site](#).
- For more information see Notice 2009-53 on [www.irs.gov](http://www.irs.gov). This notice provides guidance for manufacturers on certifying that their products meet the new standards.

Volunteer return preparers **may not** accept the taxpayer's oral or written statement regarding the eligibility and amount of their purchase. The taxpayer must provide documentation including manufacturers' certifications, Energy Star labels, and receipts. The preparer should use these documents in conjunction with the resources listed above to determine eligibility.

Remind the taxpayer that the basis of the home is reduced by the amount of any energy credits allowed.

Note: Residential Energy Efficient Property Credit (Form 5695 Part II) is complex and therefore out of scope for the VITA/TCE program.

**Thank you for volunteering to serve your community and for your dedication to providing top QUALITY service!**

If you have any questions, please discuss with your site coordinator, email [partner@irs.gov](mailto:partner@irs.gov) or contact your local IRS SPEC relationship manager.