Take your VITA/TCE training online at www.irs.gov (keyword: Link & Learn Taxes). Link to the Practice Lab to gain experience using tax software and take the certification test online, with immediate scoring and feedback.
How to Get Technical Updates?

Updates to the volunteer training materials will be contained in Publication 4491X, VITA/TCE Training Supplement. The most recent version can be downloaded at: https://www.irs.gov/pub/irs-pdf/p4491x.pdf

Volunteer Standards of Conduct

VITA/TCE Programs

The mission of the VITA/TCE return preparation programs is to assist eligible taxpayers in satisfying their tax responsibilities by providing free tax return preparation. To establish the greatest degree of public trust, volunteers are required to maintain the highest standards of ethical conduct and provide quality service.

All VITA/TCE volunteers (whether paid or unpaid workers) must complete the Volunteer Standards of Conduct (VSC) certification and agree to adhere to the VSC by signing Form 13615, Volunteer Standards of Conduct Agreement, prior to working at a VITA/TCE site. In addition, return preparers, quality reviewers, and VITA/TCE tax law instructors must certify in tax law prior to signing this form. This form is not valid until the site coordinator, sponsoring partner, instructor, or IRS contact confirms the volunteer’s identity and signs and dates the form.

As a volunteer in the VITA/TCE Programs, you must:

1. Follow the Quality Site Requirements (QSR).
2. Not accept payment, solicit donations, or accept refund payments for federal or state tax return preparation from customers.
3. Not solicit business from taxpayers you assist or use the knowledge you gained (their information) about them for any direct or indirect personal benefit for you or any other specific individual.
4. Not knowingly prepare false returns.
5. Not engage in criminal, infamous, dishonest, notoriously disgraceful conduct, or any other conduct deemed to have a negative effect on the VITA/TCE Programs.
6. Treat all taxpayers in a professional, courteous, and respectful manner.

Failure to comply with these standards could result in, but is not limited to, the following:

- Your removal from all VITA/TCE Programs;
- Inclusion in the IRS Volunteer Registry to bar future VITA/TCE activity indefinitely;
- Deactivation of your sponsoring partner’s site VITA/TCE EFIN (electronic filing ID number);
- Removal of all IRS products, supplies, loaned equipment, and taxpayer information from your site;
- Termination of your sponsoring organization’s partnership with the IRS;
- Termination of grant funds from the IRS to your sponsoring partner; and
- Referral of your conduct for potential TIGTA and criminal investigations.

TaxSlayer® is a copyrighted software program owned by Rhodes Computer Services. All screen shots that appear throughout the official Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) training materials are used with the permission of Rhodes Computer Services.

Confidentiality Statement:
All tax information you receive from taxpayers in your volunteer capacity is strictly confidential and should not, under any circumstances, be disclosed to unauthorized individuals.
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Introduction

This supplement contains changes, revisions, and additions to the October 2018 versions of the VITA/TCE training publications.

These changes impact all of the VITA/TCE courses. VITA/TCE tax preparers must review this supplement before assisting taxpayers with tax law questions or preparing their returns. Quality reviewers must also review this document before performing quality reviews.

At the time this publication was finalized, the provisions contained in the Legislative Extenders lesson and tab in Publications 4491 and 4012 were expired for 2018. If any changes are necessary due to pending or future legislation, a product alert will be issued.

Changes to the Training and Site Publications

The following changes have been made to the listed publications. You may:

1. Use this list to make pen-and-ink changes to your printed training publications.
2. Print out the corrected pages that follow this list and replace the erroneous pages in your printed training publications. On the reverse side of each revised page is the continuing page.

2018 Publication 4011, VITA/TCE Foreign Student and Scholar Resource Guide

<table>
<thead>
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</tr>
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<tbody>
<tr>
<td>3</td>
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</table>
| 4                | Under the heading, **Countries With Treaty Benefits for Teaching (Income Code 19)**, in the **Maximum Years in U.S.** column:  
For the country of **India**, add superscript L after the 2.  
For the country of **Indonesia**, delete superscript L after the 2.  
For the country of **Thailand**, add superscript L after the 2.  
For the country of **United Kingdom**, add superscript L after the 2. |

Print out the corrected pages that follow and replace the erroneous pages in your printed training publications. On the reverse side of each revised page is the continuing page.
Countries with Treaty Benefits for Scholarship or Fellowship Grants (Income Code 16)

- If a nonresident alien receives a grant that is not from U.S. sources, it is not subject to U.S. tax.
- Scholarship or fellowship grants that cover tuition and fees (and books and supplies if required of all students) are not subject to U.S. tax. (Financial aid that is dependent on the performance of services, such as a teaching assistant, is treated as wages and subject to the code income 18, 19, or 20 provisions.)
- Scholarship or fellowship grants that cover room, board and other personal expenses are subject to U.S. tax unless a treaty benefit (as summarized below) exists.

<table>
<thead>
<tr>
<th>Country</th>
<th>Maximum Years in U.S</th>
<th>Maximum Dollar Amounts</th>
<th>Treaty Article</th>
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* Commonwealth of Independent States(Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan.)
Countries With Treaty Benefits for Teaching (Income Code 19)

*Caution:* The following is a quick-reference summary of treaty benefits. For more information about the application of these treaty benefits, see Publication 901, U.S. Tax Treaties.

<table>
<thead>
<tr>
<th>Country</th>
<th>Maximum Years in U.S</th>
<th>Maximum Dollar Amounts</th>
<th>Treaty Article</th>
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</table>

* 2-year limit applies to business or technical apprentices.

** Commonwealth of Independent States
  (Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan.)

\* Treaty contains provisions that retroactively eliminates benefits if the allowable period in the U.S. or income amounts are exceeded as defined in the treaty.

1/2019
<table>
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<td>B-4</td>
<td>In the second text box, in the left margin of the page, change “Line 21” to:</td>
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<td></td>
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<td></td>
<td><strong>Make a pen/ink change in Publication 4012. A corrected Page B-4 is not provided to replace the erroneous page.</strong></td>
</tr>
<tr>
<td>B-7A</td>
<td>Insert this new page before page B-7. <strong>Do not remove pages B-7 and B-8.</strong></td>
</tr>
<tr>
<td>D-35</td>
<td>In the first sentence of the first paragraph, change “Sec. 13613.” To:</td>
</tr>
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<td></td>
<td>402(c).</td>
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<tr>
<td></td>
<td>After the second sentence, delete: “Act sec. 13613:”</td>
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<tr>
<td>D-36</td>
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<td>D-57</td>
<td>After the last sentence in <strong>Scenario C; Note 2;</strong>, add:</td>
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<td></td>
<td>You cannot exclude gross receipts that are not Notice 2014-7 Medicaid waiver payments.</td>
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<td>D-58</td>
<td>No change.</td>
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<td>G-3</td>
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<tr>
<td>G-4</td>
<td>Replace with new page G-4.</td>
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<tr>
<td>N-9</td>
<td>In the Tip, change “Itemize” to:</td>
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<td></td>
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<td>Under the heading <strong>Entering Medicaid Waiver Payments</strong>; after the last sentence in Scenario C; add:</td>
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<tr>
<td></td>
<td>You cannot exclude gross receipts that are not Notice 2014-7 Medicaid waiver payments.</td>
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Print out the corrected pages that follow and replace the erroneous pages in your printed training publications. On the reverse side of each revised page is the continuing page.
**Filing Status - Interview Tips**

**Probe/Action: Ask the taxpayer:**

- **step 1** Were you married on December 31 of the tax year? You are considered unmarried if, on the last day of the year, you were legally separated from your spouse under a divorce or separate maintenance decree. State law governs whether you are married or legally separated under a divorce or separate maintenance decree. Individuals who have entered into a registered domestic partnership, civil union, or other similar relationship that is not called a marriage under state (or foreign) law are not considered married. A taxpayer is married regardless of where the spouse lives.
  - If **YES**, go to Step 2.
  - If **NO**, go to Step 4.

- **step 2** Do you and your spouse wish to file a joint return?
  - If **YES**, your filing status is **married filing jointly**.
  - If **NO**, go to Step 3.

- **step 3** Do all the following apply?
  - You file a separate return from your spouse
  - You paid more than half the cost of keeping up your home for the required period of time.\(^1\)
  - Your spouse didn’t live in your home during the last 6 months of the tax year.\(^3\)
  - Your home was the main home of your child, stepchild, or foster child for more than half the year. Include any individual who would qualify as your dependent except: he or she does not meet the gross income test, does not meet the joint return test, or if you could be claimed as a dependent of another taxpayer. (a grandchild doesn’t meet this test)
  - You claim an exemption for the child (unless the noncustodial parent claims the child under rules for divorced or separated parents or parents who live apart)
  - If **YES**, STOP. You are **considered unmarried** and your filing status is **head of household**.
  - If **NO**, STOP. Your filing status is **married filing separately**.\(^5\)

- **step 4** Did your spouse die in 2016 or 2017? If **YES**, go to Step 5.
  - If **NO**, go to Step 6.

- **step 5** Do all the following apply?
  - You were entitled to file a joint return with your spouse for the year your spouse died
  - You didn’t remarry before the end of this tax year
  - You have a child or stepchild who lived with you all year, except for temporary absences or other limited exceptions, and who is your dependent or who would qualify as your dependent except that: he or she does not meet the gross income test, does not meet the joint return test, or except that you may be claimed as a dependent by another taxpayer. Don’t include a grandchild or foster child.
  - You paid more than half the cost of keeping up the home for the required period of time.\(^1\)
  - If **YES**, STOP. Your filing status is **qualifying widow(er) with dependent child**.
  - If **NO**, go to Step 6.

- **step 6** Do both of the following apply?
  - You paid more than 1/2 the cost of keeping up your home for the required period of time.\(^1\)
  - A “qualifying person,” (see Who Is a Qualifying Person Qualifying You To File as Head of Household? chart), lived with you in your home for more than 1/2 the year.\(^4\)
  - **YES** – Head of Household
  - **NO** – Single

---

**Footnotes**

1. Include in the cost of upkeep expenses such as rent, mortgage interest, real estate taxes, insurance on the home, repairs, utilities and food eaten in the home. Under proposed regulations, a taxpayer may treat a home’s fair market rental value as a cost of maintaining a household instead of the sum of payments for mortgage interest, property taxes and insurance. See “Cost of Keeping Up a Home” worksheet later in this tab.

2. You are considered unmarried for head of household purposes if your spouse was a nonresident alien at any time during the year and you do not choose to treat your nonresident spouse as a resident alien. However, your spouse is not a qualifying person for head of household purposes. You must have another qualifying person (see Who Is a Qualifying Person Qualifying You To File as Head of Household? chart later in this tab) and meet the other tests to be eligible to file as a head of household.

3. Your spouse is considered to live in your home even if he or she is temporarily absent due to illness, education, business, vacation, military service, or incarceration.

4. You can’t use head of household filing status based on any person who is your dependent only because he or she lived with you for the entire year (for example, a companion or a friend).

5. If filing a MFS return in a community property state, allocate income and expense according to state law. This situation may be treated as Out of Scope.
Form 1099-R Rollovers and Disability Under Minimum Retirement Age

If any portion was rolled over, check to bring up screen to enter the amount. Even if Box 7 is Code G, this entry must be made.

Rollover or Disability

- Check here if all/part of the distribution was rolled over, and enter the rollover amount.

Rollover Amount *

- Check here to report on Form 1040, Line 7 (Distribution code must be a "3")

Check Code 3 is in box 7 and the taxpayer is disabled and under the minimum retirement age* of the employer’s plan. This will reclassify the disability income as wages on Form 1040. It will be considered earned income in the calculation of some credits.

*Minimum retirement age generally is the age at which you can first receive a pension or annuity if you aren’t disabled.

Internal Revenue Code 402(c). Extended rollover period for plan loan offset amounts.
Provides that the period during which a qualified plan loan offset amount may be contributed to an eligible retirement plan as a rollover contribution is extended from 60 days after the date of the offset to the due date (including extensions) for filing the Federal income tax return for the taxable year in which the plan loan offset occurs, that is, the taxable year in which the amount is treated as distributed from the plan.

Rollovers

- A taxpayer should not receive a Form 1099-R for a trustee-to-trustee transfer from one IRA to another, but should receive a Form 1099-R for a trustee-to-trustee direct rollover from an employer qualified plan to an IRA with code G.
- A rollover that involves a distribution of funds to the participant isn’t taxable if the funds are deposited into an IRA (or the same IRA) or an employer plan within 60 days. Form 1099-R will have either a code 1 or code 7. Subtract the rollover amount from the gross distribution (Box 1) and enter the difference as the taxable amount in Box 2a.
- A participant is allowed only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs owned. However, you can continue to make unlimited trustee-to-trustee transfers between IRAs because it is not considered a rollover.
- Sometimes a distribution includes both a regular distribution (generally taxable) and a rollover (generally non-taxable). The Form 1099-R Rollover or Disability section is used to input the amount that won't be taxed and Box 2a needs to be adjusted.
- If taxpayer inadvertently missed the 60-day rollover deadline for one of several reasons, they can submit a certification to the trustee, and the amount can be considered a rollover on his tax return. See Revenue Procedure 2016-47 for details.

Note: The above applies to pre-tax accounts (e.g. traditional IRAs) and to post-tax accounts (e.g. Roth IRAs) within each group. If rolling or converting from pre-tax to post-tax, the amount will generally be taxable.
The basis of property distributed from a Roth IRA is its fair market value (FMV) on the date of distribution, whether or not the distribution is a qualified distribution.

You don't include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA(s).

Distributions from a Roth IRA are tax free and may be excluded from income if the following requirements are met:

- The distribution is made after the 5-year period beginning with the first day of the first taxable year for which a contribution was made to a Roth IRA set up for the taxpayer’s benefit, and
- The distribution is:
  - Made on or after age 59½, or
  - Made because the taxpayer was disabled, or
  - Made to a beneficiary or to an estate, or
  - To pay certain qualified first-time homebuyer amounts (up to a $10,000 lifetime limit)

Is the Distribution From Your Roth IRA a Qualified Distribution?

Start Here

Has it been at least 5 years from the beginning of the year for which you first set up and contributed to a Roth IRA?

Yes

Were you at least 59½ years old at the time of the distribution?

No

Is the distribution being used to buy or rebuild a first home as explained in Publication 590-B, Distributions from Individual Retirement Arrangements, First Home under Early Distributions?

Yes

Is the distribution due to your being disabled (defined Publication 590-B, under Early Distributions)?

No

Was the distribution made to your beneficiary or your estate after your death?

Yes

The distribution from the Roth IRA is a qualified distribution. It isn’t subject to tax or penalty. This distribution is in scope. This will generally be designated by code Q on Form 1099-R.

No

No

The distribution from the Roth IRA isn’t a qualified distribution. The portion of the distribution allocable to earnings may be subject to tax and it may be subject to the 10% additional tax. This return is out of scope. Refer taxpayer to a professional tax preparer.

See the list of Roth IRA distribution codes on the following page that are in scope and out of scope for the VITA/TCE programs.
Entering Medicaid Waiver Payments

Scenario A:
If income is reported on Form W-2 (and payer will not change), enter the Form W-2 as provided. Then, go to Schedule 1, line 21, Other income not reported elsewhere and enter Notice 2014-7 in the description field and the amount as a negative number. Then, go to Other Income, Other Compensation and enter the income as Medicaid Waiver wages. This will remove the income from EIC and other credit calculations as necessary.

Scenario B:
If income is reported on a Form 1099-MISC, go to Schedule 1, line 21>Other income not reported elsewhere and enter Notice 2014-7 in the description field and $0 in the amount field.

Scenario C:
If income is reported on a Form 1099-MISC and you are in the business of providing home care services, enter the full amount of payments under Gross Receipts in the Schedule C Income section. In Other Expenses, enter Notice 2014-7 as the description and the amount as a positive number.

Note 1: For the income to be excludable, the care must be in provider’s home.

Note 2: If the income is not reported, do not do anything. It is excludable income. A taxpayer may not choose to include in gross income difficulty of care payments that are excludable from gross income under § 131 as provided in Notice 2014-7. You cannot exclude gross receipts that are not Notice 2014-7 Medicaid waiver payments.
Publication 4731
Screening Sheet for Nonbusiness Credit Card Debt Cancellation

If the taxpayer is in bankruptcy, the tax return is Out of Scope for the VITA/TCE Programs.

Instructions: Use this Screening Sheet for taxpayers with Form 1099-C or other documentation resulting from cancellation of nonbusiness credit card debt and to assist in identifying taxpayers with cancellation of credit card debt issues.

Credit Card Debt

step 1 Did the taxpayer receive Form 1099-C, Cancellation of Debt, or other documentation (if less than $600) from a creditor and is the information shown on the form or document correct?  
YES – Go to Step 2  
NO – Go to Step 6

Note: The creditor is not required to issue a Form 1099-C if the canceled debt is under $600. However, the taxpayer may be required to report the canceled debt as income regardless of the amount.

step 2 Was the credit card debt related to a business?  
YES – Go to Step 6  
NO – Go to Step 3

step 3 Does box 6 of the Form 1099-C indicate Code A for bankruptcy?  
YES – Go to Step 6  
NO – Go to Step 4

Note: If box 6 is not marked with a Code A, but the taxpayer has subsequently filed bankruptcy, answer “yes.”

step 4 Was the taxpayer insolvent* immediately before the cancellation of debt?  
YES – Go to Step 6  
NO – Go to Step 5

Use the Insolvency Determination Worksheet in Publication 4012 and interview the taxpayer to determine if the taxpayer was insolvent immediately before the cancellation of debt.

step 5 The cancellation of nonbusiness indebtedness or cancellation of debt (the amount in box 2 of Form 1099-C or an amount less than $600 provided in other documentation) must be reported as ordinary income on Form 1040, Schedule 1 (Other Income). No additional supporting forms or schedules are required for reporting income from canceled credit card debt.

step 6 This tax issue is outside the scope of the volunteer programs. The taxpayer may qualify to exclude all or some of the discharged debt. However, the rules involved are complex.

Refer the taxpayer to:
• The IRS website for the most up-to-date information.
• 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 professional tax preparer.
• Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments (For Individuals)

* If the taxpayer is not in bankruptcy or unable to determine if they are insolvent the credit card debt forgiveness is presumed fully taxable.

Publication 4731 (10-2018) Catalog Number 52643X Department of the Treasury Internal Revenue Service
Form 1116 – Foreign Tax Credit (continued)

Foreign tax credit

Passive and General limited income are in scope with International Certification only. Select the appropriate category. If taxpayer has income in more than one category or from more than one country, another form can be added later.

Select the appropriate category. If taxpayer has income in more than one category or from more than one country, another form can be added later.

The remaining selections on this menu are Out of Scope.

Select country of residence.

Are you reporting income that passed through a mutual fund or other regulated investment company (RIC) on a country-by-country basis? ☐

Do you have passive income that is treated as general category income because it is highly taxed? ☐

Carryback or Carryover

\[ $ \]

Reduction in Foreign Taxes

\[ $ \]

Adjustments

\[ $ \]

Reduction of credit for international boycott operations

\[ $ \]

Type of income


Credit is claimed for taxes paid or accrued

- Paid
- Accrued

Indicate whether the foreign tax was actually paid during the tax year (paid) or if the tax was billed in one year but paid in another (accrued). A taxpayer using the cash basis can choose to use either the cash or accrual method to determine the foreign tax credit. However, if the accrual method is chosen, the taxpayer must continue to use the accrual method for the foreign tax credit on all future returns.
Select the country that imposed the tax.

Enter the gross income (not the tax) of this category type where indicated. Enter income from this category type only, not total income. Do not enter any income excluded by Form 2555.

Enter the gross income of this category type where indicated. Enter income from this category type only, not total income. Include any income excluded by Form 2555, but only if that income is of the category selected (passive or general income).

If your gross foreign source income (including income excluded on Form 2555 or Form 2555-EZ) does not exceed $5,000, you can allocate all your interest expense to U.S. source income. Otherwise, deductible home mortgage interest (including points and qualified mortgage insurance premiums) is apportioned using a gross income method. See Instructions for Form 1116.

Enter the date the tax was paid or accrued.

Select the itemized amounts boxes to enter taxes paid in foreign currency in the appropriate category.

Generally, you must enter the amount of foreign taxes, in both the foreign currency denomination(s) and as converted into U.S. dollars, that relate to the category of income checked (Passive or General limited income).

Enter the taxes paid (in U.S. dollars) in the appropriate category.
Public Safety Exclusions

To enter the amount of the health insurance exclusion for a Public Safety Officer (PSO), from the Main Menu of the Tax Return (Form 1040)

1. Select **Income Menu**
2. Select **IRA/Pension Distributions (Form 1099-R/RRB, SSA)**
3. Select **New** and fill out the Payer’s Information
4. Enter the Gross Distribution in Box 1 as it is shown on the 1099-R
5. Subtract the amount of any Qualified Retired Public Safety Officer Distribution from the Gross Distribution and enter the different Taxable Amount. Exit this menu. The smaller of the amount of the premiums for health and/or long-term care (LTC) insurance or $3,000 can be excluded (subtracted) from distribution.
6. Select the **Other/Roth** Button
7. Select **Public Safety Officers Insurance Distribution**
8. Select **Yes**
9. Select the line on **Form 1040** where Form 1099-R is reported. When you view Form 1040, the abbreviation **PSO** will be displayed in the left margin.

If you selected Form 1040 wages line, you will be prompted to input the amount of distribution being excluded. The exclusion and the abbreviation PSO will print on the dotted line next to the wages amount.

**Note:** This is a guide on entering Public Safety Officer Distributions into TaxSlayer. This is not intended as tax advice.

**TIP** Any amount exceeding $3,000 is entered on Schedule A, Itemized Deductions as insurance cost. The insurance can be for the taxpayer, spouse and family. When Form 1099-R, Box 7 is Code 4 (distribution due to death), the PSO deduction may no longer be used.

**Entering Medicaid Waiver Payments:**

Scenario A: If income is reported on Form W-2 (and payer will not change), enter the Form W-2 as provided. Then, go to Other income not reported elsewhere and enter IRS Notice 2014-7 in the description field and the amount as a negative number. Next, go to Other Income, Other Compensation and enter the income as Medicaid Waiver wages. This will remove the income from EIC and other credit calculations as necessary.

Scenario B: If income is reported on Form 1099-MISC, Miscellaneous Income, go to Other income not reported elsewhere, enter IRS Notice 2014-7 in the description field and $0 in the amount field.

Scenario C: If income is reported on Form 1099-MISC and you are in the business of providing home care services, enter the full amount of payments under Gross Receipts in the Schedule C Income section. In Other Expenses, enter Notice 2014-7 as the description and the amount as a positive number. You cannot exclude gross receipts that are not Notice 2014-7 Medicaid waiver payments.
Credits – Key Highlights

• To enter tax credits select the Credits Option to bring up the Credits Menu.

• To enter a specific credit select the appropriate menu option and then follow the software prompts.
2018 Publication 4189, VITA/TCE Volunteer Test/Retest Answers

<table>
<thead>
<tr>
<th>Publication 4189</th>
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<tbody>
<tr>
<td>A-5</td>
</tr>
<tr>
<td>Change Foreign Student Test question #3 answer to: b</td>
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No corrected pages are provided for this publication. Please make note of the changes above in your printed training publication.
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### Important Changes for 2018

<table>
<thead>
<tr>
<th>Section</th>
<th>Changes</th>
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</thead>
<tbody>
<tr>
<td>iii</td>
<td>Under the heading <strong>Tax Forms</strong>, change the second sentence to: Form 1040 has been redesigned for 2018. Add a sentence to the end of this section: Forms 1040A and 1040-EZ are not available for tax year 2018. Before the heading <strong>Personal Exemption Amount</strong>, add: <strong>Student Loan Discharges</strong> Certain student loan discharges on account of death or disability are excluded from gross income after December 31, 2017 and before January 1, 2026.</td>
</tr>
<tr>
<td>iv</td>
<td>Under the heading <strong>Qualified Residence Interest</strong>, make the following changes: First sentence, add the word “substantially” before the word “improve”. Third paragraph, first sentence, change “…incurred before…” to: incurred on or before</td>
</tr>
<tr>
<td>v</td>
<td>Under the heading <strong>Standard Mileage Rate</strong>, last sentence, change “active military” to: active duty military Before the heading <strong>Deduction for Qualified Business Expense</strong>, add: <strong>Business Entertainment</strong> Starting with tax year 2018, business entertainment expenses are no longer deductible. Under the heading <strong>Child Tax Credit Changes</strong>, second paragraph, after the word “qualify”, add: the taxpayer Third paragraph, last sentence, change the word “by” to “before” and delete the word “still”.</td>
</tr>
<tr>
<td>vi</td>
<td>Text reflow.</td>
</tr>
</tbody>
</table>

### Legislative Extenders

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<thead>
<tr>
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<tr>
<td>2-1</td>
<td>Text reflow.</td>
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<tr>
<td>2-2</td>
<td>Under the heading <strong>What are qualified tuition and fees expenses?</strong>, at the end of the last paragraph, add: If the school is not required to issue a Form 1098-T, the taxpayer can substantiate qualified expenses by other means (such as the student’s financial account detail) and obtain the federal employer identification number from the school.</td>
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### Affordable Care Act

<table>
<thead>
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<th>Section</th>
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<tr>
<td>3-5</td>
<td>At the end of the bullet for <strong>General hardship</strong>, add: For 2018, hardship exemptions may be claimed on the tax return. See Instructions for Form 8965.</td>
</tr>
<tr>
<td>3-6</td>
<td>No change.</td>
</tr>
</tbody>
</table>
Print out the corrected pages that follow and replace the erroneous pages in your printed training publications. On the reverse side of each revised page is the continuing page.
**Important Changes for 2018**

**Due Date of Return**

The due date for filing a 2018 return is Monday, April 15, 2019 for most filers. Residents of Maine and Massachusetts have until April 17, 2019, to file Form 1040, because April 15, 2019, is Patriot’s Day and April 16, 2019, is Emancipation Day.

**Tax Forms**

Form 1040 is a shorter, simpler form for the 2019 tax season.

The new Form 1040 replaces the previous Form 1040 as well as the Form 1040A and Form 1040EZ. Form 1040 has been redesigned for 2018. Forms 1040A and 1040-EZ are not available for tax year 2018.

**Alimony**

For any divorce or separate maintenance instrument executed after December 31, 2018, (or executed on or before December 31, 2018 and modified after that date if the modification expressly provides that the amendments made by the Tax Cuts and Jobs Act, Section 11051, apply to such modification), alimony and separate maintenance payments are no longer deductible by the payor spouse. Additionally, alimony and separate maintenance payments are no longer included in income by the recipient of the payments.

**Military Pay**

U.S. Armed Forces members who served in the Sinai Peninsula of Egypt may qualify for combat zone tax benefits retroactive to June 2015.

**Student Loan Discharges**

Certain student loan discharges on account of death or disability are excluded from gross income after December 31, 2017 and before January 1, 2026.

**Personal Exemption Amount**

The deduction for all personal exemptions is suspended (reduced to zero), effective for taxable years beginning after December 31, 2017, and before January 1, 2026.

**Modification of Rates**

There is a new individual income tax rate structure: 10%, 12%, 22%, 24%, 32%, 35%, and 37%, effective for taxable years beginning after December 31, 2017, and before January 1, 2026.

**Standard Deduction Increases**

The standard deduction for taxpayers who do not itemize deductions on Schedule A (Form 1040) has increased. The standard deduction amounts for 2018 are:

- $24,000 – Married Filing Jointly or Qualifying Widow(er) (increase of $11,300)
- $18,000 – Head of Household (increase of $8,650)
- $12,000 – Single or Married Filing Separately (increase of $5,650)
**Taxpayers who are 65 and Older or are Blind**

For 2018, the additional standard deduction for taxpayers who are 65 and older or blind increased. The amounts are:

- $1,600 for Single or Head of Household
- $1,300 for married taxpayers or Qualifying Widow(er)

**Itemized Deductions**

**Medical** – Effective for taxable years beginning after December 31, 2016 and ending before January 1, 2019, the deduction for medical expenses is allowed to the extent that the expenses exceed 7.5% of adjusted gross income (AGI). After tax year 2018, the medical expense AGI limitation reverts to 10%.

**Charitable Contributions** – The total deduction for charitable contributions in cash to qualified organizations generally cannot be more than 60% (up from 50%) of an individual's AGI for the tax year (20% and 30% limits may apply in certain cases).

Excess contributions that individuals could not deduct in an earlier year because they exceed the limits may be deducted over a 5-year period. Contributions carried over are subject to the same percentage limits in the year to which they are carried. These same rules apply to the new 60% limit on cash charitable contributions made to qualified organizations.

For taxable years beginning after December 31, 2017, no deduction is allowed for any amount paid for the right to purchase tickets for seating at an athletic event in an athletic stadium of an institution of higher learning.

**State and Local, etc. Taxes** – For individuals, foreign real property taxes cannot be deducted.

There is a combined limitation for an individual of $10,000 ($5,000 if Married Filing Separately) on real property taxes, personal property taxes, and income taxes or general sales taxes that are unrelated to a business.

An amount paid before January 1, 2018 for state or local income tax will be treated as paid on the last day of the tax year for which it was imposed.

**Qualified Residence Interest** – The deduction for home equity debt is disallowed as a mortgage interest deduction unless the home equity debt was used to build, buy, or substantially improve the taxpayer’s qualified residence.

Effective for tax years beginning after December 31, 2017 and before January 1, 2026, the total amount allowed as a deduction for home mortgage interest is limited based on home acquisition debt of up to $750,000 ($375,000 if Married Filing Separately).

In the case of debt incurred on or before December 15, 2017, an individual may deduct mortgage interest on acquisition debt on a qualified residence of no more than $1,000,000 ($500,000 if Married Filing Separately). A taxpayer who entered into a binding written contract before December 15, 2017 to close on a purchase of a principal residence before January 1, 2018, and who purchases such residence before April 1, 2018, shall be considered to have incurred acquisition indebtedness prior to December 15, 2017.

**Casualty and Theft Losses, Miscellaneous Itemized Deductions** – For taxable years beginning after December 31, 2017 and before January 1, 2026, no miscellaneous itemized deductions will be allowed for Job Expenses and Certain Miscellaneous Deductions subject to the 2% limitation. This does not affect other miscellaneous deductions allowed on Form 1040 Schedule A not subject to the 2% limitation.

A taxpayer may claim a personal casualty loss (subject to certain limitations) only if such loss was attributable to a disaster declared by the president under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

**Overall Limitation on Itemized Deductions** – The overall limit on itemized deductions for higher income taxpayers has been suspended for tax years 2018 through 2025.
**Standard Mileage Rate**

For 2018, the following rates are in effect:

- 54.5 cents per mile for business miles driven
- 18 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations (no change)

The standard mileage rate for business cannot be used to claim an itemized deduction for unreimbursed employee travel expenses during the suspension of miscellaneous itemized deductions that are subject to the 2% of AGI floor.

The moving expense deduction is not allowed through 2025 and the exclusion from income of moving expense reimbursements from an employer is also suspended. The only exception is for active duty military service members who move pursuant to a military order to a new permanent duty station.

**Business Entertainment**

Starting with tax year 2018, business entertainment expenses are no longer deductible.

**Deduction for Qualified Business Income**

For taxable years beginning after December 31, 2017 and before January 1, 2026, there is a new deduction for pass-through businesses. Sole proprietors are categorized as pass-through businesses.

A sole proprietor may be able to deduct up to 20% of qualified business income (QBI). The calculations on Schedules C and SE are not affected by this deduction. Taxable income is not reduced below zero by the deduction. The deduction is limited for higher incomes and for specified service trades or businesses. Refer to the Volunteer Resource Guide and Publication 4491 for more information.

**Retirement Savings Contribution Credit**

To claim this credit, the taxpayer’s modified adjusted gross income (MAGI) must not be more than $31,500 for Single, Married Filing Separately, or Qualifying Widow(er) (increase of $500). MAGI must not be more than $47,250 (increase of $750) for Head of Household, and $63,000 (increase of $1,000) for Married Filing Jointly.

Designated beneficiaries of Achieving a Better Life Experience (ABLE) accounts may claim a retirement savings contributions credit for contributions they make to their ABLE account for tax years 2018-2025.

**Child Tax Credit Changes**

The maximum credit per qualifying child is $2,000 (increase from $1,000). The definition of a qualifying child has not changed. The refundable amount of the credit is limited to $1,400 per qualifying child. The earned income threshold amount used to calculate the refundable portion of the credit decreased from $3,000 to $2,500.

A new credit for other dependents of up to $500 is available for each dependent who doesn’t qualify the taxpayer for the child tax credit.

The taxpayer must still include a valid Social Security number (SSN) for each qualifying child for whom the maximum $2,000 credit is claimed, and that SSN must also have been issued by the due date of the tax return (including extensions). A qualifying child who is ineligible for the child tax credit because that child did not have a valid SSN, or did not have a valid SSN before the due date of the tax return (including extensions) may qualify for the non-refundable $500 credit.

The threshold at which the credit begins to phase out increased:

- For Married Filing Jointly, the threshold increased from $110,000 to $400,000
- For Single, Head of Household, or Qualifying Widow(er), the threshold increased from $75,000 to $200,000
- For Married Filing Separately, the threshold increased from $55,000 to $200,000
Earned Income Credit (EIC)

- For 2018, the maximum credit increased to:
  - $6,431 with three or more children
  - $5,716 with two children
  - $3,461 with one child
  - $519 with no children

**Earned Income Amount Increased**

To be eligible for a full or partial credit, the taxpayer must have earned income of at least $1 but less than:

- $49,194 ($54,884 if Married Filing Jointly) with three or more qualifying children
- $45,802 ($51,492 if Married Filing Jointly) with two qualifying children
- $40,320 ($46,010 if Married Filing Jointly) with one qualifying child
- $15,270 ($20,950 if Married Filing Jointly) with no qualifying child

**Investment Income**

Taxpayers whose investment income is more than $3,500 cannot claim the EIC.

**Education Benefits**

**American opportunity credit** for 2018 is gradually reduced (phased out) if taxpayers' MAGI is between $80,000 and $90,000 ($160,000 and $180,000 if Married Filing Jointly). Taxpayers cannot claim a credit if their MAGI is $90,000 or more ($180,000 or more if Married Filing Jointly). There is no change.

To claim the American opportunity credit, taxpayers must provide the educational institution’s employer identification number (EIN) on Form 8863. Taxpayers should be able to obtain this information from Form 1098-T or the educational institution.

**Lifetime learning credit** for 2018 is gradually reduced (phased out) if taxpayers’ MAGI is between $57,000 and $67,000 ($114,000 and $134,000 if Married Filing Jointly). Taxpayers cannot claim a credit if their MAGI is $67,000 or more ($134,000 or more if Married Filing Jointly).

**Student loan interest deduction** begins to phase out for taxpayers with MAGI in excess of $65,000 ($135,000 for joint returns) and is completely phased out for taxpayers with MAGI of $80,000 or more ($165,000 or more for joint returns). There is no change.

**Code section 529** plans now allow such plans to distribute not more than $10,000 in expenses for tuition incurred during the taxable year in connection with the enrollment or attendance of the designated beneficiary at a public, private, or religious elementary or secondary school. This limitation applies on a per-student basis, rather than a per-account basis. This applies to distributions made after December 31, 2017.

**Eligible Long-Term Care Premium Limits Increased**

For 2018, the maximum amount of qualified long-term care premiums includible as medical expenses has increased. Qualified long-term care premiums up to the amounts shown below can be included as medical expenses on Schedule A (Form 1040) Itemized Deductions or in calculating the self-employed health insurance deduction.

- $420: age 40 or under
- $780: age 41 to 50
- $1,560: age 51 to 60
- $4,160: age 61 to 70
- $5,200: age 71 and over
Introduction

The content in this lesson is being provided because these are not considered permanent provisions in the tax law. The Bipartisan Budget Act of 2018, enacted on February 9, 2018, renewed these provisions for tax year 2017. **At the time this publication went to print these provisions were expired for 2018. There is no exclusion for qualified principal residence indebtedness discharged in 2018 unless the discharge is subject to an arrangement that was entered into and evidenced in writing before January 1, 2018 (see the Cancellation of Debt section of this lesson).** Do not refer to this lesson unless directed here by Publication 4491X, VITA/TCE Training Supplement. Publication 4491-X, which will be released by mid-January, will contain any legislative changes to these and any other provisions. Tax law provisions that were made permanent have been removed from this lesson and added to the appropriate tax law lesson in this publication.

How do I handle tuition and fees?

**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, modified adjusted gross income (MAGI), and other factors. For the amount of the allowable deduction see the Tuition and Fees Deduction at a Glance chart in the Legislative Extenders tab of the Volunteer Resource Guide.

**example**

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 would be able to deduct the maximum amount ($4,000) for his tuition and fees payments.

**Who is eligible for this deduction?**

The deduction can be claimed for the taxpayer, the taxpayer’s spouse (if filing a joint return), and any dependent who attended an eligible educational institution during the tax year.

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.

**example**

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

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 the dependent on his or her income tax return. If the student is eligible to be claimed as a dependent (even if not actually claimed) and paid his or her own expenses, **no one** can take the adjustment. However, if the student would not qualify as a dependent, he or she 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.
What are qualified tuition and fees expenses?

Generally, qualified education expenses are amounts paid for tuition and fees required for the student’s enrollment or attendance at an eligible educational institution. Required fees include amounts for books, supplies, and equipment used in a course of study if required to be paid to the institution as a condition of enrollment or attendance. It does not matter whether the expenses were paid in cash, by check, credit card, or with borrowed funds.

Qualified education expenses do not include payments for:

- Insurance, room and board, medical expenses (including health fees), transportation, or similar personal, living, or family expenses
- Course-related books, supplies, nonacademic activities and equipment unless it is paid as a condition of enrollment or attendance
- Any course or other education involving sports, games, hobbies, and noncredit courses unless the course or other education is part of the student’s degree program

Ask the taxpayer if the qualified tuition and expenses were offset by distributions from qualified state tuition programs, Coverdell Education Savings Accounts (ESA), or interest from savings bonds used for higher education expenses. Subtract these from the total payments for tuition and fees.

To help you figure the tuition and fees deduction, the taxpayer should have received Form 1098-T, Tuition Statement. Generally, an eligible education institution must send Form 1098-T or a substitute to each enrolled student by January 31.

The deduction for qualified tuition and related expenses is not allowed unless the taxpayer receives a statement (Form 1098-T) from the educational institution. The receipt of the statement by a dependent is treated as received by the taxpayer. If the school is not required to issue a Form 1098-T, the taxpayer can substantiate qualified expenses by other means (such as the student’s financial account detail) and obtain the federal employer identification number from the school.

Form 1098-T may have incomplete information. 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 or the U.S. Department of Education website.
- A nonresident alien; or
- Not a U.S. citizen, not a U.S. national, and not an individual lawfully present in the U.S. For this purpose, an immigrant with Deferred Action for Childhood Arrivals (DACA) status is not considered lawfully present and therefore qualifies for this exemption. For more information about who is treated as lawfully present for purposes of this coverage exemption, visit www.healthcare.gov.

- **Members of a health care sharing ministry (Code D)** – The individual was a member of a health care sharing ministry.

- **Members of federally recognized Indian tribes (Code E)** – The individual was a member of a federally recognized Indian tribe, including an Alaska Native Claims Settlement Act (ANCSA) Corporation Shareholder (regional or village), or was otherwise eligible for services through an Indian health care provider or the Indian Health Service.

- **Incarceration (Code F)** – The individual was in a jail, prison, or similar penal institution or correctional facility after the disposition of charges. Does not include time in jail pending disposition of charges (being held but not convicted of a crime), time in probation, parole, or home confinement.

- **Resident of a state that did not expand Medicaid (Code G)** – Taxpayer’s household income was below 138 percent of the federal poverty line for the family size and at any time in 2018 the individual resided in a state that didn’t participate in the Medicaid expansion under the Affordable Care Act.

- **Aggregate self-only coverage considered unaffordable (Code G)** – Taxpayers can claim this exemption if: (1) Offers of self-only coverage for two or more members of the tax household are each affordable, but (2) two or more family members’ aggregate cost of self-only employer-sponsored coverage was more than 8.05 percent of household income, (3) as was the cost of any available employer-sponsored coverage for the entire family. Exception: This exemption applies to the whole year for the entire family.

  **TIP** See Publication 5157-A, Affordable Care Act – Taxpayer Scenarios, for detailed instructions on claiming the affordability exemptions.

- **Member of tax household born or adopted during the year (Code H)** – The months before and including the month that an individual was added to a taxpayer’s tax household by birth or adoption. An individual is included in a taxpayer’s tax household in a month only if he or she is alive for the full month. Also, if a taxpayer adopts a child during the year, the child is included in a taxpayer’s tax household only for the full months that follow the month in which the adoption occurs.

- **Member of tax household died during the year (Code H)** – The months after the month that a member of the tax household died during the year.

There are some other coverage exemptions granted by the Marketplace:

- **General hardship** – Taxpayers experienced hardships, such as bankruptcy or eviction, that prevented them from obtaining coverage under a qualified health plan. Refer to the Volunteer Resource Guide, Tab H, for a complete list of hardships identified by the Marketplace. For 2018, hardship exemptions may be claimed on the tax return. See Instructions for Form 8965.

- **Members of certain religious sects** – The individual was a member of a religious sect in existence since December 31, 1950, that is recognized by the Social Security Administration (SSA) as conscientiously opposed to accepting any insurance benefits, including Medicare and Social Security.

Taxpayers who are granted a coverage exemption from the Marketplace will receive exemption certificate numbers (ECNs) from the Marketplace.
If taxpayers think they qualify for a coverage exemption, how do they obtain it?

How taxpayers can receive a coverage exemption depends upon the type of exemption for which they are eligible. Some exemptions are granted only by the Marketplace and others are claimed on the tax return.

TIP Some Marketplace exemptions based on hardship may be retroactive.

Taxpayers whose gross income is below their filing threshold are exempt from the individual shared responsibility provision and are not required to file a federal income tax return to claim the coverage exemption. However, if the taxpayer files a return anyway (for example, to claim a refund), he or she can claim a coverage exemption with his or her tax return.

Coverage exemptions are claimed on Form 8965, Health Care Coverage Exemptions.

How are health care coverage exemptions reported?

Enter ECNs for taxpayers who were granted a coverage exemption from the Marketplace in Part I (Marketplace-Granted Coverage Exemptions for Individuals) of Form 8965, column c. Taxpayers will use Part II (Coverage Exemptions for Your Household Claimed on Your Return) of Form 8965 to claim a coverage exemption based on household or gross income below the filing threshold. All other coverage exemptions may be claimed in Part III (Coverage Exemptions for Individuals Claimed on Your Return) of Form 8965.

TIP If the Marketplace has not processed an individual application for a coverage exemption before the tax return is filed, enter “pending” as the ECN in the software. Refer to the Volunteer Resource Guide, Tab H, for more information.

Certain taxpayers who had qualifying health care coverage or a coverage exemption that covered all of 2018 or a combination of qualifying health care coverage and coverage exemption(s) for every month of 2018 can check the “Full-year health care coverage or exempt” box on the front of Form 1040 rather than file Form 8965. Refer to the Form 8965 Instructions for details.

What is the unaffordability exemption?

Coverage is “Unaffordable” when the taxpayer’s contribution toward premiums is more than 8.05 percent of household income. The premium that is measured depends on the taxpayer’s circumstances. Household income also has a unique definition for this exemption.

During the taxpayer interview, determine whether each household member for each month:

- Had coverage
- Had an exemption (other than for unaffordable coverage), or had no coverage or exemption

If the taxpayer or a dependent on the tax return had no coverage and no other exemption, try the exemption for unaffordable coverage. Use one of the following three tests to determine if the exemption applies. If circumstances change during the year, you may need to use a different test that matches the circumstances in the different time period. In all cases, compare the premium to the “affordability threshold,” which is 8.05 percent of household income. Note your findings on the Intake/Interview & Quality Review sheet.

What are the three tests for the unaffordability exemption?

1. Did the uninsured person have an offer of coverage from his or her own employer? If no, move to the next test. If yes, compare the employee’s annual premium for the lowest-cost plan for only themselves
Question 5: Sydney’s spouse died two years ago in January. He filed a joint return for that year as the surviving spouse. Since then, Sydney has not remarried, maintains a home for his young children who lived with him all year, and provides their sole support. Using the Filing Status Interview Tips in the Volunteer Resource Guide, determine what filing status Sydney should use?

- Single
- Married Filing Jointly
- Married Filing Separately
- Head of Household
- Qualifying Widow(er)

Summary

This lesson covered the five filing statuses:

- Single
- Married Filing Jointly
- Married Filing Separately
- Head of Household
- Qualifying Widow(er)

If taxpayers qualify for more than one filing status, choose the one that results in a lower tax. For example, in most cases, married couples pay less tax if they file a joint return.

In general, the Head of Household filing status is for unmarried taxpayers who paid more than half the cost of maintaining a home for a qualifying person for the required period of time. However, some married taxpayers who lived apart from their spouse during the last six months of the year and provided for dependent children may be “considered unmarried” and qualify to file as Head of Household.

A widow or widower with one or more qualifying children may be able to use the Qualifying Widow(er) filing status, which is available for two years following the year of the spouse’s death.

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

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

- A spouse who may be relieved of joint liability as an innocent spouse
- Depending on your tax assistance program, community property tax laws for married taxpayers who file a separate return from their spouse
- Taxpayers who are not certain they are in a common law marriage (rules are complex and differ from state to state)
**EXERCISE ANSWERS**

**Answer 1:** No, because Sebastian lived with Alexandra for five months, which is less than half the year.

**Answer 2:** Head of Household. Even though Jane is still married to her husband, she meets the requirements to be "considered unmarried" for filing status purposes and qualifies to file as Head of Household. Although technically she could file as Married Filing Separately, it would not be to her advantage to do so.

**Answer 3:** Because he is not married, has no dependents living in his household, and does not claim his parents as dependents, Seth can only file as Single.

**Answer 4:** Because she is legally divorced, Tanya could file as Single. However, because she has children and meets the requirements for Head of Household, she should use this as her filing status because it will result in a lower tax.

**Answer 5:** Although Sydney meets the requirements to file as Single, Head of Household or Qualifying Widower, the Interview Tips will help you to determine that he should use the Qualifying Widower filing status because it will result in the lowest tax.

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**Notes**

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If there is a direct rollover of a designated Roth account distribution to a Roth IRA, the distribution code for Form 1099-R will be code H.

If the distribution does not meet the tax-free rollover requirements, all or part may be taxable; refer the taxpayer to a professional tax preparer.

A conversion of a traditional IRA to a Roth IRA, and a rollover from any other eligible retirement plan to a Roth IRA, made after December 31, 2017, cannot be recharacterized as having been made to a traditional IRA.

**Tax Software Hint:** Additional information must be entered for retirement account rollovers. Refer to the Volunteer Resource Guide, Tab D, Income, Form 1099-R.

**EXERCISES** (continued)

**Question 4:** Andrew changed jobs and received Form 1099-R from his previous employer. The gross distribution amount in box 1 is $11,200. Andrew deposited the entire $11,200 into his IRA within 30 days of receiving the check (rollover).

Which of the following statements is true?

A. The entire distribution is includible as income
B. The entire distribution is excludable from income
C. The distribution is eligible for the ten-year tax option
D. The distribution is eligible to be taxed at a special rate

**What is the IRA self-certification procedure?**

**Procedure Helps People Making Retirement Plan Rollovers**

Revenue Procedure 2016-47 explains a self-certification procedure designed to help recipients of retirement plan distributions who inadvertently miss the 60-day time limit for properly rolling these amounts into another retirement plan or individual retirement arrangement (IRA). Eligible taxpayers can qualify for a waiver of the 60-day time limit and avoid possible taxes and penalties on early distributions, if they meet certain circumstances. Taxpayers who missed the time limit will ordinarily qualify for a waiver if one or more of 11 circumstances, listed in the revenue procedure, apply:

- An error was committed by the financial institution making the distribution or receiving the contribution.
- The distribution was in the form of a check and the check was misplaced and never cashed.
- The distribution was deposited into and remained in an account that the taxpayer mistakenly thought was a retirement plan or IRA.
- Taxpayer’s principal residence was severely damaged.
- One of the taxpayer’s family members died.
- Taxpayer or a family member was seriously ill.
- Taxpayer was incarcerated.
- Restrictions were imposed by a foreign country.
- A postal error occurred.
• The distribution was made on account of an IRS levy and the proceeds of the levy have been returned.
• The party making the distribution delayed providing information that the receiving plan or IRA required to complete the rollover despite reasonable efforts to obtain the information.

TIP
Ordinarily, the IRS, plan administrators, and trustees will honor a taxpayer’s truthful self-certification that they qualify for a waiver under these 11 circumstances. Even if a taxpayer does not self-certify, the IRS now has the authority to grant a waiver during a subsequent examination. Other requirements, along with a copy of a sample self-certification letter, can be found in the revenue procedure.

The IRS encourages eligible taxpayers wishing to transfer retirement plan or IRA distributions to another retirement plan or IRA to consider requesting that the administrator or trustee make a direct trustee-to-trustee transfer, rather than doing a rollover. Doing so can avoid some of the delays and restrictions that often arise during the rollover process.

For more information, refer to Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs).

Qualified Charitable Distributions
A qualified charitable distribution (QCD) is generally a nontaxable distribution made directly by the trustee of the IRA to an organization eligible to receive tax-deductible contributions. The taxpayer must be at least age 70 1/2 when the distribution is made. Also, the taxpayer must have the same type of acknowledgement of the contribution that is needed to claim a deduction for a charitable contribution. A QCD counts towards the taxpayer’s required minimum distribution.

The maximum annual exclusion for QCDs is $100,000. Any QCD in excess of the $100,000 exclusion limit is included in income as any other distribution. On a joint return, the spouse can also have a QCD and exclude up to $100,000.

How do I find the taxable portion of pensions and annuities?

Fully Taxable Pensions and Annuities
Pension and annuity income is reported on Form 1099-R, Form CSA 1099-R, and Form RRB 1099-R. In general, pension or annuity payments are fully taxable, if the following is true:
• Taxpayers did not pay any part of the cost of their pensions or annuities
• Employers did not withhold part of the cost from the taxpayers’ pay while they worked
• Employers withheld part of the cost from the taxpayer’s before-tax pay while they worked

TIP
Social Security benefits are not reported on the pension line of the tax return. Social Security income is covered in a later lesson.

example
Sue worked for a software development company for 20 years. She retired and began receiving pension income the same year. Sue never contributed to the pension plan while she was working; her employer made all of the contributions. Her pension is fully taxable.

Partially Taxable Pensions and Annuities
Two methods used to figure the taxable portion of each pension or annuity payment are the General Rule and the Simplified Method. Unless an exception applies, retirees must use the Simplified Method for annuity payments from a qualified plan. A qualified plan is established by an employer to provide retirement benefits
What happens after a service member receives a letter of determination?

Once the VA sends a letter of determination, all future pension payments from the government are offset by the disability amount paid directly from the VA. Disability payments received directly from the VA are not taxable and are not included on Form W-2 or Form 1099-R.

Although pension payments made before the letter of determination was issued have already been taxed, the letter exempts from taxes the same amount of previous pension payments. U.S. Armed Forces members who have already filed a tax return and reported that pension income should file Form 1040X, Amended U.S. Individual Income Tax Return, and attach a copy of the letter of determination.

The Combat-Injured Veterans Tax Fairness Act of 2016 allows certain veterans who received lump sum disability severance payments additional time to file a claim for credit or refund of an overpayment attributable to the disability severance payment. Veterans who received disability severance payments paid after January 17, 1991, that were included as taxable income on Form W-2, but were later determined to be nontaxable will receive a notice of the amount of that payment in July 2018.

Anyone who received this notice can file a claim for credit or refund for the tax year in which the disability severance payment was made and was included as income on a tax return. For veterans who received a lump sum disability severance payment after January 17, 1991, this may provide additional time to claim a credit or refund for the overpayment.

Affected taxpayers must complete and file Form 1040X for the tax year the disability severance payment was made and include any necessary documentation, carefully following the instructions in the notice mailed by the Department of Defense. See irs.gov keyword: Combat-Injured Veterans.

EXERCISES (continued)

Question 3: Disability payments sent directly from the VA to the discharged service member _____.
A. Are taxable
B. Appear on the taxpayer’s Form W-2 or 1099-R
C. Are not included on the taxpayer’s Form W-2 or 1099-R
D. May begin before the VA issues the letter of determination

example

Anita Zapata was an active duty service member who was separated due to a medical condition, and began receiving her military pension in February of the previous tax year. Here are the payments she reported on that year’s tax return:

<table>
<thead>
<tr>
<th>Payments</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service pension</td>
<td>$33,000</td>
</tr>
<tr>
<td>Active pay</td>
<td>$ 5,000</td>
</tr>
</tbody>
</table>

In the current tax year, the VA determined that she was retroactively entitled to a VA disability pension of $837 each month from the date of her discharge (February of the previous tax year). She can amend her tax return to exclude $9,207 ($837 x 11 months) of the pension she received.

She must attach a copy of her letter of determination to the amended return. Her current tax year Form 1099-R will not include the nontaxable VA disability retirement payments received during that year.
What is a combat zone?

A combat zone is any area the President of the United States designates by Executive Order as an area in which the U.S. Armed Forces are engaging or have engaged in combat. An area becomes a combat zone and ceases to be a combat zone on the dates the President designates by Executive Order. Publication 3 lists the specific areas and dates.

A taxpayer serving in a combat zone may qualify for relief from certain IRS compliance actions, such as audits or enforced collections, until 180 days after the taxpayer has left the zone. Taxpayers qualifying for such combat zone relief may notify the IRS directly of their status through a special e-mail address: combatzone@irs.gov. They should provide name, stateside address, date of birth and date of deployment to the combat zone. They should not include any Social Security numbers in an e-mail. This notification may be made by the taxpayer, spouse, or authorized agent or representative. For more information visit irs.gov.

Hazardous duty areas are determined by Congress. Members of the Armed Forces deployed overseas, away from their permanent duty station, in support of operations in a qualified hazardous duty area, or performing qualifying service outside the qualified hazardous duty area, are treated as if they are in a combat zone for federal income tax purposes.

What is the combat zone exclusion?

Members of the U.S. Armed Forces who serve in a combat zone may exclude certain pay from their income. The entitlement to the pay must have fully accrued in a month during which they served in the combat zone or were hospitalized due to wounds, disease, or injury incurred while serving in the combat zone. They do not have to receive the pay while in a combat zone, in a hospital, or in the same year they served in a combat zone.

The following section is to help you understand when pay is considered excludable as combat pay. You will not be making any decisions about what is excludable. The information on the military member’s Form W-2 indicates the amount of combat pay with a code Q. If military members feel the amount is incorrect, refer them to the local accounting and finance or payroll office for clarification. Do not change any amounts on Form W-2 when entering them in the tax software.

What qualifies as service in a combat zone?

Service in a combat zone includes periods that military members are absent from duty because of illness, wounds, or leave. If, as a result of serving in a combat zone, military members become prisoners of war or are missing in action, they are considered to be serving in the combat zone as long as they remain in that status for military pay purposes.

When does service outside a combat zone qualify as service inside a combat zone?

Military service outside a combat zone is considered to be performed in a combat zone if the service:

- Is in direct support of military operations in the combat zone, and
- Qualifies a member for hostile fire/imminent danger pay due to dangers or risks from the combat zone

Military pay received for this service will qualify for the combat zone exclusion if the other requirements are met.
Tax Software Hint: Tax is automatically calculated based on previous entries. It is important to enter all income, deduction, and credit information correctly for the tax to be computed accurately. The tax software also calculates the standard deduction amount and applies any limitations in determining the tax.

Please see the Affordable Care Act (ACA) lesson contained in this publication for additional information on calculating the Excess Advanced Premium Tax Credit.

What is the tax for certain children who have unearned income (Kiddie Tax)?

For children under age 18 and certain older children, unearned income over a certain amount is taxed using the tax rates applicable to trusts and estates. For this purpose, “unearned income” includes all taxable income other than earned income, such as taxable interest, ordinary dividends, capital gains, rents, royalties, etc. It also includes taxable Social Security benefits, pension and annuity income, taxable scholarship and fellowship grants not reported on Form W-2, unemployment compensation, alimony, and income received as the beneficiary of a trust. If the child’s unearned income is more than the ceiling amount, and the child is required to file a tax return, Form 8615 must be used to figure the child’s tax. (See the Volunteer Resource Guide for the ceiling amount.)

example

Morgan (age 19) is a full-time student and earned $2,000 working at the local mall. She also had $1,100 of interest income. She received a scholarship of $6,500. Her tuition and fees for the year were $4,000. She decides to include $4,000 of the scholarship as income on her return to pay the qualifying education expenses. Since Morgan included the scholarship as income on her return, she will be required to complete Form 8615 to figure the tax because the $4,000 scholarship income is unearned income and more than ceiling amount.

When must Form 8615 be filed?

Form 8615 must be filed for the child if all the following are true:

1. The child's unearned income was more than the ceiling amount.
2. The child is required to file a return for the tax year.
3. The child either:
   • Was under age 18 at the end of the year,
   • Was age 18 at the end of the year and did not have earned income that was more than half of his or her support, or
   • Was a full-time student at least age 19 and under age 24 at the end of the tax year and did not have earned income that was more than half of the child's support.
4. At least one of the child's parents was alive at the end of the tax year.
5. The child does not file a joint return for the tax year.

What is the deduction for qualified business income (QBI)?

For taxable years beginning after December 31, 2017 and before January 1, 2026, there is a deduction for "pass through" businesses. Sole proprietors are categorized as "pass through" businesses.

• A sole proprietor will be able to take up to 20% of qualified business income (QBI) as a deduction on the tax return.
The calculations on Schedule C and Schedule SE are not affected by the deduction.

Taxable income is not reduced below zero by the 20% deduction.

The 20% deduction is limited for higher incomes.

The deduction will also be limited for specified service trades or businesses.

For taxable income that does not exceed the applicable threshold amount the QBI deduction is the lesser of:

- 20% of qualified business income (for example, it is the net profit reported on a Schedule C) or
- 20% of taxable income (equals adjusted gross income minus the applicable standard or itemized deduction) minus net capital gains and qualified dividends. See Form 1040 Instructions for details.

**Summary**

You should be able to identify those who can take the standard deduction, and how the deduction is affected by their filing status, age, blindness and status as a dependent. All of this will make it easier for you to help taxpayers understand how their deduction is computed and how it affects their tax.

You should also understand that the tax computation is based on taxable income. The tax may be further reduced by tax credits to be covered in an upcoming lesson.

Students that opt to include scholarships in income that exceed the unearned income ceiling amount will be required to complete Form 8615 to compute the tax. This is in scope, but limited to students electing to include unearned income such as scholarships/grants as income on the return.

Taxpayers who are considered sole proprietors may take up to 20% of their qualified business income as a deduction on the return.

You are now ready to work with itemized deductions in the next lesson.

**TAX LAW APPLICATION**

To gain a better understanding of the tax law, complete the comprehensive problem or practice exercise(s) for your course of study on TaxSlayer.

For practice using the tax preparation software, complete the scenarios using the Practice Lab on L&LT.

**EXERCISE ANSWERS**

**Answer 1:** Yes. Roderick is entitled to an additional standard deduction amount for blindness.

**Answer 2:** No
income taxes and the state and local sales taxes. The software will use the greater amount.

**TIP**
State, local, property taxes, sales taxes, and foreign income taxes paid as part of a trade or business or for the production of income are not subject to the aggregate $10,000 limit.

**Foreign income taxes**

Generally, income taxes that were paid to a foreign country can be taken as an itemized deduction on Schedule A, or as a credit against U.S. income tax on Form 1040. More information will be provided on this credit in subsequent lessons. You should compare claiming the foreign taxes paid as a nonrefundable credit to taking it as an itemized deduction and use whichever results in the lowest tax.

**TIP**
See the Taxes chapter in Publication 17 for more information.

**Tax Software Hint:** For software entries, go to the Volunteer Resource Guide, Tab F, Deductions.

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**EXERCISES (continued)**

**Question 2:** Which of the following taxes are deductible on Schedule A?
A. Federal income tax
B. State, local, and foreign income tax and real estate tax
C. Tax on alcohol and tobacco
D. Foreign sales tax

**Question 3:** For a tax to be deductible, a tax must be ____. (Select all that apply.)
A. Imposed during the tax year
B. Imposed on the taxpayer
C. Paid during the tax year
D. Paid by the taxpayer

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**How do I handle interest paid?**

Certain types of interest payments qualify as itemized deductions. Home mortgage interest, points (paid as a form of interest), and investment interest can be deducted on Schedule A. Investment interest is outside the scope of the VITA/TCE programs and should be referred to a professional tax preparer.

**Home Mortgage Interest**

Generally, home mortgage interest is any interest paid on a loan, line of credit, or home equity loan secured by the taxpayer’s home. The deduction for home equity mortgage interest is not allowed unless it was used to build, buy, or substantially improve the taxpayer’s qualified residence. The flow chart *Is My Home Mortgage Interest Fully Deductible?* in Publication 17 will help you determine if interest paid by the taxpayer should be included on Schedule A.

**TIP**
Members of the clergy and military can deduct qualified mortgage interest even if they receive a nontaxable housing allowance.
Generally, the total amount of home mortgage interest paid by a taxpayer is shown on Form 1098, Mortgage Interest Statement. Only taxpayers who are legally liable for the debt can deduct the interest in the year it is paid. Remember that taxpayers may have more than one mortgage or may have refinanced during the year and may have multiple Mortgage Interest Statements.

**TIP** See the Legislative Extender’s lesson contained in this publication for information regarding qualified mortgage insurance premiums.

**TIP** A taxpayer may be able to deduct interest on a main home and a second home. A home can be a house, cooperative apartment, condominium, mobile home, house trailer, or houseboat that has sleeping, cooking, and toilet facilities.

Review "Home Mortgage Interest" in Publication 17, Interest Expense chapter, for details on determining deductible amounts of mortgage interest.

Any interest (including original issue discount) accrued on a reverse mortgage is not deductible until the loan is paid in full. See Publication 17 for more details.

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**example**

From 1991 through 1998, Alfredo and Cindy Kendall obtained home equity loans totaling $91,000. Alfredo and Cindy used the loans to pay off gambling debts, overdue credit payments, and some nondeductible medical expenses.

The current balance of Alfredo and Cindy’s home equity loan is $72,000. The fair market value of their home is $230,000, and they carry $30,000 of outstanding acquisition debt (the amount used to buy, build, or improve their home).

If Alfredo and Cindy file a joint return, they cannot deduct the interest on their loans because the total of these loans was not used to build, buy, or improve the taxpayer’s qualified residence.

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**What are points?**

Points are the charges paid by a borrower and/or seller to a lender to secure a loan. They are also called:

- Loan origination fees (including VA and FHA fees)
- Maximum loan charges
- Premium charges
- Loan discount points
- Prepaid interest

**When are points deductible?**

Only points paid as a form of interest (for the use of money) can be deducted on Schedule A. Generally, points must be spread over the life of the mortgage. However, if the loan is used to buy or build a taxpayer’s main home, the taxpayer may be able to deduct the entire amount in the year paid. See the Interest Expense chapter of Publication 17 for more information.

Points paid to refinance a mortgage are generally not deductible in full the year they were paid, unless the points were paid in connection with the improvement of a main home and certain other conditions are met.

Beware of certain charges that some lenders call points. Points paid for specific services, such as appraisal fees, preparation fees, VA funding fees or notary fees, are not interest and are not deductible.
**Miscellaneous Deductions**

Only gambling losses to the extent of gambling winnings and certain other items are allowed as miscellaneous deductions.

**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.

- Casualty and theft losses
- Investment interest
- Form 1098-C, Contributions of Motor Vehicles, Boats and Airplanes
- Taxpayers affected by limits on charitable deductions
- Taxpayers that file Form 8283 to report noncash contributions of more than $500
- If the taxpayer is donating property that was previously depreciated
- If the taxpayer is donating capital gain property

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**TAX LAW APPLICATION**

To gain a better understanding of the tax law, complete the comprehensive problem or practice exercise(s) for your course of study on TaxSlayer

For practice using the tax preparation software, complete the scenarios using the Practice Lab on L&LT.

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**EXERCISE ANSWERS**

**Answer 1:** The total of qualified medical and dental expenses is $3,250, which does not include life insurance premiums, vitamins, or reimbursed hospital expenses.

**Answer 2:** B. State, local, foreign income tax, and real estate taxes are all deductible on Schedule A.

**Answer 3:** B, C, and D. Taxpayers cannot deduct a tax they did not owe, did not pay, or that they paid during another year. However, the tax may have been imposed in a prior year.

**Answer 4:** $2,180. The only interest that is fully deductible for the tax year is Joe and Angela’s home mortgage interest. The points they paid to refinance are not deductible because they don’t qualify as interest.

**Answer 5:** The amount that Julia can claim as deductible cash contributions is $632 (donations to her church and to the Girl Scouts). Bingo, lottery tickets, and donations to individuals in need are not deductible.

**Answer 6:** Zero. None of these expenses are qualified miscellaneous itemized deductions.
Introduction

The child tax credit is unique because if a taxpayer cannot benefit from the nonrefundable credit, the taxpayer may be able to qualify for the refundable additional child tax credit on Schedule 8812. In this chapter, we will learn about both credits and their relationship to each other. Some taxpayers may not be aware of these credits. Your time, effort, and understanding of this credit may result in a lower tax for the taxpayer.

The child tax credit and the credit for other dependents are entered on Form 1040; the additional child tax credit is entered on the Refundable credits line of the return.

The intake and interview sheet, along with the Volunteer Resource Guide, Tab G, Nonrefundable Credits are critical tools needed to determine eligibility for the credit.

Don’t confuse these credits with the child and dependent care credit!

Objectives

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

• Determine the taxpayer’s eligibility for the credit(s)
• Determine which taxpayer can claim the credits

What is the child tax credit?

The child tax credit is a nonrefundable credit that allows taxpayers to claim a tax credit of up to $2,000 per qualifying child, which reduces their tax liability.

What is the additional child tax credit?

Taxpayers who are not able to claim the full amount of the child tax credit may be able to take the refundable additional child tax credit. Completing Schedule 8812, Child Tax Credit, may result in a refund even if the taxpayer doesn’t owe any tax.

Who can claim the child tax credit?

To be eligible to claim the child tax credit, the taxpayer must have at least one qualifying child. If taxpayers claim the child tax credit or additional child tax credit but are not eligible for the credit, they can be banned from claiming the credit for either two or ten years. Refer to the Volunteer Resource Guide, Tab G, Nonrefundable Credits for additional information.

Does the child have to be the taxpayer’s dependent?

To be a qualifying child for the child tax credit, the child must be the taxpayer’s dependent.
Are there special rules for children of divorced or separated parents or parents who live apart?

There are special rules for children of divorced or separated parents, as well as for children of parents who live apart. The custodial parent is the parent with whom the child lived for the greater number of nights during the year. The other parent is the noncustodial parent. In most cases, the qualifying child is considered the dependent of the custodial parent. However, the noncustodial parent may be entitled to claim the child tax credit and additional child tax credit for the qualifying child if the custodial parent provides them with Form 8332, Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent, or a similar statement. All noncustodial parents must attach Form 8332 or a similar statement to their return each year the custodial parent provides the release. Review the Child Tax Credit charts in the Volunteer Resource Guide, Tab G, Nonrefundable Credits for additional information.

Taxpayers with divorce decrees or divorce agreements executed after 2008 must use Form 8332 or a similar statement whose only purpose is to release the custodial parent’s claim to the child tax credit. They cannot simply substitute pages from the divorce decree.

Remember, a custodial parent’s release of the dependent child will also release the child tax credit and the additional child tax credit, if either applies, to the noncustodial parent.

Example

Mary and Ralph got a divorce in 2007. They have one child together, Amy, who lives with Mary. All are U.S. citizens and have SSNs. Mary and Ralph provide more than half of Amy’s support. Mary’s AGI is $31,000, and Ralph’s AGI is $39,000. Amy is 12. The divorce decree does not state who can claim the child.

Ralph, the noncustodial parent, can claim the child tax credit only if Mary signs Form 8332. Mary can still claim the earned income credit, Head of Household, and child and dependent care credit for Amy assuming she qualifies for them.

How do I determine taxpayer eligibility for the child tax credit?

To determine whether a child meets the criteria of a qualifying child for the child tax credit or additional child tax credit, use the interview techniques and tools discussed in earlier lessons. Begin by reviewing the Marital Status and Household Information section of the taxpayer’s intake and interview sheet. Verify that the child:

- Is under age 17 on December 31 of the tax year
- Lived with the taxpayer for more than six months of the year (remember the special rules for divorced or separated parents or parents who live apart)
- Did not provide over half of his or her own support
- Meets the relationship criteria
- Is a U.S. citizen, U.S. national, or resident of the United States
- Must have a valid Social Security number

If the Marital Status and Household Information section is incomplete or the taxpayer is unsure of how to respond, you may want to use the Child Tax Credit Chart in the Volunteer Resource Guide, Tab G, Nonrefundable Credits. It provides helpful probing questions to ask the taxpayer.

Tax Software Hint: The entries for each qualifying child in the Basic Information section will help the software determine if the child is eligible for the child tax credit.
Taxpayers claiming the child tax credit must have a valid identification number (SSN or ITIN) by the due date of the tax return, including extensions. In addition, the dependent claimed must have a valid SSN before the due date of the return, including extensions. Taxpayers cannot subsequently file amended returns to claim the credit for a year that they did not originally have a valid identification number before the return due date.

**Example**

Ed’s son, Jeff, turned 17 on December 30, and has a valid Social Security number (SSN). He is a citizen of the United States. According to the child tax credit rules, he is not a qualifying child for the child tax credit because he was not under the age of 17 at the end of the tax year.

**EXERCISES**

**Question 1:** Jose and Yolanda Alameda are Married Filing Jointly and have five dependent children under the age of 17. Jose and Yolanda both have valid SSNs. Their children have Individual Taxpayer Identification Numbers (ITINs). Are their children qualifying children for the purpose of the child tax credit?  □ Yes   □ No

**What is the amount of the credit?**

The maximum amount taxpayers can claim for the child tax credit is $2,000 for each qualifying child. The amount claimed on Form 1040 depends on the taxpayer’s filing status, modified adjusted gross income (MAGI) and tax liability. The amount of the credit may be reduced if the taxpayer’s:

- MAGI is above the limit for the taxpayer’s filing status; review Publication 17, Child Tax Credit chapter for the limits on the credit or the Volunteer Resource Guide, Tab G, Nonrefundable Credits, or
- Tax liability less the majority of the nonrefundable credits is less than the maximum child tax credit

Review the Child Tax Credit Chart, steps 7 and 8, in the Volunteer Resource Guide, Tab G, Nonrefundable Credits to determine which worksheet must be used to figure the credit. If the taxpayer answers yes to steps 7 and 8, then the worksheet in Publication 972 must be used to figure the credit.

**Example**

Stan files as Head of Household and has three children who qualify for purposes of the child tax credit. Stan’s MAGI is $54,000 and his tax liability is $4,680. Stan is eligible to take a child tax credit of up to $4,680 to offset his tax liability. Stan cannot claim the full $6,000 child tax credit because it is limited to his tax liability of $4,680.

**Example**

May and Bob file as Married Filing Jointly and have two children who qualify for the child tax credit. Their MAGI is $56,000 and their tax liability is $954. They can only claim $954, reducing their tax to zero. As they could not claim the maximum child tax credit, May and Bob may also be eligible for the additional child tax credit.

**What is MAGI?**

Typically, the taxpayers’ MAGI (Modified Adjusted Gross Income) is the same as their AGI from Form 1040. For more information on MAGI as it applies to the child tax credit, refer to Publication 17.

**CAUTION**

If the taxpayers’ tax liability is zero, they cannot take the credit because there is no tax to reduce. However, the taxpayers may be able to take the additional child tax credit, discussed later in this lesson.
EXERCISES

Use the Child Tax Credit Interview Tips from the Volunteer Resource Guide, Tab G, Nonrefundable Credits, and Publication 17 to complete the exercises. Answers are at the end of the lesson summary.

**Question 2:** Paul and Marie are married with two dependent children. They will file a joint Form 1040 for the year. The children are qualifying children for purposes of the child tax credit. Paul and Marie’s MAGI is above the threshold limit, and their tax liability is $6,200. Based on this information, Paul and Marie:

A. Are not eligible for the maximum credit and can use the Child Tax Credit Worksheet in the Form 1040 Instructions to figure their child tax credit  
B. Will have to use Publication 972 to figure their child tax credit  
C. Are eligible to claim a full child tax credit  
D. Are not eligible to claim any amount for the child tax credit

**Question 3:** Laura’s adopted son Jack is 12. He is a citizen of the United States and lived with Laura for the entire tax year, during which time Laura provided full financial support. Is Jack a qualifying child for the child tax credit? □ Yes □ No

**Question 4:** Which one of the following individuals (all of whom have two qualifying children for the purposes of the child tax credit) are eligible to claim the maximum $2,000 per child for the child tax credit on their tax return?

A. Fiona, who is Married Filing Separately with a MAGI of $202,000  
B. Ken, a Qualifying Widower with a MAGI of $30,000 and tax liability of $490  
C. Nick, who is Single with a MAGI of $70,000 and a tax liability of $5,000  
D. Julie, who is Married Filing Jointly with a MAGI of $422,000

**How do I calculate the child tax credit?**

To calculate the credit, you must first determine which worksheet to use. Review the Child Tax Credit charts in the Volunteer Resource Guide, Tab G, Nonrefundable Credits to determine which worksheet the taxpayer must use.

**Tax Software Hint:** If you are using tax software, the system will automatically calculate the credit, provided you have correctly completed the:

- Taxpayer’s return through the retirement savings contribution credit line  
- Part I of Form 5695, and Schedule R

If you have a question about the amount that appears as the child tax credit, the taxpayer’s completed Child Tax Credit Worksheet may help you understand the determination.
2018 Publication 4695, VITA/TCE Puerto Rico Volunteer Test

<table>
<thead>
<tr>
<th>Publication 4696</th>
</tr>
</thead>
<tbody>
<tr>
<td>35</td>
</tr>
<tr>
<td>For Scenario 2, Test question #2.14, change to:</td>
</tr>
<tr>
<td>The child tax credit/credit for other dependents amount on line 12a of Form 1040 is:</td>
</tr>
<tr>
<td>36</td>
</tr>
<tr>
<td>No change.</td>
</tr>
<tr>
<td>65</td>
</tr>
<tr>
<td>No change.</td>
</tr>
<tr>
<td>66</td>
</tr>
<tr>
<td>En el Escenario 2, pregunta de Examen #2.14 cambiar a:</td>
</tr>
<tr>
<td>La cantidad del crédito tributario por hijos/crédito por otros dependientes en la línea 12a en la Forma 1040 es:</td>
</tr>
</tbody>
</table>

Print out the corrected pages that follow and replace the erroneous pages in your printed training publications. On the reverse side of each revised page is the continuing page.
VITA/TCE Puerto Rico Test

Level II PR Test – Scenario 2 Test Questions

Complete the Form 1040, schedules, and worksheet based on the information provided by Kent and Anne, complete Form 1040, the required forms and schedules to answer the following questions. You are a volunteer at site S21014444. Note: If you are using the Link & Learn Taxes Practice Lab, when entering Social Security numbers (SSNs) or Employer Identification Numbers (EINs), replace the Xs as directed, or with any four digits of your choice. In classroom situations, replace the Xs with the information provided by your instructor.

2.11 Kent and Anne’s total income shown on line 7 of Form 1040 is:
   a. $0
   b. $26,980
   c. $49,070
   d. $51,045

2.12 What is the tax on line 11 of Form 1040?
   a. $0
   b. $1,300
   c. $2,628
   d. $2,737

2.13 The amount of federal income tax withheld on line 16 of Form 1040 is:
   a. $0
   b. $1,652
   c. $3,352
   d. $3,800

2.14 The child tax credit/credit for other dependents amount on line 12a of Form 1040 is:
   a. $0
   b. $500
   c. $1,199
   d. $2,000

2.15 Are the payments and credits of Kent and Anne enough to cover their tax liability in 2018?
   a. Yes
   b. No
2.11  Kent and Anne’s total income shown on line 7 of Form 1040 is:
   a. $0
   b. $26,980
   c. $49,070
   d. $51,045

2.12  What is the tax on line 11 of Form 1040?
   a. $0
   b. $1,300
   c. $2,628
   d. $2,737

2.13  The amount of federal income tax withheld on line 16 of Form 1040 is:
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   a. $0
   b. $500
   c. $1,199
   d. $2,000

2.15  Are the payments and credits of Kent and Anne enough to cover their tax liability in 2018?
   a. Yes
   b. No
### W-2 Wage and Tax Statement 2018

**Copy B — To Be Filed With Employee’s FEDERAL Tax Return.**

This information is being furnished to the Internal Revenue Service.

<table>
<thead>
<tr>
<th>Employee’s Social Security Number: 134-00-XXXX</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Name:</strong> KENT TALBOT <strong>Address:</strong> VALE VERDE 9087 GIRASOL ST GUAYNABO PR 00971</td>
</tr>
<tr>
<td><strong>State:</strong> PR <strong>State Tax ID Number:</strong> 74-100XXXX</td>
</tr>
<tr>
<td><strong>Wages, tips, other compensation:</strong> 1 23,390.00 1,072.00</td>
</tr>
<tr>
<td><strong>Social security wages:</strong> 1 23,390.00 1,450.00</td>
</tr>
<tr>
<td><strong>Medicare wages and tips:</strong> 1 23,390.00 339.00</td>
</tr>
<tr>
<td><strong>Social security tips:</strong> 1 23,390.00 81.00</td>
</tr>
<tr>
<td><strong>Other:</strong> 2 1,805.00</td>
</tr>
<tr>
<td><strong>Total:</strong> 2 24,065.00 2,478.00</td>
</tr>
<tr>
<td><strong>State:</strong> PR <strong>State Tax ID Number:</strong> 75-100XXXX</td>
</tr>
<tr>
<td><strong>Wages, tips, other compensation:</strong> 1 25,680.00 580.00</td>
</tr>
<tr>
<td><strong>Social security wages:</strong> 1 26,455.00 1,640.00</td>
</tr>
<tr>
<td><strong>Medicare wages and tips:</strong> 1 26,455.00 384.00</td>
</tr>
<tr>
<td><strong>Social security tips:</strong> 1 26,455.00 81.00</td>
</tr>
<tr>
<td><strong>Other:</strong> 2 2,150.00</td>
</tr>
<tr>
<td><strong>Total:</strong> 2 26,980.00 2,158.00</td>
</tr>
</tbody>
</table>
Basado en la información provista por Kent y Anne, complete el Formulario 1040, los formularios y anejos requeridos para contestar las siguientes preguntas. Usted es un voluntario en el Centro S21014444. Si usted está utilizando el “Link & Learn Practice Lab”, complete los números de Seguro Social y los números de identificación patronal sustituyendo las primeras dos XX con ceros (00) y los últimos cuatro dígitos con los números de su preferencia. En las situaciones del salón de clase, sustituya las Xs con la información que le facilite su instructor.

2.11 El ingreso total de Kent y Anne en la línea 7 del Formulario 1040 es:
   a. $0
   b. $26,980
   c. $49,070
   d. $51,045

2.12 ¿Cuál es la cantidad de contribución determinada en el Formulario 1040 línea 11?
   a. $0
   b. $1,300
   c. $2,628
   d. $2,737

2.13 La cantidad total de contribuciones federales retenidas en la línea 16 del Formulario 1040 es:
   a. $0
   b. $1,652
   c. $3,352
   d. $3,800

2.14 La cantidad del crédito tributario por hijos/crédito por otros dependientes en la línea 12a en la Forma 1040 es:
   a. $0
   b. $500
   c. $1,199
   d. $2,000

2.15 ¿Los pagos y créditos de Kent y Anne son suficiente para cubrir su responsabilidad contributiva para el año 2018?
   a. Sí
   b. No
<table>
<thead>
<tr>
<th>Publication 4696(PR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3</strong></td>
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<td><strong>22</strong></td>
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<tr>
<td><strong>29</strong></td>
</tr>
<tr>
<td><strong>30</strong></td>
</tr>
</tbody>
</table>

Print out the corrected pages that follow and replace the erroneous pages in your printed training publications. On the reverse side of each revised page is the continuing page.
# The Five-Step Interview Process

<table>
<thead>
<tr>
<th>Interview Steps</th>
<th>Goal</th>
<th>Suggested Actions</th>
</tr>
</thead>
</table>
| **Step 1**      | Cultivate a comfortable environment and put the taxpayer at ease. | - Introduce yourself; engage in small talk (discuss the weather, difficulty in locating the site, apologize if long wait, etc.).  
- Explain the tax return preparation process—the interview, how the information they provide will assist you in determining whether they must file a return, their eligibility for tax credits, etc.  
- Allow the taxpayers to share any expectations, needs, and/or concerns by asking whether they have questions before beginning and encouraging them to ask questions throughout the process. |
| **Step 2**      | Use active listening skills | - Watch for nonverbal listening cues (tone of voice, body language, eye contact, etc.).  
- Listen, then respond by restating, paraphrasing, and/or encouraging further dialogue. |
| **Step 3**      | Review responses to the intake questions (Form 13614-C or equivalent). | - Confirm all the information completed by the taxpayer on the intake form (Form 13614-C or approved alternative)  
- Review all the information documents presented by the taxpayer including W-2s, 1099s, 1098s, etc.  
- Scan the information for completeness. |
| **Step 4**      | Working with the taxpayer, complete the critical intake questions – page 2-3 of Form 13614-C | - Don’t assume—use the interview tips and decision trees in Publication 4012 and Publication 4696(PR) to confirm:  
  - Marital status (filing status)  
  - Eligibility for Child Tax Credit |
| **Step 5**      | Advise taxpayer of the next steps | - Restate the tax return preparation process, quality review procedures, signature and record keeping requirements, etc. |
You will need:
- Tax Information such as Forms W-2, 1099, 1098, 1095.
- Social security cards or ITIN letters for all persons on your tax return.
- Picture ID (such as valid driver’s license) for you and your spouse.

Part I – Your Personal Information
(If you are filing a joint return, enter your names in the same order as last year’s return)

1. Your first name
   M.I.  Last name
   Daytime telephone number
   Are you a U.S. citizen?  Yes  No
2. Your spouse’s first name
   M.I.  Last name
   Daytime telephone number
   Is your spouse a U.S. citizen?  Yes  No
3. Mailing address
   Apt #  City
   State  ZIP code
4. Your Date of Birth
5. Your job title
6. Last year, were you:
   a. Full-time student  Yes  No
   b. Totally and permanently disabled  Yes  No
   c. Legally blind  Yes  No
7. Your spouse’s Date of Birth
8. Your spouse’s job title
9. Last year, was your spouse:
   a. Full-time student  Yes  No
   b. Totally and permanently disabled  Yes  No
   c. Legally blind  Yes  No
10. Can anyone claim you or your spouse as a dependent?  Yes  No  Unsure
11. Have you, your spouse, or dependents been a victim of tax related identity theft or been issued an Identity Protection PIN?  Yes  No

Part II – Marital Status and Household Information
1. As of December 31, 2018, what was your marital status?
   □ Never Married  □ Married  □ Divorced  □ Legally Separated  □ Widowed
   (This includes registered domestic partnerships, civil unions, or other formal relationships under state law)
   a. If Yes, Did you get married in 2018?  Yes  No
   b. Did you live with your spouse during any part of the last six months of 2018?  Yes  No
   Date of final decree
   Date of separate maintenance agreement
   Year of spouse’s death

2. List the names below of:
   • everyone who lived with you last year (other than your spouse)
   • anyone you supported but did not live with you last year

To be completed by a Certified Volunteer Preparer

If additional space is needed check here □ and list on page 3
Itemized Deductions

Expenses that can be deducted to reduce the adjusted gross income. Itemized deductions include medical expenses, taxes, deductible interest, charitable contributions, casualty and theft losses, and other itemized deductions.

The itemized deductions are recorded on Schedule A and then transferred to Form 1040. Schedule A should include only the allowable portion of each deduction.

Determining the Allowable Portion of Deduction

For Puerto Rican filers who itemize, the itemized deductions must be allocated based on total gross income from all sources (including Puerto Rico source income). This allocation decreases each itemized deduction. Refer to Publication 1321, Special Instructions For Bona Fide Residents Of Puerto Rico Who Must File A U.S. Individual Income Tax Return, for more information.

To calculate the allowable portion of a deduction for each itemized deduction use the following formula

\[
\text{Formula for allowable portion: } \frac{\text{Gross Income Subject to U.S. tax} \times \text{Deduction}}{\text{Gross Income from all sources (including P.R. exempt income)}} = \text{Allowable portion}
\]

**Note:** Round all fractions to four places.

The numerator of the fraction is the gross income reported to the U.S. and the denominator is the total gross income from all sources. See example for Robert and Elena below.

**Example:** Robert Noble and Elena Santa are filing a joint return both are under age 65. This year, Robert earned $40,000 as a federal employee in Puerto Rico and Elena earned $15,000 from her job in a bank in Puerto Rico.

**Formula for allowable portion**

\[
= \frac{40,000 \times 24,000}{55,000} = 0.7273 \times 24,000 = 17,455
\]

Puerto Rico Exempt Income

Deductions that apply to exempt Puerto Rico income are not deductible on a federal tax return.
Deductions that do not specifically apply to a particular type of income must be apportioned between gross income subject to U.S. tax and total gross income from all sources. Examples of deductions that do not apply to a particular type of income are alimony payments and certain itemized deductions, such as:

- Medical expenses
- Charitable contributions
- Real estate taxes on the taxpayer’s home
- Mortgage interest on the taxpayer’s home

**Example (continued):**

Robert and Elena are filing a joint return. They are bona fide residents of Puerto Rico and both are under 65 years of age. Robert works for the federal government and Elena for a bank in Puerto Rico. During 2018, Robert earned $40,000 as a federal employee and Elena earned $10,000 from her job. They have itemized deductions of $27,000 that do not apply to any specific type of income (medical and dental $4,000, real estate taxes $5,000, mortgage interest on their home of $12,000 and charitable contributions $6,000 (cash contributions). Each deduction is apportioned as follow:

**Effect of Puerto Rico exempt income on itemized deductions:**

<table>
<thead>
<tr>
<th>Itemized Deduction</th>
<th>Expense Amount</th>
<th>Formula : Allowable Portion</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical and Dental</td>
<td>$4,000</td>
<td>(40,000 ÷ 50,000) x 4,000</td>
<td>* $200</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>$5,000</td>
<td>(40,000 ÷ 50,000) x 5,000</td>
<td>$4,000</td>
</tr>
<tr>
<td>Mortgage Interest</td>
<td>$12,000</td>
<td>(40,000 ÷ 50,000) x 12,000</td>
<td>$9,600</td>
</tr>
<tr>
<td>Charitable Contributions</td>
<td>$6,000</td>
<td>(40,000 ÷ 50,000) x 6,000</td>
<td>$4,800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$27,000</strong></td>
<td></td>
<td><strong>$18,600</strong></td>
</tr>
</tbody>
</table>

*Medical expenses must exceed 7.5% of the taxpayer Adjusted Gross Income. To figure the standard deduction amount for Robert and Elena use “Worksheet For Puerto Rico Filers With Exempt Income Under Section 933 Who Do Not Itemize Deductions” in Publication 1321. The allowable portion of standard deduction for Robert & Elena is $19,200. The allowable amount of Itemized deductions from Schedule A is $18,600. In most cases, your federal income tax will be less if you take the larger of your itemized deductions or standard deduction.

**Standard Deduction**

It may be advantageous for the taxpayer to itemize deductions if the amount is larger than the allowable standard deduction amount.
Deductions and Losses

Taxable Income from Foreign Sources
In order to arrive at the taxable income from foreign sources you must determine the deduction and losses from the foreign or possession income reported in Part, line I of Form 1116.

Deductions that are definitely related to the foreign source income (line 2 of Part I, Form 1116)
Examples of some expenses that are definitely related to specific income:

• Moving expenses deduction suspended for tax years 2018-2025; except for members of the Armed Forces of the United States.
• Individual retirement accounts and Keogh contributions
• Professional and union dues

Pro rata share of other deductions not definitely related (lines 3a-3g of Part I, Form 1116)
Foreign gross income must be reduced by an allowable portion of other expenses and deductions (such as the adjustments for alimony paid, certain itemized deductions, or the standard deduction) which are not definitely related to specific items of income. Professional and union dues (suspended for tax years 2018-2025).

Certain Itemized Deductions or Standard Deduction (line 3a of Part I, Form 1116)
If itemizing deductions, enter on line 3a certain itemized deductions such as medical expenses, general sale tax, and real estate taxes. These amounts are taken from lines 4, 5 and 6 of Schedule A.

Note: Schedule A will already show deductions modified due to exempt income under IRC Section 933 (Puerto Rico source income).

Standard Deduction
If not itemizing, enter the standard deduction. If the standard deduction was modified due to exempt income under IRC Section 933 (Puerto Rico source income), enter on line 3a of Form 1116 the allowable portion of the standard deduction as figured on line 2d of the Publication 1321 worksheet.

Other deductions (line 3b of Part I, Form 1116)
Enter any other deductions that do not definitely relate to any specific type of income (for example, the deduction for alimony paid or any other deductions shown on Schedule 1 line 31a).

Gross foreign source income (line 3d of Part I, Form 1116)
Enter on line 3d gross foreign source income (Puerto Rico source income) taxable to the U.S. from the category checked in Part I of Form 1116. Do not include the COLA on line 3d or any other exempt income.

Gross income from all sources (line 3e of Part I, Form 1116)
Enter on line 3e gross income from all sources and all categories, both U.S. and foreign. Do not include the COLA on line 3e or any other exempt income. If the taxpayer does not have income source in the U.S. and is only completing Form 1116 for one category of income, line 3d and 3e will be the same.

Line 3f - Divide line 3d by line 3e and round off the results to four decimal places. Enter the results, but don’t enter more than “1”.

1/2019
Pro rata share of interest expense \((\text{line 4 of Part I, Form 1116})\)

The interest expense is subject to a separate allocation on Form 1116, line 4. If your gross income (including Puerto Rico exempt income) does not exceed $5,000, all of the mortgage interest expense can be allocated to U.S. source income and does not need to be included in this part. Otherwise, deductible home mortgage interest (including points) is apportioned using a gross income method. Use the Worksheet for Home Mortgage Interest on Form 1116 to apportion this interest.

![Worksheet for Home Mortgage Interest](image)

Other interest expense \((\text{line 4b of Part I, Form 1116})\)

Other interest expense includes investment interest, interest incurred in a trade or business, and passive activity interest. See Publication 514 for more information.

Losses from foreign sources \((\text{line 5 of Part I, Form 1116})\)

If you have capital losses from foreign sources, see Publication 514 for more information.
Foreign Tax Credit – 30

Deductions and Losses (continued)

Pro rata share of interest expense
(line 4 of Part I, Form 1116)

The interest expense is subject to a separate allocation on Form 1116, line 4. If your gross income (including Puerto Rico exempt income) does not exceed $5,000, all of the mortgage interest expense can be allocated to U.S. source income and does not need to be included in this part. Otherwise, deductible home mortgage interest (including points) is apportioned using a gross income method. Use the Worksheet for Home Mortgage Interest on Form 1116 to apportion this interest.

Other interest expense
(line 4b of Part I, Form 1116)

Other interest expense includes investment interest, interest incurred in a trade or business, and passive activity interest. See Publication 514 for more information.

Losses from foreign sources
(line 5 of Part I, Form 1116)

If you have capital losses from foreign sources, see Publication 514 for more information.

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Print out the corrected pages that follow and replace the erroneous pages in your printed training publications. On the reverse side of each revised page is the continuing page.

<table>
<thead>
<tr>
<th>Publication 4704FS</th>
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<td>Foreign Student Test, question #2, third sentence. Change “December 20, 2018” to: December 20, 2017</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>No change.</td>
</tr>
</tbody>
</table>
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Introduction

This section of the VITA/TCE certification Foreign Student test covers determining residency status, the use of Form 8843, and filing status. It consists of 13 true/false questions and 4 scenario-based multiple choice questions.

Allow approximately 20 minutes to complete this segment.

1. Hans entered the U.S. on December 15, 2013 in F-1 immigration status. He had never been to the United States before and he did not change immigration status during 2018. For federal income tax purposes, Hans is a nonresident alien for 2018.
   a. True
   b. False

2. Abshir is a visiting professor at the local university. Abshir was a graduate student from August 2012 to July 2014 in F-1 immigration status. He re-entered the United States on December 20, 2017 in J-1 immigration status. For federal income tax purposes, Abshir is a resident alien for 2018.
   a. True
   b. False

3. Juan served as a visiting scholar in F-1 immigration status from December 2012 through June 2015. In January of 2017, Juan returned to the United States as a graduate student. For federal income tax purposes, Juan is a nonresident alien for 2018.
   a. True
   b. False

4. Emil came to the United States in F-2 immigration status with his wife on August 20, 2017. He has not changed his immigration status. For federal income tax purposes, Emil is a resident alien for 2018.
   a. True
   b. False

5. Tamera lived with her parents in F-2 immigration status in the United States from August 2010 to June 2012. She returned to the U.S. to attend college in F-1 immigration status on May 1, 2017. Tamera does not need to file Form 8843 for 2018.
   a. True
   b. False
   
   a. True
   b. False

7. Monica and Aaden from Question 6 had a child while here in the U.S. on July 4, 2018. Monica and Aaden need to file Form 8843 for their child for 2018.
   
   a. True
   b. False

8. Flora and Tomas have been in the U.S. in F-1 immigration status, since August 2017. Their son, Lorenzo, joined them under F-2 status in May 2018. Flora and Tomas must file Form 8843 for Lorenzo for 2018.
   
   a. True
   b. False

9. Lukas is from Austria and is a Ph.D. student in astrophysics who is going to defend his dissertation in June. He arrived in the U.S. as a student on May 28, 2017. Lukas is a nonresident alien for tax purposes in 2018.

   a. True
   b. False

10. Aarav is a junior majoring in marine biology. He is in the U.S. in F-1 immigration status from India. He transferred from an Indian school and arrived in the U.S. on September 1, 2016. Aarav worked in a lab on campus and as a summer intern for a company in New York. He will graduate in May, 2019. The company issued him Form 1099-MISC.

    For tax purposes, Aarav is required to be a resident alien since the company issued him a Form 1099-MISC.

    a. True
    b. False

11. Mai is a nursing student from Singapore who first arrived in F-1 immigration status on April 10, 2017. She does not have a TIN and she did not work or receive a scholarship in 2018.

    Mai must file Form 8843. Since she is only required to file Form 8843, she has until June 17, 2019 to file the form.

    a. True
    b. False
No corrected pages are provided for this publication. Please make note of the changes above in your printed training publication.
### 2018 Form 6744, VITA/TCE Volunteer Assistor’s Test/Retest

<table>
<thead>
<tr>
<th></th>
<th>Form 6744</th>
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<td>61</td>
<td>5th bullet – Change “September” to: August</td>
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<td>62</td>
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<td>87</td>
<td>Under <strong>Interview Notes</strong>, change the following bullets:</td>
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<td></td>
<td>4th bullet – Change: “2 years ago,” to: on her 2015 tax return,</td>
</tr>
<tr>
<td></td>
<td>5th bullet – Change: “$45,000” to: $35,000</td>
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<tr>
<td>88</td>
<td>No change.</td>
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<tr>
<td>95</td>
<td>No change.</td>
</tr>
<tr>
<td>96</td>
<td>Under <strong>Interview Notes</strong>, change the following bullets:</td>
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<tr>
<td></td>
<td>4th bullet – Change: “2 years ago,” to: on her 2015 tax return,</td>
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<tr>
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<td>5th bullet – Change: “$45,000” to: $35,000</td>
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<tr>
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<td>5th bullet – Change “September” to: August</td>
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<td>163</td>
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<tr>
<td>164</td>
<td>Foreign Student Test, question #2, third sentence. Change “December 20, 2018” to: December 20, 2017</td>
</tr>
</tbody>
</table>

Print out the corrected pages that follow and replace the erroneous pages in your printed training publications. On the reverse side of each revised page is the continuing page.
Advanced Scenario 5: Fran Emerson

Directions

Using the tax software, complete the tax return, including Form 1040 and all appropriate forms, schedules, or worksheets. Answer the questions following the scenario.

Note: When entering Social Security numbers (SSNs) or Employer Identification Numbers (EINs), replace the Xs as directed, or with any four digits of your choice.

Interview Notes

- Fran’s husband died in March 2017. Fran filed a joint return with her husband for 2017. She has not remarried.
- Fran provided the entire cost of maintaining the household and all the support for her children, Meredith and Oliver, in 2018.
- Fran’s older brother, Howard, lives with her and is permanently and totally disabled. He received disability income which he used to provide more than half of his own support.
- Oliver attended day care while Fran worked.
- In August 2018, Fran’s daughter, Meredith, enrolled in college to pursue a bachelor’s degree. She had no previous post-secondary education. Yuma College is a qualified educational institution.
- Meredith does not have a felony drug conviction.
- Fran brought a Form 1098-T and an account statement from the college. Meredith’s purchases at the college bookstore were for course-related books.
- The terms of Meredith’s scholarship require that it be used to pay for tuition.
- Fran took a distribution from her IRA and used all of the distribution to pay for some of Meredith’s education expenses. All her IRA contributions were deductible in the year she made them.
- Fran received a Form 1099-C for cancelled credit card debt. Using the insolvency determination worksheet in Publication 4012, you helped Fran determine the value of her assets exceeded her liabilities and that she was solvent at the time the credit card debt was cancelled.
- Fran did not have minimum essential healthcare coverage (MEC) all year and does not qualify for any exemption. Meredith, Oliver, and Howard each had MEC all year.
Advanced Scenario 8: Roberta Wilson

Interview Notes

Robertat Wilson is 63 years old and single.

- Her grandson, Jacob, is 9 years old and lived with her all year. Roberta paid all household expenses and Jacob qualifies as her dependent.
- Roberta and Jacob are both U.S. citizens and have valid Social Security numbers.
- Roberta claimed EIC for Jacob on her 2015 tax return, but he only lived with her for two months and the credit was disallowed.
- Roberta had wage income of $35,000 in 2018.
- She is not sure if she should itemize or take the standard deduction.
- Roberta paid the following:
  - $7,200 mortgage interest for a qualified home purchased in 2010.
  - In 2018, she took out a home equity loan for $8,000 to pay off her credit cards. She paid interest in the amount of $650 on this loan.
  - $9,010 for real estate taxes.
  - $1,762 for state income taxes withheld in 2018.
  - Unreimbursed doctor bills in the amount of $2,200.
  - Unreimbursed prescription drugs for $250.
  - Health club dues of $600.
  - A statement received from her church showing donations made throughout the year totaling $4,500.
  - Receipts for donations of furniture and clothing in good, used condition to Goodwill. The total estimated fair market value is $500.
  - $50 donated to a friend in need via their Go-Fund-Me account.
  - $45 paid in 2018 on her 2017 balance due state income tax return.

Advanced Scenario 8: Test Questions

32. If Roberta itemizes, what amount is she able to deduct for state income and real estate taxes?
   a. $9,010
   b. $10,000
   c. $10,772
   d. $10,817
Interview Notes

- Roberta Wilson is 63 years old and single.
- Her grandson, Jacob, is 9 years old and lived with her all year. Roberta paid all household expenses and Jacob qualifies as her dependent.
- Roberta and Jacob are both U.S. citizens and have valid Social Security numbers.
- Roberta claimed EIC for Jacob on her 2015 tax return, but he only lived with her for two months and the credit was disallowed.
- Roberta had wage income of $35,000 in 2018.
- She is not sure if she should itemize or take the standard deduction.
- Roberta paid the following:
  - $7,200 mortgage interest for a qualified home purchased in 2010.
  - In 2018, she took out a home equity loan for $8,000 to pay off her credit cards. She paid interest in the amount of $650 on this loan.
  - $9,010 for real estate taxes.
  - $1,762 for state income taxes withheld in 2018.
  - Unreimbursed doctor bills in the amount of $2,200.
  - Unreimbursed prescription drugs for $250.
  - Health club dues of $600.
  - A statement received from her church showing donations made throughout the year totaling $4,500.
  - Receipts for donations of furniture and clothing in good, used condition to Goodwill. The total estimated fair market value is $500.
  - $50 donated to a friend in need via their Go-Fund-Me account.
  - $45 paid in 2018 on her 2017 balance due state income tax return.

Advanced Scenario 8: Test Questions

32. If Roberta itemizes, what amount is she able to deduct for state income and real estate taxes?
   a. $9,010
   b. $10,000
   c. $10,772
   d. $10,817
33. If Roberta chooses not to itemize, how much is her standard deduction?
   a. $12,000
   b. $13,600
   c. $18,000
   d. $19,600

34. Which of Roberta’s expenses qualify as itemized deductions on Schedule A?
   (Select all that apply.)
   a. $50 donated to a friend in need
   b. $45 state income tax paid in 2018
   c. $7,200 mortgage interest on loan used to purchase home
   d. $650 interest on home equity loan used to pay off credit cards

35. Roberta’s earned income credit was disallowed 2 years ago. How does that impact her 2018 tax return?
   a. There is no impact.
   b. She must file a Form 8862, Information To Claim Earned Income Credit After Disallowance, with her return.
   c. She is disallowed for 5 years.
   d. She is disallowed forever.
Advanced Scenarios Retest Questions

Directions

Refer to the scenario information for Austin Drake, beginning on page 80.

25. Austin must report the income shown on Form 1099-MISC, Miscellaneous Income, and Form 1099-K, Payment Card and Third Party Network Transactions, and his cash tip income from customers on Schedule C, Profit or Loss From Business.
   a. True
   b. False

26. What is Austin’s mileage expense deduction (at the standard mileage rate) for his business as a ride share driver? $______. (Round to the nearest dollar.)

27. Austin cannot deduct the amount he pays for lunch.
   a. True
   b. False

28. The full amount of his self-employment tax is deducted on Schedule 1.
   a. True
   b. False

29. The Qualified Business Income (QBI) deduction does NOT reduce the income that is used to calculate self-employment taxes.
   a. True
   b. False

30. Self-employed health insurance deduction is claimed as an adjustment to income on Schedule 1, Additional Income and Adjustments to Income.
   a. True
   b. False

31. If Austin owes a balance due on his income tax return, he can pay with his credit card.
   a. True
   b. False
Advanced Scenario 8: Roberta Wilson

Interview Notes

- Roberta Wilson is 63 years old and single.
- Her grandson, Jacob, is 9 years old and lived with her all year. Roberta paid all household expenses and Jacob qualifies as her dependent.
- Roberta and Jacob are both U.S. citizens and have valid Social Security numbers.
- Roberta claimed EIC for Jacob on her 2015 tax return, but he only lived with her for two months and the credit was disallowed.
- Roberta had wage income of $35,000 in 2018.
- She is not sure if she should itemize or take the standard deduction.
- Roberta paid the following:
  - $7,200 mortgage interest for a qualified home purchased in 2010.
  - In 2018, she took out a home equity loan for $8,000 to pay off her credit cards. She paid interest in the amount of $650 on this loan.
  - $9,010 for real estate taxes.
  - $1,762 for state income taxes withheld in 2018.
  - Unreimbursed doctor bills in the amount of $2,200.
  - Unreimbursed prescription drugs for $250.
  - Health club dues of $600.
  - A statement received from her church showing donations made throughout the year totaling $4,500.
  - Receipts for donations of furniture and clothing in good, used condition to Goodwill. The total estimated fair market value is $500.
  - $50 donated to a friend in need via their Go-Fund-Me account.
  - $45 paid in 2018 on her 2017 balance due state income tax return.

Advanced Scenario 8: Retest Questions

32. If Roberta chooses to itemize her deductions, she is able to take a deduction of $10,772 for state income and real estate taxes.
   a. True
   b. False

33. If Roberta chooses not to itemize, her standard deduction is $19,600.
   a. True
   b. False
Advanced Scenario 8: Roberta Wilson

Interview Notes

• Roberta Wilson is 63 years old and single.
• Her grandson, Jacob, is 9 years old and lived with her all year. Roberta paid all household expenses and Jacob qualifies as her dependent.
• Roberta and Jacob are both U.S. citizens and have valid Social Security numbers.
• Roberta claimed EIC for Jacob on her 2015 tax return, but he only lived with her for two months and the credit was disallowed.
• Roberta had wage income of $35,000 in 2018.
• She is not sure if she should itemize or take the standard deduction.
• Roberta paid the following:
  – $7,200 mortgage interest for a qualified home purchased in 2010.
  – In 2018, she took out a home equity loan for $8,000 to pay off her credit cards. She paid interest in the amount of $650 on this loan.
  – $9,010 for real estate taxes.
  – $1,762 for state income taxes withheld in 2018.
  – Unreimbursed doctor bills in the amount of $2,200.
  – Unreimbursed prescription drugs for $250.
  – Health club dues of $600.
  – A statement received from her church showing donations made throughout the year totaling $4,500.
  – Receipts for donations of furniture and clothing in good, used condition to Goodwill. The total estimated fair market value is $500.
  – $50 donated to a friend in need via their Go-Fund-Me account.
  – $45 paid in 2018 on her 2017 balance due state income tax return.

Advanced Scenario 8: Retest Questions

32. If Roberta chooses to itemize her deductions, she is able to take a deduction of $10,772 for state income and real estate taxes.
   a. True
   b. False

33. If Roberta chooses not to itemize, her standard deduction is $19,600.
   a. True
   b. False

8. Ed is single with no dependents. He has receipts for the expenses listed below that he paid in 2018. His AGI is $100,000. Under the Tax Cuts and Jobs Act, what are his total itemized deductions for 2018?
   • $8,000 in unreimbursed medical expenses
   • $5,400 in state and local income taxes
   • $6,000 in real estate taxes
   • $400 in ad valorem personal property taxes
   • $4,300 in mortgage interest
   • $1,800 in interest from a home equity loan used to pay credit card debt
   • $2,000 in charitable contributions
   • $600 in dues to professional organizations
   • $180 for a safe deposit box rental
   • $200 for subscriptions to professional journals
   • $225 in tax preparation fees
   • $1,000 in union dues
   a. $16,300
   b. $16,800
   c. $17,005
   d. $18,600
   e. $20,605

9. Which of the following statements are false? (Select all that apply)
   a. The maximum nonrefundable amount of the child tax credit is $1,000 per qualifying child.
   b. The maximum nonrefundable amount of the new credit for other dependents is $500 per qualifying dependent.
   c. The amount of the refundable additional child tax credit is limited to $1,400 per qualifying child.
   d. Children with an ITIN qualify for the child tax credit and the additional child tax credit.
Return Preparation: Fran Rollins

Directions

Using the tax software, complete the tax return, including Form 1040 and all appropriate forms, schedules, or worksheets. Answer the questions following the scenario.

Note: When entering Social Security numbers (SSNs) or Employer Identification Numbers (EINs), replace the Xs as directed, or with any four digits of your choice.

Interview Notes

• Fran’s husband died in March 2015. Fran filed a joint return with her husband for 2015. She has not remarried.
• Fran provided the entire cost of maintaining the household and all the support for her children, Mary and Oliver, in 2018.
• Fran’s older brother, Henry, lives with her and is permanently and totally disabled. He received disability income which he used to provide more than half of his own support.
• Fran paid for Oliver to attend daycare while Fran worked.
• In August 2018, Fran’s daughter, Mary, enrolled in college to pursue a bachelor’s degree. She had no previous post-secondary education and does not have a felony drug conviction. Yuma College is a qualified educational institution.
• Fran brought a Form 1098-T and an account statement from the college. The terms of Mary’s scholarship require that it be used to pay for tuition. Mary’s purchases at the college bookstore were for course-related books.
• Fran took a distribution from her IRA and used all of the distribution to pay for some of Mary’s education expenses. All her IRA contributions were deductible in the year she made them.
• Fran received a Form 1099-C for cancelled credit card debt. Using the insolvency determination worksheet in Publication 4012, you helped Fran determine the value of her assets exceeded her liabilities and that she was solvent at the time the credit card debt was cancelled.
• Fran did not have minimum essential health care coverage (MEC) all year. Mary, Oliver, and Henry had MEC all year. For the purposes of this scenario, assume Fran does not qualify for any exemption.
Welcome to the Link & Learn Taxes Foreign Student Test. The test requires you to prepare four tax returns using Form 1040NR-EZ and/or Form 8843 and then answer 50 online questions. You must successfully complete the test at an overall 80% proficiency to earn VITA/TCE certification.

Please complete this test on your own for an accurate assessment of your skills and knowledge. You may use any reference materials available to you as a volunteer to complete this test.

Volunteers who use tax preparation software to complete the test need to make sure they are using the final 2018 version.
Residency Status, Form 8843, and Filing Status

Introduction

This section of the VITA/TCE certification Foreign Student test covers determining residency status, the use of Form 8843, and filing status. It consists of 13 true/false questions and 4 scenario-based multiple choice questions.

Allow approximately 20 minutes to complete this segment.

1. Hans entered the U.S. on December 15, 2013 in F-1 immigration status. He had never been to the United States before and he did not change immigration status during 2018. For federal income tax purposes, Hans is a nonresident alien for 2018.
   a. True
   b. False

2. Abshir is a visiting professor at the local university. Abshir was a graduate student from August 2012 to July 2014 in F-1 immigration status. He re-entered the United States on December 20, 2017 in J-1 immigration status. For federal income tax purposes, Abshir is a resident alien for 2018.
   a. True
   b. False

3. Juan served as a visiting scholar in F-1 immigration status from December 2012 through June 2015. In January of 2017, Juan returned to the United States as a graduate student. For federal income tax purposes, Juan is a nonresident alien for 2018.
   a. True
   b. False

4. Emil came to the United States in F-2 immigration status with his wife on August 20, 2017. He has not changed his immigration status. For federal income tax purposes, Emil is a resident alien for 2018.
   a. True
   b. False

5. Tamera lived with her parents in F-2 immigration status in the United States from August 2010 to June 2012. She returned to the U.S. to attend college in F-1 immigration status on May 1, 2017. Tamera does not need to file Form 8843 for 2018.
   a. True
   b. False
**Link & Learn Taxes** is web-based training designed specifically for VITA/TCE volunteers. Each volunteer's ability to prepare complete and accurate returns is vital to the credibility and integrity of the program. Link & Learn Taxes, as part of the complete volunteer training kit, provides the path to achieving this high level of quality service.

Link & Learn Taxes and the printed technical training kit, Publication 4480, work together to help volunteers learn and practice.

**Link & Learn Taxes for 2018 includes:**

- Access to all VITA/TCE courses
- Easy identification of the VITA/TCE courses with the course icons
  - As you progress through a lesson, the content for Basic, Advanced, Military, or International will display, depending on the level of certification you selected
- PowerPoint presentations that can be customized to fit your classroom needs
- VITA/TCE Central to provide centralized access for training materials and reference links
- The Practice Lab
  - Gives volunteers practice with an early version of the IRS-provided tax preparation software
  - Lets volunteers complete test practice problems
  - Lets volunteers prepare test scenario returns for the test/retest

Go to [www.irs.gov](http://www.irs.gov), type “Link & Learn” in the Keyword field and click Search. You’ll find a detailed overview and links to the courses.

**FSA (Facilitated Self Assistance)** empowers taxpayers to prepare their own returns with the assistance of a certified volunteer. Taxpayers complete their own returns using interview-based software supplied by leaders in the tax preparation industry. Volunteers assist taxpayers with tax law and software questions.

**Virtual VITA** allows partners to initiate the intake process for taxpayers in one location, while utilizing a certified volunteer to prepare the return in an entirely different location. By incorporating this flexibility, partners can provide taxpayers with more convenient locations to file their taxes.

For more information contact your SPEC Relationship Manager to see if you should start a FSA or Virtual VITA site in your community.
Your online resource for volunteer and taxpayer assistance

Partner and Volunteer Resource Center
https://www.irs.gov/Individuals/Partner-and-Volunteer-Resource-Center
  • What’s Hot!
  • Site Coordinator’s Corner

Quality and Tax Alerts for IRS Volunteer Programs
  • Volunteer Tax Alerts

Volunteer Training Resources
https://www.irs.gov/Individuals/Volunteer-Training-Resources

Outreach Corner
https://www.irs.gov/Individuals/Outreach-Corner

Tax Trails for Answers to Common Tax Questions

Online Services and Tax Information for Individuals
https://www.irs.gov/Individuals

After You File
  • Where’s My Refund?
  • Refund reductions
  • Understanding Your IRS Notice or Letter
  • Withholding Calculator
  • Keep a copy of your return
  • Changing your name or address

Make a Payment
  • IRS Direct Pay – pay online directly from your bank account
  • Other ways you can pay
  • Can’t pay? Set up a payment agreement
  • Do I have to pay estimated taxes?

Manage Your Tax Info
  • Get Transcript
  • View your tax account
  • Life events can affect your taxes
  • Protect your identity
  • IRS2Go mobile app

File Your Return
  • Validating your electronically filed return
  • Need to renew your ITIN?
  • Answers to your tax questions
  • Find a mailing address for paper returns
  • Tax relief in disaster situations

Mobile App
Another device to use for additional information is IRS2Go. Click here to download IRS2Go mobile app: https://www.irs.gov/uac/irs2goapp.

and much more!
Your direct link to tax information 24/7: www.irs.gov

eBooks
Want to view our training products on your mobile or tablet devices? Click here to access our eBooks: https://www.irs.gov/Individuals/Site-Coordinator-Corner.